AARMR/CSBS
REVERSE MORTGAGE EXAMINATION GUIDELINES (RMEGs)
FINAL V.1

INTRODUCTION AND PURPOSE OF REVERSE MORTGAGE EXAMINATION GUIDELINES

In 2007, the residential forward mortgage loan industry suffered major disruption, in large part caused by the placing of consumers in inappropriate loans. Because of disruption in the forward mortgage loan industry, there is concern that a similar situation could happen in the reverse mortgage loan industry. The following factors add to this concern:

- The possible migration of forward mortgage loan industry personnel, including unscrupulous personnel, to the reverse mortgage loan industry as a result of a decrease in forward mortgage loan products.
- An increase in reverse mortgage loan business as a result of the aging “baby boomer” generation.
- The significant home equity held by older consumers.
- Reverse mortgage loans are marketed to older consumers who may have more difficulty understanding the product and its implications.
- Reverse mortgage loans are heavily dependent on accurate real estate appraisals. Inaccurate real estate appraisals have been cited as a reason for the problems in the forward mortgage industry.

Although reverse mortgage loans have reportedly been in existence since the early 1960’s, the concept received the federal government’s approval in 1988 with the signing of Section 255 of the National Housing Act. Since then, the Federal Housing Association (FHA) insured reverse mortgage loan, known as a home equity conversion mortgage or “HECM,” has dominated the market. The FHA-insured reverse mortgage loan program has safeguards both for the homeowners and institutions. While HECMs dominate the current market, it is believed that, going forward; proprietary, or non-government insured, reverse mortgage loans will constitute a larger share of the reverse mortgage loan market. Proprietary reverse mortgage loans will likely not have the safeguards found in the FHA-insured mortgage loan program, such as insurance and government review.

Consumers need to understand the implications and consequences of a reverse mortgage loan. For many people, reverse mortgage loans are an unusual and misunderstood product and may not be suitable for all eligible homeowners. In addition, unscrupulous individuals could promote reverse mortgage loans to unsophisticated consumers as a means to finance the sale of inappropriate products. Finally, other consumers occupying the home may be adversely impacted by the origination of a reverse mortgage loan.

Institutions making proprietary reverse mortgage loans need to exercise care in order to ensure continued servicing of the loans. Many reverse mortgage loans call for future advances to homeowners, either under a line of credit agreement or scheduled monthly payments. In the event that a reverse mortgage institution or servicer were to fail, the homeowners’ anticipated income streams would be disrupted, much to the detriment of the homeowners. Institutions must realize the potential problems with entering into the reverse mortgage loan business. These problems include having the liquidity to deal with a product that has immediate cash needs but which may not produce cash returns for an extended period. Another potential problem facing proprietary reverse mortgage institutions would be a general decline in market value of properties, in which case the property which serves as collateral may fall to less than the loan amount, also referred to as cross-over risk.

While RMEGs is not a required standard, it will provide the following:

- A set of examination guidelines that regulators can use to determine whether entities in the reverse mortgage loan industry are operating in an appropriate manner.

- Uniform standards applicable for multi-state examinations and enforcement actions, or for review by one state of another state's Report of Examination.
- Consistent and uniform guidelines for use by institution and broker in-house compliance and audit departments.

State regulators may wish to use all or portions of RMEGs depending on the size and complexity of the institution examined and the available resources of the agency. Examiners should identify within the scope of the examination report if and to what extent RMEGs were used so that other state regulators will know that a standard examination model has been employed.

RMEGs is divided into major sections or modules. The modules may be used as an entire examination package or individual modules may be chosen for specific applications. RMEGs Modules include:

Module 1 – RMEGs EXAMINER INSTRUCTIONS
Module 2 – EXAMINER CHECKLIST TO BE USED FOR ALL INSTITUTIONS
Module 3 – EXAMINER CHECKLIST TO BE USED FOR FHA APPROVED ENTITIES
Module 4 – REFERENCE AND GLOSSARY OF TERMS
Module 5 – INFORMATION AND DATA REQUEST
Module 6 – INSTITUTION AND MANAGEMENT QUESTIONNAIRE
Module 7 – REVERSE MORTGAGE ACTIVITY SUMMARY
Module 8 – REVERSE MORTGAGE PRODUCT WORKSHEET
Module 9 – REVERSE MORTGAGE SERVICING WORKSHEET

DEFINITIONS USED IN RMEGs

Broker – An individual or entity which acts as the conduit between a reverse mortgage loan applicant and the reverse mortgage institution. An entity could be considered a broker even if the entity does not take a reverse mortgage loan application if the entity steers the applicant to specific brokers or specific institutions. An entity would be considered a broker if the entity advertises or solicits for reverse mortgage loans and then forwards or provides interested consumers' names or identifying information to another broker or institution.

Federally insured reverse mortgage loan – A reverse mortgage loan which is insured by, and made under guidelines of, the FHA, a division of the federal Department of Housing and Urban Development. These loans are also referred to as Home Equity Conversion Mortgages or "HECMs".

FHA – Federal Housing Administration

HECM – Home Equity Conversion Mortgage (see Federally insured reverse mortgage loan).

Institution – Any financial institution examined under the RMEGs including brokers and lenders.

Loan Originator – The individual who originally takes a reverse mortgage loan application or who has the primary contact with the reverse mortgage loan applicant.

Maturity of a reverse mortgage loan – the event that triggers repayment of the reverse mortgage loan. Examples of these events may be death or sale of the home.

Proprietary Reverse Mortgage Institution – An institution which makes proprietary reverse mortgage loans.

Proprietary Reverse Mortgage Loan – A reverse mortgage loan which is neither a federally insured reverse mortgage loan as described above or a single purpose reverse mortgage loan as described below.

Reverse Mortgage Loan (Reverse Mortgage) – A loan secured by a lien on residential real estate in which the homeowner is not required to make payments on the loan until a specific event occurs. Generally, but not exclusively, the event that triggers repayment is when the homeowner ceases to reside in the property. Generally, the loan is due and payable in full at the time of the event occurring. The proceeds of a reverse mortgage loan may be disbursed to the homeowner at the time the loan is consummated, over time through a line of credit accessible to the homeowner, over time through regularly scheduled payments, or some combination of the above methods.

Service or Servicing – For the purpose of this document, servicing shall mean any actions taken by an institution or an assignee after the consummation of a reverse mortgage loan. Servicing shall include, but not be limited to, making disbursements to the homeowner, paying any escrowed taxes, insurance or other items if so contracted, and collecting the loan payoff or taking possession of the collateral at or after the specific event that triggers repayment.

Single-purpose reverse mortgage loans – Reverse mortgage loans which are made by state or local governments or non-profit organizations where the loan proceeds are to be used for a specific purpose.

Tenure reverse mortgage loan – a reverse mortgage loan where advances are made to the homeowner for the shorter of either a specified period of time or maturity of the reverse mortgage loan.

MODULE 1 – RMEGs EXAMINER INSTRUCTIONS

SCOPING

Full Scope Examination

A full scope examination would typically consist of off-site preparation and review, followed by an on-site examination of records and practices, including interviews of staff and possibly homeowners or third-parties. Follow up to the on-site examination would normally consist of an exit meeting to review initial findings with management, a report of examination and a response by institution management where necessary.

A full scope examination of each type of institution should include the following:

- *Mortgage Broker*:
    1. Module 2, Sections A, B (1 through XX), D and G
    2. Module 3, Sections A, B (1 through XX) and D
    3. Modules 5, 6, 7 and 8
- *Lender or mortgage bank without retail activity*:
    1. Module 2, all Sections except B (1 through XX)
    2. Module 3, all Sections except B (1 through XX) – if HECM activity
    3. Modules 5, 6, 7, 8 and 9 (if servicing)
- *Lender or mortgage bank with retail activity*:
    1. Module 2, all Sections
    2. Module 3, all Sections – if HECM activity
    3. Modules 5, 6, 7, 8 and 9 (if servicing)
- *Lender or mortgage bank servicing purchased portfolio only*
    1. Module 2, Sections A, D, E and G
    2. Module 3, Sections D and E
    3. Modules 5, 6, 7 and 9

Limited Scope Examination

An agency may conduct a limited scope examination entirely off-site through review of an institution's response to the RMEGs Modules 5, 6, 7 and 8. While such a review is limited to the veracity of the institution's response, it nevertheless can be a valuable tool for monitoring or in situations where the volume of reverse mortgage transaction activity does not merit a full examination of the institution. Examiners should also consider using other state's RMEGs examination reports in situations where it is impractical to conduct the state's own examination.

The institution's complaint activity should be reviewed in conjunction with any limited scope examination. Additionally, a limited scope examination may include portions of any of the sections deemed appropriate. Any limited scope review should be clearly indicated in the report of examination with a notation that reliability is limited to the institution's stated responses.

General Issues

Regardless of the scope chosen, the examiner should evaluate the institution's compliance with consumer protection laws, proper underwriting standards, and risk management practices. At a minimum, the examiner should evaluate whether the institution has adequate controls for compliance risk, reputation risk, and litigation risk as well as adequate disclosure of risks to homeowners and when servicing loans, liquidity risk.

Note: the examiner should also be aware that written policies and procedures are no substitute for actual sound practices.

MODULE 2 RMEGs – EXAMINER CHECKLIST TO BE USED FOR ALL INSTITUTIONS

This module is designed to be used for examinations of all types of reverse mortgage institutions, regardless of product originated or funded. Most of the questions in Module 2 will be applicable to all reverse mortgage loans. Certain questions pertain only to Proprietary Reverse Mortgage Loans as defined above. An answer of NA is acceptable wherever a question does not apply.

Module 3 is to be used as an additional checklist for FHA insured reverse mortgages (HECMs); however, Module 3 is to be used in conjunction with Module 2. For examinations of institutions with no FHA insured reverse mortgage activity the Examiner should skip Module 3 altogether.

The RMEGs Examiner Checklist consists of questions intended to prompt the examiner for specific review. Much of the checklist can be completed from a thorough, off-site review of the response to the RMEGs Information and Data Request (Module 5), the Institution and Management Questionnaire (Module 6), the Reverse Mortgage Activity Summary (Module 7), the Reverse Mortgage Product Worksheet (Module 8) and the Reverse Mortgage Servicing Worksheet (Module 9). Other sections will require file-level review and possibly interviews of institution staff, homeowners and third parties including appraisers and counselors.

A. PRE-EXAMINATION

	GENERAL *Examiner note: This section should be completed regardless of the scope of the examination or size or type of the institution. The questions in this section are general triggers intended to stimulate broad consideration by the examiner. For full scope examinations the examiner should review each loan file identified from A.2 below.*	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
A.1	Does management have a clear understanding of its responsibilities for Reverse Mortgages? What evidence is there that management clearly understands the risks associated with Reverse Mortgages? *Examiner note: Consider response to questionnaire, policies, procedures and underwriting guidelines, interviews of management and staff, and the actual lending practices of this institution.*				
A.2	Have any complaints been filed with the agency against the institution relevant to Reverse Mortgages? *Examiner note: Review complaints against responses to the Information and Data Request and Institution Questionnaire*.				
A.3	Has the institution previously been reviewed as part of the examination of a federal regulator? *Examiner note: Obtain a copy of the exam report if possible and discuss the findings with the federal regulator where necessary*.				
A.4	Has the institution been examined by any other state? *Examiner note: Obtain a copy of the exam report if possible and discuss the findings with the state regulator where appropriate.*				
A.5	If required, has your agency granted written approval of the institution's reverse mortgage program?				

	If yes, is the institution adhering to the program as it was approved by your agency?				
A.6	Have you (the examiner) obtained and reviewed the Risk Based Survey and a Reverse Mortgage Product Worksheet for each product originated by the institution?				
	OVERVIEW OF POLICIES AND PROCEDURES *Examiner note: Obtain and thoroughly review all policies and procedures related to Reverse Mortgages.*				
A.7	Do written policies and procedures adequately cover (as applicable):				
A.7a	• Marketing and consumer contact as well as direct and indirect (third party) origination of Reverse Mortgages?				
A.7b	• If applicable, counseling requirements?				
A.7c	• Lending limits?				
A.7d	• Underwriting and approval processes?				
A.7e	• Monitoring and reporting?				
A.7f	• Loan servicing?				
A.7g	• Secondary market activity?				
A.7h	• Internal control procedures?				
A.7i	• Financial accounting?				
A.7j	• Training?				
A.7k	• Homeowner's responsibilities?				
A.7l	• Compensation to employees?				
A.7m	• Compensation to outside loan originators?				
A.7n	• Payoff by homeowner or homeowner's heirs?				
A.7o	• Acquisition and dispensation of property when loan is not paid off?				
A.7p	• Processing and resolution of consumer complaints?				
A.7q	• Homeowner age restrictions?				
A.7r	• Fraud concerns?				
A.7s	• Homeowner defaults, including situations where the homeowner has allowed the property to deteriorate, no longer lives in the property or has failed to pay taxes and insurance?				
A.7t	• Referrals, including loan referrals, counselor referrals, product referrals and services referrals?				
A.7u	• Home possessions?				
A.7v	• Institution default? *Examiner note: What policies and procedures exist to assure that institution is able to continue funding loan commitments?*				
A.8	Does institution have a disproportionate or high level of Reverse Mortgages originated as an exception to existing policies and procedures?				

B. CONSUMER CONTACT/ORIGINATION

	MARKETING/PROMOTIONAL MATERIALS	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting

					evidence and note determinations and findings made.]
B.1	Since the previous examination, has the institution advertised reverse mortgage products as a product offering?				
B.1a	• If yes, describe advertising methods (website, print ads, statement inserts, etc.).				
B.1b	• If no, is the institution contemplating advertising reverse mortgages in the future?				
B.2	Do promotional materials and other product descriptions provide clear and balanced information about the relative risks of these products?				
B.3	Do promotional materials and other product descriptions, including oral statements or scripts, provide information about the costs, terms, features, and risks of Reverse Mortgages that can assist consumers in their product selection decisions?				
B.4	Are product descriptions provided when the consumer makes an inquiry to the institution about a mortgage product and receives information about Reverse Mortgages, or when marketing relating to Reverse Mortgages is provided by the institution to the consumer, rather than just upon the submission of an application or at consummation?				
B.5	Does the institution use any form of solicitation that appears to be generated by the Government, or related to the Government (formal looking codes, emblems such as eagles, etc.)?				
B.6	Does the institution use any form of solicitation that can be interpreted as misleading to the consumer, such as references to affiliations with organizations or financial institutions that are not true?				
	DIRECT ORIGINATION (for providers that deal directly with consumers)				
	Product Selection				
B.7	Does the institution market or originate non-government insured (e.g. proprietary products) Reverse Mortgages? [See Reverse Mortgage Product Worksheet from question A.6.]				
B.8	Are adequate criteria used to determine whether a consumer is referred to one of the institution's proprietary reverse mortgages or to one of the government insured products? *Examiner note: Specific consideration for FHA insured loans is covered in Module 3.*				
B.9	Does the institution provide consumers with adequate comparisons for the purposes of selecting products, including:				
B.9a	• FHA insurance or other guarantees?				
B.9b	• The existence or lack of escrow accounts?				
B.9c	• Payment disbursement method (e.g. lump sum, line of credit, monthly, etc.)?				
B.9d	• Other (e.g. termination clauses or other important				

	contractual terms in notes or riders)?				
	Counseling (if required for non-HECM loans) ***Examiner note: For HECM loans use counseling section in Module 3.***				
B.10	Does the institution maintain a current listing of State approved reverse mortgage counselors/counseling programs?				
B.11	If the state has specific requirements for the referral of homeowners to counselors, has the institution complied with those requirements?				
B.12	Counselor certification/verification:				
B.12a	• Are certifications required?				
B.12b	• Does the institution verify that the counselor is certified?				
B.12c	• Are certifications maintained?				
B.13	Is counseling sufficient when conducted:				
B.13a	• In person?				
B.13b	• By telephone?				
B.13c	• Other? (Explain)				
B.14	Is the length of counseling sufficient to adequately communicate information to the homeowner and answer all homeowner questions and concerns?				
B.15	Are there any charges to the homeowner prior to counseling? If yes, explain.				
B.16	If counseling is other than with homeowner(s), does the institution obtain appropriate legal documents supporting power of attorney, court-appointed conservator/guardian, etc.?				
B.17	Does the institution ever pay for counseling services?				
B.18	Does the institution receive any reimbursement for counseling fees?				
B.19	If the institution pays for counseling services are such payments deemed bona fide, reasonable, and appropriate?				
B.20	Does the institution take prudent steps if they have concerns or complaints about the services provided by a particular counselor (e.g. contact appropriate counselor supervisory agency)?				
	Other State Specific Counseling Requirements				
B.21	[Use this section to include state specific requirements]				
B.21a					
B.21b					
	Application Disclosures				
B.22	In relation to the Real Estate Settlement Procedures Act (RESPA) and Regulation X:				
B.22a	• Was the appropriate good faith estimate provided for closed-end credit? *Examiner note: See Regulation X, Section 3500.7(a) for Institutions or (b) for Brokers.*				
B.22b	• Was the appropriate disclosure provided for open-end credit?				

	Examiner note: See Regulation X, Section 3500.7(f) – if disclosures required by 12 C.F.R. 226.5b of Reg Z are provided at the time of application, this section shall be deemed to be satisfied.)				
B.22c	Was the Servicing Disclosure Statement provided? *Examiner note: See Regulation X, Section 3500.21(b).*				
B.23	In relation to the Truth In Lending Act (TILA) and Regulation Z:				
B.23a	• Was the appropriate TIL disclosure provided for closed-end credit? *Examiner note: See all of Regulation Z, Subpart C.*				
B.23b	• Was the appropriate TIL disclosure provided for open-end credit? *Examiner note: See Regulation Z, Sections 226.5b, 226.6, 226 .14 and 226 .16.*				
B.23c	• Was the initial Total Annual Loan Cost disclosure provided? *Examiner note: See Regulation Z, Section 226.33 covering the Requirements for Reverse Mortgages. The Total Annual Loan Cost disclosure or TALC should include the requirements under Section 226.33 and incorporate the equations under Regulation Z, Appendix K for computing the TALC.*				
B.23d	• Was the Comparison & Ammortiztion Schedule provide?				
B.24	In relation to the Equal Credit Opportunity Act (ECOA) and Regulation B:				
B.24a	• Was the Appraisal Notice provided? *Examiner note: See Regulation B, Section 202.14.*				
B.24b	• Was an adverse action notification needed and given? *Examiner note: See Regulation B, Section 202.9.*				
	State Specific Application Disclosures				
B.25	[Use this section to include state specific requirements]				
B.25a					
B.25b					
	Closing Disclosures				
B.26	Was the HUD Settlement Statement provided? *Examiner note: See Regulation X, Section 3500.8.*				
B.27	In relation to the Truth In Lending Act (TILA) and Regulation Z:				
B.27a	• Was the appropriate closing or final TIL provided for closed-end credit? *Examiner note: See all of Regulation Z, Subpart C.*				
B.27b	• Was the appropriate closing or final TIL provided for open-end credit? *Examiner note: See Regulation Z, Sections 226.5b and 226 .14.*				
B.27c	• Was the closing TALC provided? *Examiner note: See Regulation Z, Section 226.33 covering the*				

	Requirements for Reverse Mortgages. The Total Annual Loan Cost disclosure or TALC should include the requirements under Section 226.33 and incorporate the equations under Regulation Z, Appendix K for computing the TALC.				
B.27d	• Was the Comparison & Ammortiztion Schedule provide?				
B.27e	• Was the appropriate right of rescission notice provided for other than a purchase loan on closed-end credit? *Examiner note: See Regulation Z, Section 226.23.*				
B.27f	• Was the appropriate right of rescission notice provided for other than a purchase loan on open-end credit? *Examiner note: See Regulation Z, Section 226.15.*				
B.28	Were both the Note and Mortgage provided? *Examiner note: Providing the note and mortgage is required for HECM lending. For non-HECM products reference state law or regulation, if any. Providing the note and mortgage on all reverse mortgage loans is considered a CSBS/AARMR recommended best practice.*				
	State Specific Closing Disclosures				
B.29	[Use this section to include state specific requirements]				
B.29a					
B.29b					
	INDIRECT ORIGINATION (for institutions funding loans through brokers or other institutions)				
B.30	Are the institution's standards for using third-party originators for Reverse Mortgages adequate? *Examiner note: In consideration of this question the examiner should determine the following:*				
B.30a	• Does the institution conduct appropriate due diligence of third-party originators including pre-relationship review, transaction underwriting review and post-closing reviews?				
B.30b	• Does the institution have adequate criteria for entering into and maintaining relationships with third-party originators to originate Reverse Mortgages? *Examiner note: Consider whether the institution monitors third party originators for the elements identified under Marketing and Direct Origination above.*				
B.30c	• Has the institution established appropriate criteria for third-party compensation and incentives?				
B.30d	• Does the institution regularly review a reasonable sample of Reverse Mortgages to determine compliance with established policies, procedures and prudent management of the institution in a safe and sound manner?				
B.30e	• Does the institution monitor third parties for marketing, sales practices, appraisal problems, loan documentation, and consumer complaints?				
B.30f	• Does the institution inquire as to the type of business activity the third-party performs other than reverse mortgages				

	(e.g., forward mortgages, insurance sales, securities, etc.)?				
B.31	Are third party originators paid a different rate based on the product they sell? If so, discuss the compensation schedule and the examiner's opinion of the compensation schedule.				
B.32	Are compensated services in compliance with anti-kick back provisions under Regulation X to RESPA? *Examiner note: See Regulation X, § 3500.14 and 3500. 15. For purposes of identifying compensable services under RESPA, HUD RESPA Statements of Policy 1999-1 and 2001-1 (66 Federal Register 53052, at 53055, October 18, 2001) provide further guidance. In consideration of this question the examiner should ask:*				
B.32a	• Is there any indication or evidence that the fees paid to third-parties amount to "referral fees"?				
B.32b	• Are the third-party services "meaningful" (e.g. not for steering purposes)?				
B.32c	• Do payments bear a reasonable relationship to the market value of the services provided?				
B.32d	• Does the final HUD-1 Settlement Statement contain the amount paid and name of the mortgage broker or third-party?				
B.33	When deficiencies are noted with third-party originators does the institution take appropriate immediate action? *Examiner note: Remedial action may include more thorough application reviews, more frequent re-underwriting, or termination of the third-party relationship.*				
B.34	SUMMARY: Are strong risk management standards present when using third-party originators for Reverse Mortgages?				

C. UNDERWRITING

	HOMEOWNER QUALIFICATIONS	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
	<u>Safety and Soundness</u> – Non-HECM Loans				
C.1	Does the institution have underwriting policies based on homeowners' ages and equity in the property?				
C.2	If required by law, have all homeowners obtained adequate counseling? *Examiner note: CSBS/AARMR considers counseling on all loans to be a best practice. The examiner should consider making such recommendation to the institution.*				
C.3	Has the institution completed a title search to identify any existing liens?				
C.4	Have any existing liens been paid off through the loan, subordinated, or adequately taken into account when determining the loan amount?				
C.5	Is an appraisal obtained, reviewed and retained?				

C.6	Have all loan amounts been determined in accordance with the institution's underwriting policies?				
C.7	Is there insurance attached to the product? *Examiner note: See following questions. CSBS/AARMR consider insurance protecting both the institution and the homeowner to be a best practice. The examiner should consider making such recommendation to the institution.*				
C.7a	• Insurance protecting the institution in case of equity deficiency?				
C.7b	• Insurance protecting the homeowner in case of institution failure?				
	Homeowner Protection *Examiner note: The following sections are not necessarily violations of law. The examiner should consider advising management on specific areas of homeowner protection and the prudence of inclusion of homeowner protections in policy and procedure.*				
C.8	Have all homeowners received outside counseling regarding the consequences of a reverse mortgage?				
C.9	Does the institution urge the homeowner to discuss the reverse mortgage transaction with any family members or other interested parties?				
C.10	Does the institution inquire about any non-homeowners residing in the property and if provisions have been made for them upon the death or relocation of the homeowners?				
C.11	Does the institution fully consider monthly amounts for taxes, insurance and other items when determining the homeowner's cash flow needs and suitability of the loan?				
C.12	If homeowners are responsible for payment of their taxes and insurance is there documentation that this has been explained to the homeowners?				
C.13	If a reverse mortgage is a tenure reverse mortgage loan, i.e., a loan where disbursements will only be made for a fixed period of time, has the homeowner been asked about his/her condition after the payments end?				
C.14	Has the institution inquired as to the use of cash out disbursements to determine that the proceeds are not being used for questionable or inappropriate purposes, e.g., for the purchase of a long term investment?				
C.15	Has the institution avoided taking any collateral other than the homeowner's residence?				
C.16	Does the institution make any notes regarding a homeowner's mental capacity and take appropriate action if the homeowners appear confused or unable to understand any discussions?				
C.17	When dealing with persons holding power of attorney for a homeowner, does the institution verify the power of attorney?				
C.18	Has the institution avoided offering, brokering or making a reverse mortgage loan that the institution knows or has reason				

	to know is unsuitable or inappropriate for any of the following reasons?				
C.18a	• The homeowner does not intend to reside in the property on a long term basis.				
C.18b	• Against the homeowner's wishes, non-homeowner residents of the property would be displaced at the maturity of the loan because they will not be able to pay off the reverse mortgage loan.				
C.18c	• The homeowner will use the proceeds of the reverse mortgage loan to purchase a product, generally but not exclusively annuities or investments, which are not appropriate for the homeowner.				
C.18d	• The homeowner does not understand the ramifications of a reverse mortgage loan.				
C.18e	• The amount of money which the homeowner can obtain from a reverse mortgage loan is insufficient to meet the homeowner's needs or is not enough to justify the initial cost of a reverse mortgage loan.				
C.18f	• There are alternative measures which the homeowner can use which are more suited to the homeowner's financial needs.				
C.19	Was another home owner removed from title prior to or during underwriting?				
C.19a	• Was the removed home owner under the age of 62?				
C.19b	• Was the removed home owner significantly younger than the remaining home owner?				
C.19c	• Is there any reason to believe that the removed home owner will outlive the remaining home owner?				
C.19d	• Was the removed home owner fully apprised of the legal ramifications of being removed from title (e.g. if the remaining home owner dies or a couple files for divorce, etc.)?				
C.20	Are homeowners fully aware of all loan costs and the method by which costs will be paid (e.g. upfront or financed)?				
C.21	SUMMARY: Are underwriting standards appropriate to ensure Reverse Mortgages are originated in a prudent manner?				

D. OPERATIONAL MANAGEMENT

	QUALITY CONTROL	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
D.1	Does the institution allow its loan originators to originate products or conduct business other than reverse mortgages? If so, what type of products or other businesses are allowed? *Examiner note: Pay particular attention to products that could*				

	be purchased or funded with the proceeds from a reverse mortgage.				
D.1a	• Does the institution allow reverse mortgages to be used to finance the sale of other products offered by the institution? If yes, does the financing of other products appear appropriate?				
D.2	Does the quality control function regularly review a sample of Reverse Mortgages originated by sales staff and a representative sample of processors and underwriters to confirm that policies are being followed? What happens if violations of policies occur?				
D.3	Does the institution track and monitor Reverse Mortgages originated as an exception to existing policies and procedures? Are high levels of exceptions made?				
D.4	When control systems or operating practices are found deficient, are business-line managers and third-party originators held accountable for correcting deficiencies in a timely manner?				
D.5	Does institution collect and document complaints from its customers? If so, do complaints disproportionately involve Reverse Mortgages?				
D.6	Does institution have adequate system to monitor compliance with specialized requirements, regulations or laws related to Reverse Mortgages?				
D.7	Does institution provide adequate training to sales personnel regarding Reverse Mortgages offered and appropriate ways to market these products to consumers (see marketing/origination standards)?				
D.8	Do incentive plans for originators overly promote sale of Reverse Mortgages?				
D.9	Does institution have specialized risk management practices to monitor the risks associated with Reverse Mortgages? What are these practices?				
D.10	Does institution have risk management practices sufficient to manage level of concentration (high, low) of Reverse Mortgages? *Examiner note: Consider factors below for large institutions or large concentrations of Reverse Mortgages*				
D.10.a	• Reporting system to detect changes in risk profile of Reverse Mortgages quickly.				
D.10b	• Reporting based on full range of product features and terms and homeowner characteristics?				
D.10c	• Management tracks volume and performance against expectations, internal lending standards, and policy limits.				
D.10d	• Management sets limits on volume and performance.				
D.10e	• Management sets and tracks variances to policies and thresholds. Variance analysis is critical to the monitoring of a				

	portfolio's risk characteristics and should be an integral part of establishing and adjusting risk tolerance levels.				
D.10f	• Management performs stress testing of portfolio for various changes in economic conditions. Does the scope of the analysis include stress tests on key performance drivers such as interest rates, employment levels, economic growth, housing value fluctuations, and other factors beyond the institution's immediate control? *Examiner note: Stress tests typically assume rapid deterioration in one or more factors and attempt to estimate the potential influence on default rates and loss severity. Stress testing should aid an institution in identifying, monitoring and managing risk, as well as developing appropriate and cost-effective loss mitigation strategies.*				
D.10g	• Management has assessed contingent liability of buy-back risk for poor performance of loans and has capital or other system to address risk.				
D.11	Does management monitor the reverse mortgage loan portfolio for cross-over risk? *Examiner note: While the bond is outstanding, the homeowners age and interest accrue, and home value fluctuates. The point at which the principal outstanding together with accrued interest for a loan exceeds the home value is where a loss or point of diminished returns occurs. Such point is known as the cross-over point.*				
D.12	Does management monitor counselors for appropriate training and licensure as well as the content of counseling?				
D.13	Has the institution operated in a safe and sound manner and avoided any significant decreases or losses in capital?				
D.14	How does the institution incorporate its reverse mortgages into its overall asset/liability management program?				
D.15	How is the institution budgeting for reverse mortgage income (e.g., projection modeling)?				
D.16	Does the institution properly account for reverse mortgages in its financial statements?				
D.16a	• As part of its accounting practices, does the institution periodically review uninsured reverse mortgages for impairment (e.g. as a doubtful asset)?				
D.17	Does the institution collect fees in relation to reverse mortgages? If so, describe fees and how reflected on financial statements (e.g. are fees bundled or segregated on statements?).				
	MANAGEMENT INFORMATION SYSTEMS *Examiner note: This section is offered for examinations that do not incorporate a separate MIS component to the review.*				
D.18	Does the institution have a documented disaster recovery plan?				
D.18a	• If so, how often is it updated?				

D.18b	• Does it address potential disruptions of service to the system(s) housing the institution's reverse mortgage pipeline/servicing portfolios?				
D.18c	• Does the institution have a backup plan to address these potential disruptions of service?				
D.18d	• Does the institution have an offsite backup facility to handle critical operations should their main facility go down?				
D.18e	• Does the institution have an offsite storage facility for critical company records?				
D.18f	• Could the institution recreate critical reverse mortgage loan origination/servicing records should the need arise?				
D.19	Does institution management utilize their Management Information System (MIS) to monitor company reverse mortgage operations (e.g. originations, pipeline, servicing, and secondary marketing)?				
D.20	Does institution management periodically review the company's MIS to determine if any hardware and/or software enhancements are needed?				
D.21	Is the institution's MIS ever evaluated as part of an internal/external audit?				
D.21a	• If so, obtain copies of any such reports and review for critical issues.				
	Information Security *Examiner note: Questions D.22 through D.23b address standards outlined by the Federal Trade Commission's Safeguards Rule (16 CFR Part 314). This rule implements sections 501 and 505(b)(2) of the Gramm-Leach-Bliley Act.*				
D.22	Does the institution have an information security program in place that meets the guidelines outlined in section 314.3(a) of the Safeguards Rule?				
D.23	Does the institution's information security program contain safeguards that:				
D.23a	• Include the elements outlined in section 314.4 of the Safeguards Rule?				
D.23b	• Are reasonably designed to achieve the objectives outlined in section 314.3(b) of the Safeguards Rule?				

E. SERVICING

	Examiner note: The attached Reverse Mortgage Servicing Worksheet should be used to assist in answering these questions. See Module 9.	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
E.1	Does the institution service reverse mortgage loans? (If not, skip to Section F.) If so, the examiner should identify the volume of servicing pertaining to loans held, loans sold, loans				

	purchased with servicing, and purchased servicing.				
E.2	Does the institution escrow or pay taxes and insurance on all reverse mortgage loans?				
E.2a	• If not, does the institution verify that taxes and insurance are paid by the homeowner?				
E.2b	• Does the institution monitor for canceling of homeowners insurance during first 3 months? *Examiner note: Considered a best practice as earlier cancellation may indicate intent to defraud lender.*				
E.3	Does the institution have written policies and procedures addressing a homeowner's failure to pay taxes or insurance and has the institution followed these procedures?				
E.4	Does the institution have adequate liquidity and funding sources to make any required disbursements?				
E.5	Has the institution avoided failing to make a required disbursement in a timely manner?				
E.6	If a homeowner is allowed to change the reverse mortgage loan disbursement terms, has the institution processed any such change requests in a timely manner?				
E.7	Has the institution sent the following required disclosures and notices?				
E.7a	• A monthly transaction statement for line of credit reverse mortgages?				
E.7b	• An annual statement including a transaction list for the entire year? *Examiner note: Must be sent by January 31.*				
E.7c	• Notice of interest rate change 25 days prior to change date?				
E.8	Does the institution verify the collateral is the homeowner's principal residence?				
E.9	Does the institution verify that the homeowner has no reverse mortgages on other property?				
E.10	Does the institution have adequate staff and resources to handle consumer inquiries and complaints?				
E.11	Does the institution maintain a log of all consumer complaints?				
E.12	Are interest and fee charges on reverse mortgage loans calculated correctly?				
E.13	Does the institution have a schedule for adjusting the interest rates on adjustable rate reverse mortgages?				
E.13a	• Does institution send out the ARM disclosure?				
E.14	Has the institution taken possession of any homes after maturity of a reverse mortgage loan?				
E.14a	• Does the institution have written policies and procedures regarding taking possession of property after maturity of a reverse mortgage loan and does it follow those policies and procedures?				

E.14b	• Does the volume of home possessions indicate any weaknesses in origination or underwriting practices?				
E.15	Does the institution have any reverse mortgage loans that are not paid in full or otherwise resolved within 6 months of the reverse mortgage loan maturity?				
E.16	Does the institution have policies in place to address returned mail? *Examiner note: Returned mail may indicate identity theft or may be an indication the homeowner has moved out of the home.)*				
E.17	Does the institution generate an annual occupancy statement? *Examiner note: This is not a requirement for non-HECM loans, however it ensures that the home is still being used as the original homeowner's primary residence.*				
E.18	Does institution perform "death audits"? *Examiner note: Death audits are audits on current loans, usually by 3rd parties, to ensure that the homeowners are still living? This is not a requirement for non-HECM loans, however the practice is advisable.*				

F. SECONDARY MARKETING

		Y	N	NA	Examiner Notes [Document supporting evidence and note determinations and findings made.]
F.1	Does the institution have significant secondary market activity in Reverse Mortgages?				
F.2	For loans sold to the secondary market has the institution retained servicing rights?				
F.3	Is the sophistication of the institution's secondary market risk management practices commensurate with the nature and volume of activity?				
F.4	If the institution has significant secondary market activities are there comprehensive, formal strategies for managing risks?				
F.5	Has the institution considered how it will respond if there is reduced demand in the secondary market?				
F.6	Has the institution ever been required to repurchase reverse mortgage loans? If so, please explain.				

G. OTHER ISSUES AND CONCERNS

	GENERAL	Y	N	NA	Examiner Notes [Document supporting evidence and note determinations and findings made.]

G.1	Has the institution avoided offering, brokering or making a reverse mortgage loan that the institution knows or has reason to know is unsuitable or inappropriate for any of the following reasons:				
G.1a	• The applicant does not intend to reside in the property on a long term basis?				
G.1b	• Against the borrower's wishes, non-borrower residents of the property would be displaced at the maturity of the loan because they will not be able to pay off the reverse mortgage loan?				
G.1c	• The applicant will use the proceeds of the reverse mortgage loan to purchase a product, generally, but not exclusively, annuities or investments, which are not appropriate for the borrower?				
G.1d	• The applicant does not understand the ramifications of a reverse mortgage loan?				
G.1e	• The amount of money which the applicant can obtain from a reverse mortgage loan is insufficient to meet the applicant's needs or is not enough to justify the initial cost of a reverse mortgage loan?				
G.1f	• There are alternative measures which the applicant can use which are more suited to the applicant's financial needs?				
G.2	Does the institution refer reverse mortgage homeowners to any other products, services or service providers (e.g. referrals to insurance agents or products, securities dealers or products, etc.)? *Examiner note: Determine whether homeowners are offered or sold other products, which might be considered unsuitable, including the institution's own products.*				
	FRAUD				
G.3	Has any fraud or suspicious defaults occurred in the institution's reverse mortgage portfolio? Explain as necessary.				
G.4	Does the institution have policies covering reverse mortgage fraud practiced on consumers such as Home Improvement Scams, or sale of fictitious products? *Examiner note: Scammers assist in obtaining reverse mortgages to be used for repairs or improvement, which are either not done, or result in shoddy work and overcharges.*				
G.5	Does the institution have policies covering reverse mortgage fraud practiced on the institution such as appraisal fraud or identity theft?				
G.6	Does the institution have policies and procedures to detect fraud in conservatorships or power of attorney situations (e.g. where someone other than the homeowner is signing for the loan)?				
G.7	Does the institution have policies in place to monitor fraud in servicing (e.g. erratic disbursements, large advances,				

	comparing signatures)?				
	DEFAULTS				
G.8	Does the institution follow its policies and procedures in situations where the homeowner has allowed deterioration in the property, no longer lives in the property or has failed to pay taxes and insurance?				

MODULE 3 – EXAMINER CHECKLIST TO BE USED FOR FHA APPROVED ENTITIES

This module is designed to be used for examinations of institutions originating or funding FHA insured reverse mortgage loans. Module 3 is to be used as an additional checklist for FHA insured reverse mortgages; however, Module 3 is to be used in conjunction with Module 2. Skip Module 3 for examinations of institutions with no FHA insured reverse mortgage activity.

The RMEGs Examiner Checklist consists of questions intended to prompt the examiner for specific review. Much of the checklist can be completed from a thorough, off-site review of the response to the RMEGs Information and Data Request (Module 5), the Institution and Management Questionnaire (Module 6), the Reverse Mortgage Activity Summary (Module 7), the Reverse Mortgage Product Worksheet (Module 8) and the Reverse Mortgage Servicing Worksheet (Module 9). Other sections will require file-level review and possibly interviews of institution staff, homeowners and third parties including appraisers and counselors.

A. PRE-EXAMINATION FOR HECM LOANS

	GENERAL *Examiner note: This section should be completed regardless of the scope of the examination or size or type of the institution. The questions in this section are general triggers intended to stimulate broad consideration by the examiner.*	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
A.1	Has the institution provided evidence of FHA approval? *Examiner notes: FHA approved institutions are one of two types: FHA Supervised or FHA Nonsupervised. Supervised means that the lender is supervised by an agency other than HUD (typically banks and credit unions). Nonsupervised fall under HUD supervision versus another federal agency (primarily mortgage brokers and lenders).* *There are two levels of FHA approval under the above types: Loan Correspondent and Mortgagee. Both can be either Supervised or Nonsupervised. The requirements are different for each level.* *See Module 4 Reference and Glossary of Terms for more detailed explanation.*				
A.1a	▪ What is the institution's approval type and level?				
A.2	*Examiner note: Module 3 references certain HUD Handbooks and Mortgagee Letters (ML). These referenced documents may be obtained at the following website http://www.hud.gov/offices/adm/hudclips/index.cfm (using Ctrl click while hovering over this link will automatically launch you to the site). Examiners should note that HUD frequently updates ML letters and handbooks and this site should be visited routinely to stay abreast of the most recent HECM requirements.*				

B. CONSUMER CONTACT/ORIGINATION FOR HECM LOANS

	MARKETING/PROMOTIONAL MATERIALS	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting

					evidence and note determinations and findings made.]
	DIRECT ORIGINATION (for providers that deal directly with consumers)				
B.1	Does the institution market or originate government insured mortgages other than FHA HECM government insured Reverse Mortgages? *Examiner note: Non-HECM activity should be addressed through Module 2.*				
B.2	Is the originator FHA approved?				
B.2a	▪ If the answer is "no," has the institution conducted any origination activity after October 1, 2008? *Examiner note: Effective October 1, 2008, HUD Mortgagee Letter 2008-14 is rescinded and replaced by ML 2008-24. ML 2008-24 implements Division B, Title I, Subtitle A of the Housing and Economic Recovery Act of 2008. This section requires that all parties that participate in the origination of a mortgage to be insured under FHA's HECM program must be approved by the Secretary. This requirement means that loan origination must be performed by FHA approved entities including: (1) a FHA-approved loan correspondent and sponsor; (2) a FHA approved mortgagee through its retail channel; or (3) a FHA-approved mortgagee working with another FHA-approved mortgagee.*				
	Product Selection				
B.3	Does the institution originate proprietary reverse mortgage loans? If yes, what criteria is used to determine whether a consumer is referred to one of the institution's proprietary reverse mortgages or to one of the government insured products?				
	Counseling				
B.4	Does the institution maintain a current listing of HUD-approved counseling agencies?				
B.5	If the institution receives a request from a homeowner to apply for a HECM, does it explain that the HECM program requires counseling and refer the client to a list of entities eligible to provide HECM counseling as follows: *Examiner note: Please refer to HUD Mortgagee Letters 2004-25 and 2004-48 for further information on this topic. HUD Mortgagee Letter 2006-25 discusses counseling for the following parties:* ➢ *The non-homeowner spouse of a prospective HECM homeowner.* ➢ *A trustee, trust beneficiaries, or persons with a revisionary or remainder interest.* ➢ *The children of a prospective HECM homeowner(s).*				
B.5a	• Does the institution provide the homeowner with a list				

	of no fewer than five HUD-approved agencies in the local area and/or state that can provide HECM counseling (except in cases where fewer than five agencies are serving a particular state)?				
B.5b	• Does the institution include at least one agency located within a reasonable driving distance from the prospective homeowner, so that the prospective homeowner is able to receive face-to-face counseling if he/she chooses?				
B.5c	• Does the list include the AARP Foundation Network of HECM Counselors toll-free number: 800-209-8085?				
B.5d	• Should a prospective homeowner request a list of all agencies serving the state, does the institution provide the listing rather than the abbreviated list?				
B.6	Does the institution ensure that the homeowner's HECM counseling certificates are current? *Examiner note: The Certificate of homeowner HECM Counseling expires 180 days from date HECM counseling completed. The institution must take the initial application from the prospective homeowner before the counseling certificate expires.*				
B.7	Does the institution ensure that all homeowners shown on the deed signed the HECM counseling certificate? *Examiner note: See HUD Mortgagee Letter 2004-25.*				
B.8	Does the institution ensure that counseling is in compliance with HUD guidelines (e .g., before fees are collected, with an FHA approved counselor, etc.) when conducted:				
B.8a	• In person? Explain. *Examiner note: Please refer to HUD Mortgagee Letter 2007-08 for information concerning face-to-face interviews.*				
B.8b	• By telephone? Explain. *Examiner note: Please refer to HUD Mortgagee Letters 2004-48 and 2007-08 for information concerning telephone counseling.*				
B.8c	• Other? (Explain)				
B.9	Is the length of counseling sufficient to adequately communicate information to the homeowner and answer all homeowner questions and concerns? *Examiner note: Concern should exist for counseling less than one hour.*				
B.10	Are there any charges incurred by the homeowner prior to counseling? If yes, explain. *Examiner note: For HECM loans the institution should not initiate any chargeable actions until it has received the counseling certificate from the homeowner. Per HUD-Mortgagee letter 2006-25, the FHA permits institutions to obtain the following prior to counseling:* • *Automated Valuation Models (AVMs)* o *If the prospective homeowner obtains a HECM,*				

	then the cost of the AVM should be included in the origination fee. • *Preliminary Title Search. The costs associated with the preliminary title search will be paid at closing; however, if the prospective homeowner does not proceed to closing, they may not be charged for this service.*				
B.11	If counseling is other than with homeowner(s), does the institution obtain appropriate legal documents to support HECM counseling certificates? *Examiner note: Applicable situations – power of attorney, court-appointed conservator/guardian.*				
B.12	Does the institution pay for counseling services? *Examiner note: See Public Law 189-210, HERA, Section 2122(a)(3).*				
B.12a	• If the institution has paid for counseling services prior to September 29, 2008, are such payments in compliance with applicable requirements? *Examiner note: Per HUD guidelines (Mortgagee Letter 2008-12), institutions may pay HUD-approved counseling agencies for counseling services, through a lump sum or on a case-by-case basis. These guidelines further state that the institution payment may be made directly to the counseling agency or disbursed at closing by the settlement agent. Please refer to this Mortgagee Letter to obtain further details on institution, counseling agency, and settlement agent responsibilities during such transactions.*				
B.13	Does the institution accept specific or direct referrals from HECM counselors? *Examiner note: Per HUD Mortgagee Letter 2004-25, housing counseling agencies are not permitted to promote, represent, recommend, or speak for any specific institution.*				
B.14	Does the institution take appropriate steps if they have concerns or complaints about the services provided by a particular HECM counselor (e.g. contact the HUD Homeownership Center in their jurisdiction)? *Examiner note: See HUD Mortgagee Letter 2004-25*				
B.15	Does the institution receive any reimbursement for counseling fees? *Examiner note: Review HUD1 or other documentation for fees to institution and see Mortgagee Letter 2008-12 and 2008-28 for guidance.*				
	Application Disclosures Specific to HECM Loans				
B.16	Was the Initial Principal Limit Lock provided? *Examiner note: See HUD Handbook 6-9B and Mortgagee Letter 2006-22.*				
B.17	Was the Initial Annuity Disclosure provided? *Examiner Note: Pursuant to Title 24 C.F.R. Housing and Urban Development Part 206 Home Equity Conversion*				

	Mortgage Insurance Section 43 and HUD Mortgagee Letter 1999-2, the mortgagee must clearly state to the homeowner which charges are required to obtain the mortgage and which are not required to obtain the mortgage.				
B.18	On refinances of a HECM, was the Anti-Churning Disclosure needed and given? *Examiner Note: See HUD Mortgagee Letter 2004-18 and Title 24 Part 206 Section 53(d), pertaining to a refinance of an existing HECM.*				
	Closing Disclosures				
B.19	Were both the Note and Mortgage provided to the homeowner? *Examiner note: Providing the note and mortgage is required for HECM lending. For non-HECM products reference state law or regulation, if any. Providing the note and mortgage on all reverse mortgage loans is considered a CSBS/AARMR recommended best practice.*				
B.20	Was the Second Note securing any payments by HUD, provided to the homeowner? *Examiner note: Pursuant to 24 C.F.R. 206, Section 27(d), in reference to a second mortgage to secure any payments by the Secretary, the definition of mortgage in section 3 describes the term mortgage as follows "also includes the credit instrument, or note, secured by the lien, and the loan agreement between the mortgagor, the mortgagee and the Secretary."*				
B.21	Was the Second Mortgage provided to the homeowner? *Examiner note: Pursuant to 24 C.F.R. 206, Section 27(d), in reference to a second mortgage to secure any payments by the Secretary, the definition of mortgage in section 3 describes the term mortgage as follows "also includes the credit instrument, or note, secured by the lien, and the loan agreement between the mortgagor, the mortgagee and the Secretary."*				
B.22	Was the Final Limit Lock Agreement needed and provided to the homeowner? *Examiner note: Pursuant to HUD handbook 6-9D, if the mortgage interest rate, or the index for ARMs, has increased by more than 1% or the margin has increased at all since the Firm commitment was issued, the commitment must be reprocessed before the loan can close.*				
B.23	Was the Protection Measures Against Fees (aka Annuity) Disclosure provided to the homeowner? *Examiner Note: Pursuant to Title 24 C.F.R. Housing and Urban Development Part 206 Home Equity Conversion Mortgage Insurance Section 43 and HUD Mortgagee Letter 1999-2, the mortgagee must clearly state to the homeowner which charges are required to obtain the mortgage and which are not required to obtain the mortgage.*				
B.24	Was the HECM Loan Agreement provided to the homeowner? *Examiner note: Pursuant to HUD handbook 6-6[c], three*				

	copies of the loan agreement must be executed at closing by the homeowner and the institution.				
	INDIRECT ORIGINATION (for institutions funding HECM loans originated through others)				
B.25	Are the institution's standards for using third-party originators for Reverse Mortgages adequate?				
B.26	Is the originator FHA approved? *Examiner note: Effective October 1, 2008, HUD Mortgagee Letter 2008-14 is rescinded and replaced by ML 2008-24. ML 2008-24 implements Division B, Title I, Subtitle A of the Housing and Economic Recovery Act of 2008. This section requires that all parties that participate in the origination of a mortgage to be insured under FHA's HECM program must be approved by the Secretary. This requirement means that loan origination must be performed by FHA approved entities including: (1) a FHA-approved loan correspondent and sponsor; (2) a FHA approved mortgagee through its retail channel; or (3) a FHA-approved mortgagee working with another FHA-approved mortgagee.*				
B.27	Has the institution avoided accepting HECM loan applications on which a "non-approved entity or third party" has performed origination activities?				
B.28	Does the institution inquire as to the type of business activity the third-party performs other than reverse mortgages (e.g., forward mortgages, insurance sales, securities, etc.)? *Examiner note: See Mortgagee Letter ML 2008-24.*				
B.29	FHA Non-Approved Entities *Examiner note: Prior to October 1, 2008, limited HECM activity by non-approved entities was allowed. HUD Mortgagee Letter 2008-14 provides guidance and should be used for questions B.XX through B.XX.*				
B.30	Is the institution in compliance with HUD Mortgagee Letter 2008-14 when accepting originations from non-approved entities?				
B.31	Under 24 CFR 206.31(a)(1), a non-approved entity or third party must be "engaged independently by the homeowner." Does this institution obtain and maintain evidence that non-approved entities (i.e. advisors, consultants, mortgage brokers) were engaged independently?				
B.32	Under 24 CFR 206.31(a)(1), there must be "no financial interest" between the non-approved entity (i.e., advisor, consultant, mortgage broker) and the mortgagee. Is there any financial interest between a non-approved entity and the institution?				
B.33	Were fees paid to non-approved entities included as part of the origination fee paid to the institution as required under MORTGAGEE LETTER 2008-14? Consider:				
B.33a	• Is there any indication or evidence that the fees paid to non-approved entities amount to "referral fees"?				

B.33b	• Are the non-approved entity services "meaningful" (e.g. not for steering purposes?				
B.33c	• Do payments bear a reasonable relationship to the market value of the services provided?				
B.33d	• Does the final HUD-1 Settlement Statement contain the amount paid and name of the mortgage broker or non-approved entity?				
B.33e	• Is there a signed written agreement between the homeowner and non-approved entity or third party, describing the advisory and educational services to be performed and the amount of compensation for each service?				
B.34	SUMMARY: Are strong risk management standards present when using third-party originators for HECMs?				

C. UNDERWRITING

	HOMEOWNER QUALIFICATIONS	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
	<u>Safety and Soundness – HECM Loans</u>				
C.1	Does the institution have "Direct Endorsement" (DE) with HUD? See Reference and Glossary of Terms, Module 4.				
C.2	If the institution does not have its own Direct Endorsement, has the institution contracted the underwriting out to an entity that is authorized to do underwriting?				
C.3	Are all persons listed as an owner on the property also homeowners on the loan?				
C.4	Are all homeowners 62 years of age or older?				
C.5	Does the institution have copies of the counseling certificates signed by all parties?				
C.6	Has the institution avoided incurring any costs prior to having the counseling certificate signed by all parties?				
C.7	Are all reverse mortgage liens secured by a first lien on the property?				
C.8	Does institution retain a copy of the appraisal?				
C.9	Have all loan amounts been determined in accordance with FHA's actuarial calculations based on the appraised value of the property?				
C.10	Have all loans been properly registered with FHA?				
C.11	Was under 62 home owner removed from title prior to or during underwriting?				
	Homeowner Protection – HECM Loans *Examiner note: HUD Mortgagee Letter 2008-24 implements amendments to the National Housing Act by Division B, Title I, Subtitle A of the Housing and Economic Recovery Act of 2008. Pursuant to ML 2008-24, this section provides that a HECM*				

	mortgage originator or any other party that participates in the origination of a FHA insured HECM mortgage shall (1) not participate in, or be associated with, or employ any party that participates in or is associated with, any other financial or insurance activity; or (2) demonstrate to the Secretary of HUD that the mortgagee or other party maintains, or will maintain, firewalls and other safeguards designed to ensure that (i) individuals participating in the origination of a HECM mortgage have no involvement with, or incentive to provide the mortgagor with, any other financial or insurance product; and (ii) the mortgagor shall not be required, directly or indirectly, as a condition of obtaining a mortgage under this section, to purchase any other financial or insurance product.				
C.12	Is the institution in compliance with (1) above?				
C.13	Is the institution in compliance with (2) above?				

D. OPERATIONAL MANAGEMENT

	QUALITY CONTROL	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
	Examiner note: Operational Management and Quality Control, including monitoring of HECM loans is sufficiently covered by other Module 2, Section D of these guidelines.				

E. SERVICING HECM LOANS

	REPORTING REQUIREMENTS	**Y**	**N**	**NA**	**Examiner Notes** [Document supporting evidence and note determinations and findings made.]
E.1	In case of institution default is HUD notified, and how?				
E.2	Has the institution avoided failing to make a required disbursement in a timely manner? *Examinter note: For HECM LOCs, disbursements must be made within 5 business days of receipt of the request. Scheduled disbursements are made the first of each month.*				
E.3	If the institution has failed to make a required disbursement on a HECM in a timely manner, has the institution paid the penalty to the homeowner in a timely manner? *Examiner note: See ML 2008-24. Penalty is 10% of amount to be disbursed plus interest, capped at $500.*				
E.4	Does the institution monitor HECM loan balances to maximum loan amount to determine if HECMs with deficient balances should be assigned to FHA?				
E.5	Does the institution provide an Annual Statement pursuant to 24 C.F.R. Part 206.203(a)?				

E.6	Does the institution provide a Line of Credit and Payment Change Statement every time a line of credit payment is made or a new payment plan initiated pursuant to 23 C.F.R. Part 206.203(b)?				
E.7	How does the institution handle homeowner defaults? *Examiner note: See HECM handbook 9-7.*				
E.8	Has the institution foreclosed on any homes after maturity of a HECM?				
E.9	If the institution has foreclosed on any homes (involving HECMs), was prior approval obtained from HUD when the foreclosure was for any of the following reasons? ➢ the property was no longer the principal residence of at least one mortgagor for reasons other than death ➢ no mortgagor maintained the property as a principal residence for a period exceeding 12 months because of physical or mental illness ➢ the property was in disrepair and the mortgagor refused or was unable to repair the property ➢ the mortgagor violated another covenant of the mortgage (e.g. timely payment of taxes and insurance) and refused or was unable to comply with the violated condition of the mortgage *Examiner Note: Further details concerning the "Due and Payable" and "Foreclosure" processes can be found in HUD Handbook 4330.1 (Administration of Insured Home Mortgages) – see Chapter 13 (Home Equity Conversion Mortgages – HECMS)*				
E.10	Does the institution generate an annual occupancy statement? *Examiner note: Ensures that the home is still being used as the original homeowner's primary residence.*				
E.11	Does institution perform "death audits"? *Examiner note: Death audits are audits on current loans, usually by 3rd parties, to ensure that the homeowners are still living?*				

MODULE 4 – REFERENCE AND GLOSSARY OF TERMS

Appraisals for Reverse Mortgage Loans – An appraiser is responsible for assigning a current market value to the home. Fees generally range between $300 and $400. In addition to placing a value on the home, an appraiser must also make sure theare are no major structural defects, such as a bad foundation, leaky roof, or termite damage. Federal regulations mandate that the home be structurally sound, and comply with all home safety codes in order for a government insured reverse mortgage to be made.

If the appraiser uncovers property defects, the homeowner must hire a contractor to complete the repairs. Once the repairs are completed, the same appraiser is paid for a second visit to make sure the repairs have been completed. The cost of the repairs may be financed in the loan and completed after the reverse mortgage is made. Appraisers generally charge $50-$75 dollars for the follow-up examination.

Closing Costs – Closing costs that are commonly charged to a reverse mortgage homeowner, include:

- Credit report fee. Verifies any federal tax liens, or other judgments, handed down against the homeowner. Cost: Generally under $20
- Flood certification fee. Determines whether the property is located on a federally designated flood plane. Cost: Generally under $20
- Escrow, Settlement or Closing fee. Generally includes a title search and various other required closing services. Cost: $150-$450
- Document preparation fee. Fee charged to prepare the final closing documents, including the mortgage note and other recordable items. Cost: $75-$150
- Recording fee. Fee charged to record the mortgage lien with the County Recorder's Office. Cost: $50-$100
- Courier fee. Covers the cost of any overnight mailing of documents between the institution and the title company or loan investor. Cost: Generally under $50
- Title insurance. Insurance that protects the institution (institution's policy) or the buyer (owner's policy) against any loss arising from disputes over ownership of a property. Varies by size of the loan, though in general, the larger the loan amount, the higher the cost of the title insurance.
- Pest Inspection. Determines whether the home is infested with any wood-destroying organisms, such as termites. Cost: Generally under $100
- Survey. Determines the official boundaries of the property. It's typically ordered to make sure that any adjoining property has not inadvertently encroached on the reverse mortgage homeowner's property. Cost: Generally under $250

Fannie Mae Home Keeper – A non-recourse loan that requires no repayment as long as the homeowner lives in the home. It differs from the HECM in a variety of ways, including:

- Multi-family dwellings are not eligible.
- There can be no more than three homeowners per property.
- HUD 203(b) limits do not apply.
- No mortgage premium is charged. Instead, risk is managed by limiting loan amounts relative to property value.
- Term payments are not available.
- The loan amount for each home is determined by the age(s)of the owner(s) and the home value. Couples are eligible for less money than an individual of the same age.
- The funds remaining in the credit line do not grow over time.
- The adjustable interest rate is tied to the one-month CD rate and can go up as much as 12%.

A "Home Keeper for Home Purchase" feature of the program permits a homeowner to purchase a home using a Home Keeper loan.

Note: The Fannie Mae Home Keeper program was terminated September 2, 2008.

FHA Approved Entities – FHA classifies approved entities based on the functions they will perform and type of organization. Most lenders are one of two types, supervised and nonsupervised. Supervised means that the lender is supervised by an agency other than HUD. Banks and credit unions are the most common. Nonsupervised, then, are not supervised by other agencies, but by HUD. Mortgage Companies are the bulk of this type.

There are two levels of FHA approval: Loan Correspondent and Mortgagee. Both can be either supervised or non-supervised. There are different requirements for each level. Full explanations of requirements can be found in HUD Handbook 4060.1

A loan correspondent (sometimes called mini-eagle) can originate and process loans, but not underwrite. Underwriting is done by a sponsor. The loan can close in either the correspondent or sponsor's name.

A mortgagee (sometimes called a full eagle) can process, underwrite and close loans in their name. They must, at some point, qualify for direct endorsement (DE) status (explained below). This requires a minimum of five test cases, if the lender is already approved for forward loans, fifteen if they are not, which lead to firm commitments. A mortgagee can also contract with another mortgagee to be their agent in processing and underwriting HECM loans. The originator (principal) must take the application and close the loan in its name. All other functions are a matter of negotiation.

FHA approves the following types of loan correspondents and mortgagees:

- Supervised Loan Correspondent—Banks and credit unions. A mortgagee that qualifies for approval as a supervised mortgagee may be approved as a supervised loan correspondent and must have one or more sponsors who underwrite the mortgages. Sponsors must be DE mortgagees.

- Nonsupervised Loan Correspondent—Mortgage brokers, correspondent lenders and mortgage lenders. This designation applies to non-depository financial entities that have as their principal activity the origination of FHA-insured mortgages for sale or transfer to one or more Sponsors who underwrite the mortgages. Sponsors must be DE mortgagees.

- Supervised Mortgagee—This designation is limited to financial institutions that are members of the Federal Reserve System, and financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA). Examples of supervised mortgagees are banks, savings associations, and credit unions. Supervised institutions may choose instead to apply as supervised loan correspondents or investing mortgagees.

- Non-supervised Mortgagee (i.e., mortgage lenders)—This designation applies to non-depository financial entities that have as their principal activity the lending or investment of funds in real estate mortgages.

- Investing Mortgagee—This designation applies to an organization, including a charitable or not-for-profit institution or pension fund, which is not approved as another type of institution and that invests funds under its own control. It may purchase, hold, and sell FHA insured mortgages but may not originate them. Investing mortgagees may only service FHA insured mortgages with the prior permission of FHA.

- Governmental Institution, Government-sponsored enterprises, public housing agencies and State housing agencies—A governmental institution may be approved as a mortgagee.

Single Family Direct Endorsement (DE) Authority allows mortgagees (but not loan correspondents) to underwrite single-family mortgages without FHAs prior review and submit them directly for endorsement (i.e.FHA mortgage insurance). This authority may be granted by a FHA Single Family Homeownership Center (HOC). The term DE mortgagee means a mortgagee who has received unconditional DE approval from one of the HOCs and is also commonly known as an underwriting mortgagee. They underwrite loans for a loan correspondent as their sponsor.

A subsidiary or an affiliate of a supervised mortgagee—Must apply separately for FHA approval as either a nonsupervised mortgagee or non-supervised loan correspondent. FHA approval only applies to the legal entity that is the actual applicant and does not cover any of its subsidiaries or affiliates.

Branch Offices, and Principal-Authorized Agent Relationships—Most mortgagees may register branches for conducting their FHA mortgage functions. The most common function is the origination of single-family insured mortgages, which can be done within the lending area of each registered branch. A mortgagee, other than a loan correspondent or an investing mortgagee, may use the principal-authorized agent relationship to originate and underwrite single-family insured mortgages.

Housing and Economic Recovery Act (HERA) – Public Law 110-280 effective July 30, 2008. Section 2122, Home Equity Conversion Mortgages pertains specifically to HECMs.

HUD Handbooks and Mortgagee Letters (ML) – The HUD Handbooks and Mortgagee Letters referenced within this document may be obtained from http://www.hud.gov/offices/adm/hudclips/index.cfm.

Maximum Loan Limit (HECM) – Beginning January 1, 2009, FHA will insure single-family home mortgages up to $271,050 in low cost areas and up to a maximum of $625,500 in high cost areas. The February 2008 Stimulus Package temporarily raised the FHA maximum to $729,750 through December 31, 2008. The new $625,500 maximum, however, represents a significant increase over the $362,790 limit that was in effect prior to the Stimulus Package.

Mortgage Insurance Premium – Under the HECM program, homeowners are charged a mortgage insurance premium (MIP), equal to 2 percent of the maximum claim amount, or home value, whichever is less, plus an annual premium thereafter equal to 0.5 percent of the loan balance.

The MIP guarantees that if the company managing the account – commonly called the loan “servicer” – goes out of business, the government will step in and make sure the homeowner has continued access to the loan funds. Furthermore, the MIP guarantees that the homeowner will never owe more than the value of the home when the HECM must be repaid.

Origination Fee (HECM) – The origination fee covers an institution's operating expenses—including office overhead, marketing costs, etc.—for making the reverse mortgage. Under the HECM program the origination fee is equal to the greater of $2,000 or 2 percent of the maximum claim amount (i.e., county FHA loan limit). Until February 2008, the FHA loan limit varied from a low of $200,160 (for rural areas) to a high of $362,790 (for high-cost metropolitan areas). See “Maximum Loan Limit” above for more information on current loan limits.

Service Fee Set-Aside (HECM) – The service fee set-aside is an amount of money deducted from the available loan proceeds at closing to cover the projected costs of servicing the reverse mortgage account.

Federal regulations allow the loan servicer (which may or may not be the same company as the originating institution) to charge a monthly fee that ranges between $30 and $35. The amount of money set-aside is largely determined by the homeowner's age and life expectancy. Generally, the set-aside can amount to several thousand dollars.

Note: The servicing set aside is a calculation and not a charge. The only amount added to the loan balance is the monthly servicing fee, which ranges from $30-$35.)

MODULE 5 – INSTITUTION INFORMATION AND DATA REQUEST

This Institution Information and Data Request pertains only to Reverse Mortgages as described below:

Reverse Mortgage Loan (Reverse Mortgage) – A loan secured by a lien on residential real estate in which the homeowner is not required to make payments on the loan until a specific event occurs. Generally, but not exclusively, the event that triggers repayment is when the homeowner ceases to reside in the property. Generally, the loan is due and payable in full at the time of the event occurring. The proceeds of a reverse mortgage loan may be disbursed to the homeowner at the time the loan is consummated, over time through a line of credit accessible to the homeowner, over time through regularly scheduled payments, or some combination of the above methods.

Federally insured reverse mortgage loan (HECM) – A reverse mortgage loan which is insured by, and made under guidelines of, the FHA, a division of the federal Department of Housing and Urban Development. These loans are also referred to as Home Equity Conversion Mortgages or "HECMs".

Instructions

1. Licensees and examined institutions must complete (unless instructed otherwise):
   - Module 6 – Institution and Management Questionnaire
   - Module 7 – Reverse Mortgage Activity Summary
   - Module 8 – Reverse Mortgage Product Worksheet
   - Module 9 – Reverse Mortgage Servicing Worksheet

2. Please provide copies of all policies, procedures, standards and underwriting guidelines for Reverse Mortgages.

3. Please provide copies of all marketing materials for Reverse Mortgages, including, but not limited to printed materials (print ads, brochures, direct mailings, flyers, etc.), radio or television transcripts, telemarketing scripts, Internet screen shots, email solicitations, and any instructions on oral solicitations by sales staff. Include the date and venue for publication or use of each item.

4. Provide a copy (one each) of all communications used with consumers concerning Reverse Mortgages not included in 3 above. All communications include the following:

    a. Letters, notices, instructions, warnings, etc.

    b. Disclosures specific to each type of Reverse Mortgage.

Include the effective date of each communication if not apparent from the document.

5. Copies of notes, description and program parameters for each type of Reverse Mortgage. Append to Module 9 as appropriate.

6. Example copies of any reports produced for monitoring Reverse Mortgages. Make available to the examiner in charge all reports covering the date of the examination.

7. A list of any complaints filed by homeowners with Reverse Mortgages.

8. Provide a list of Reverse Mortgages made that required an exception to written underwriting policies.

9. Provide a list of all institutions with whom you regularly do business that originate or make Reverse Mortgages, along with the estimated percentage of Reverse Mortgage activity conducted with each. In other words, if you are an originator, the list should include each lender you have originated Reverse Mortgages for. If you are a lender, the list should include each originator you have accepted Reverse Mortgage submissions from.

10. Provide a list of all Reverse Mortgage counselors you conduct business with.

11. Provide details of all payments made to any Reverse Mortgage counselors during the examination period.

12. Provide a copy of all regulatory examination reports (state or federal) that include a review of Reverse Mortgages conducted within two years prior to this examination period.

MODULE 6 – INSTITUTION AND MANAGEMENT QUESTIONNAIRE

The following questionnaire is intended to save time and resources for both the institution and the examination team. Unless instructed otherwise, this questionnaire is to be completed and returned as instructed in the examination entry letter. Please answer all questions thoroughly. Simple Yes/No answers are not sufficient for most questions. Please provide further explanation as needed to assist in clarifying the institution's response and aid the examiner in understanding your practices.

INSTITUTION QUESTIONNAIRE

A. GENERAL

1. Has management established written policies for Reverse Mortgages, as applicable, for:
   a. Marketing and solicitation practice?
   b. Homeowner contact as well as direct and indirect (third party) originations?
   c. Home valuation and equity?
   d. Lending limits?
   e. Underwriting and approval processes?
   f. Loan servicing?
   g. Secondary market activity?
   h. Internal controls, monitoring and reporting?
   i. Financial accounting?
   j. Training?
   k. Borrower's responsibilities?
   l. Compensation to employees?
   m. Compensation to outside loan originators?
   n. Payoff by borrower or borrower's heirs?
   o. Acquisition and dispensation of property when loan is not paid off?
   p. Processing and resolution of homeowner complaints?
   q. Borrower age restrictions?
   r. Fraud concerns and borrower defaults, including situations where the borrower has allowed the property to deteriorate, no longer lives in the property or has failed to pay taxes and insurance?
   s. Referrals, including loan referrals, counselor referrals, product referrals and services referrals?
   t. Home possessions?
   u. Institution default (e.g. The institution's ability to honor funding commitments)?

2. What are the institution's policies for acceptable levels of risk? Please be specific as to practices, accounting procedures and policy exception tolerances for each type of Reverse Mortgage.

3. Does the institution have growth and volume limits for Reverse Mortgages both in aggregate and by loan or program type?

4. What are these limits?

B. HOMEOWNER CONTACT/ORIGINATION

5. Does the institution advertise reverse mortgage products?
   a. If yes, describe advertising methods (website, print ads, statement inserts, etc.).
   b. If no, is the institution contemplating advertising reverse mortgages in the future?

6. Are product descriptions for Reverse Mortgages provided to the homeowner?

7. At what point in the transaction is this information provided to the homeowner?

8. What steps does the institution take to alert consumers to the risks of Reverse Mortgages?

9. How is this information communicated?

10. At what point(s) in the transaction is this information provided to consumers?

11. Does the institution incorporate elements designed to help minimize potential homeowner confusion and complaints, foster good customer relations, and reduce legal and other risks to the institution? Please explain.

Product Selection

12. Does the institution market or originate non-government insured (e.g. proprietary products) Reverse Mortgages?

13. What criteria are used to determine whether a homeowner is referred to one of the institution's proprietary reverse mortgages or to one of the government insured products?

14. Does the institution provide homeowners with comparisons to assist in selecting products? Describe comparisons provided.

Counseling

15. If required, does the institution maintain a current listing of State approved reverse mortgage counselors/counseling programs?

16. Does the institution verify and maintain counselor certifications?

17. Does the institution review the quality and length of homeowner counseling?

18. Does the institution allow any charges to the homeowner prior to counseling? If so, what charges are allowed?

19. How does the institution handle counseling conducted with non-homeowners representing homeowners (e.g. conservator, guardian, etc.)?

20. Does the institution pay for counseling services?

21. Does the institution receive reimbursement for counseling services?

22. What steps does the institution take when it learns of homeowner concerns about the counseling process or a particular counselor?

Disclosures

23. Does the institution provide application disclosures (those due at or around the time of loan application) or rely on third-party provision of these disclosures?

24. Does the institution provide closing disclosures (those due at or around the time of loan closing) or rely on third-part provision of these disclosures?

25. How does the institution document timing and receipt of disclosures by the homeowner?

26. Is the homeowner fully counseled on the continuing requirement to satisfy taxes, insurance and other property related items? Is there evidence of this counseling?

27. Are homeowners informed that failure to make real estate tax payments may result in the loss of their home?

28. Are homeowners informed that failure to maintain hazard insurance on their property may result in “force placing” hazard insurance and billing the payments to the homeowner?

29. Are homeowners fully apprised of all loan costs and the method by which costs will be paid (e.g. upfront or financed)?

Indirect Origination

30. Has the institution implemented systems and controls for establishing and maintaining relationships with third parties, including procedures for performing due diligence?

31. What are those systems and controls? Please cover review schedule and detail of review.

32. If appraisal, loan documentation, homeowner complaints or other issues are discovered in third-party originations, does the institution take immediate action?

33. What remedial actions are taken?

34. What third-party compensation and incentives are established for Reverse Mortgages?

C. UNDERWRITING

35. How is the loan amount determined for non-HECM products?

36. Do all homeowners obtain outside counseling?

37. Is the homeowner encouraged to discuss the transaction with family members or other interested parties?

38. Does the institution inquire about any non-homeowners residing in the property and whether provisions have been made for them upon the death or relocation of the homeowners?

39. Does the institution complete title searches to identify any existing liens?

40. Are any existing liens paid off through the loan or subordinated?

41. Are underwriting standards ever ceded to third parties?

42. When and under what criteria are the standards ceded?

43. Is an appraisal always obtained, reviewed and retained?

44. Are all loan amounts determined in accordance with the institution’s underwriting policies? Explain when and how exceptions occur.

45. What insurance is attached to the loan product? Describe insurance protecting both the institution and the borrower, if any.

46. Does the institution fully consider monthly amounts for taxes, insurance and other items when determining the homeowner’s cash flow needs and suitability of the loan?

47. What documentation is maintained that homeowners have been adequately informed about the requirements of property taxes and insurance?

48. For a tenure reverse mortgage loan (i.e., a loan where disbursements will only be made for a fixed period of time), is the homeowner asked about his/her condition after the payments end?

49. Does the institution inquire as to the purpose of cash out disbursements?

50. If cash out disbursements are for long term investments or inappropriate purposes how does the institution respond?

51. Does the institution avoid taking any collateral other than the residence?

52. Does the institution make any notes regarding a homeowner’s mental capacity and take appropriate action if the homeowners appear confused or unable to understand any discussions? What actions are taken?

53. When dealing with persons holding power of attorney for a homeowner, does the institution verify the power of attorney?

D. OPERATIONAL MANAGEMENT

54. Does the institution allow its loan originators to originate products or conduct business other than reverse mortgages? If so, what type of products or other businesses are allowed?

55. Does the quality control function regularly review a sample of Reverse Mortgages originated by sales staff and a representative sample of processors and underwriters to confirm that policies are being followed?

56. What happens if violations of policies occur?

57. Does the institution track and monitor Reverse Mortgages originated as an exception to existing policies and procedures?

58. When control systems or operating practices are found deficient, are business-line managers and third-party originators held accountable for correcting deficiencies in a timely manner?

59. Does the institution collect and document complaints from its customers? If so, do complaints disproportionately involve Reverse Mortgages?

60. What systems does the institution employ to monitor compliance with specialized requirements, regulations or laws related to Reverse Mortgages?

61. What training does the institution provide to sales personnel regarding Reverse Mortgages?

62. What are the incentive plans for originators of Reverse Mortgages?

63. How do these plans differ from incentives offered for the origination of forward loans?

64. What specialized risk management practices does the institution employ to monitor the risks associated with Reverse Mortgages?

65. Does the institution monitor for cross-over risk (i.e., The point at which the principal outstanding together with accrued interest for a loan exceeds the home value.)?

66. Does the institution monitor counselors for appropriate training and licensure as well as the content of counseling?

67. What performance measures and management reporting has the institution implemented?

68. Are loan terms based on a disciplined analysis of potential exposures and compensating factors to ensure risk levels remain manageable?

69. What analysis is employed?

70. Has management instituted performance measures and management reporting to monitor homeowner contact and the origination of Reverse Mortgages?

71. Does the institution track timely payment of taxes and maintenance of property insurance?

72. Does the institution regularly review the property for occupancy and maintenance? [servicing]

73. Does oversight of third-parties involve monitoring the quality of originations so that they reflect the institution's lending standards and compliance with applicable laws and regulations?

74. Are variance analyses performed regularly to identify exceptions to policies and prescribed thresholds? Variance analysis is critical to the monitoring of a portfolio's risk characteristics and should be an integral part of establishing and adjusting risk tolerance levels.

75. Does qualitative analysis occur when actual performance deviates from established policies and thresholds?

76. Does the scope of the analysis include stress tests on key performance drivers such as interest rates, employment levels, economic growth, housing value fluctuations, and other factors beyond the institution's immediate control? Stress tests typically assume rapid deterioration in one or more factors and attempt to estimate the potential influence on default rates and loss severity. Stress testing should aid an institution in

identifying, monitoring and managing risk, as well as developing appropriate and cost-effective loss mitigation strategies.

77. Do the stress testing results provide direct feedback in determining underwriting standards, product terms, portfolio concentration limits, and capital levels?

78. Has management assessed the contingent liability of buyback risk for problem loans?

79. Does the institution have sufficient capital or other systems in place to address buyback risk?

80. How does the institution incorporate its reverse mortgage portfolio into its overall asset/liability management program?

81. How is the institution budgeting for reverse mortgage income (e.g., projection modeling)?

82. Explain how reverse mortgage fees are reflected on financial statements (e.g. bundled or segregated?).

Management Information Systems

83. Does the institution have a documented disaster recovery plan? Please provide a description of the plan.

84. Does institution management utilize their Management Information System (MIS) to monitor company reverse mortgage operations (e.g. originations, pipeline, servicing, and secondary marketing)?

85. Does institution management periodically review the company's MIS to determine if any hardware and/or software enhancements are needed?

86. Is the institution's MIS ever evaluated as part of an internal/external audit?

87. Does the institution have an information security program in place that meets the guidelines outlined in section 314.3(a) of the Safeguards Rule under the Gramm-Leach-Bliley Act?

E. SERVICING

88. Does the institution service reverse mortgage loans? (If the answer is no, skip this section.)

89. Does the institution escrow taxes and insurance on all reverse mortgage loans?

90. If not, does the institution verify that taxes and insurance are paid by the homeowner?

91. Does the institution have adequate liquidity and funding sources to make any required disbursements?

92. Has the institution ever failed to make a required disbursement on a reverse mortgage loan in a timely manner? Please explain the situation.

93. Are homeowners allowed to change the reverse mortgage loan disbursement terms? Please provide a list of loans with any such change requests.

94. How does the institution verify that the collateral is the homeowner's principal residence?

95. Does the institution maintain a log of all homeowner complaints?

96. Does the institution have a schedule for adjusting the interest rates on adjustable rate reverse mortgages? Please provide.

97. Has the institution taken possession of any homes after maturity of a reverse mortgage loan? Please provide a list of these transactions.

98. Has the institution had any reverse mortgage loans that were not paid in full or otherwise resolved within 6 months of the reverse mortgage loan maturity?

99. Do customer service personnel receive product-specific training on potential customer issues with reverse mortgage loans?

100. What are the institution's policies concerning prepayment penalty when a borrower refinances a loan?

F. SECONDARY MARKET

101. Does the institution sell any reverse mortgages into the secondary market? (If the answer is no, skip this section.)

102. What are the institution's formal strategies for managing secondary market risks?

103. Has the institution considered how it will respond to reduced demand for Reverse Mortgages in the secondary market?

104. Has the institution ever had to repurchase a reverse mortgage loan from the secondary market?

G. OTHER

105. Does the institution refer reverse mortgage homeowners to any other products, services or service providers (e.g. referrals to insurance agents or products, securities dealers or products, etc.)?

106. Does the institution appropriately account for situations in which the reverse mortgage loan balance on portfolioed proprietary loans exceeds the value of the home securing the loan?

107. Has any fraud or suspicious defaults occurred in the institution's reverse mortgage portfolio? Explain as necessary.

HECM QUESTIONS
The following questions are to be completed by institutions originating or funding FHA insured reverse mortgages only.

A. CONSUMER CONTACT/ORIGINATION FOR HECM LOANS

108. Does the institution market or originate government insured mortgages other than FHA HECM government insured Reverse Mortgages?

109. Does the institution originate proprietary reverse mortgage loans? If yes, what criteria is used to determine whether a homeowner is referred to one of the institution's proprietary reverse mortgages or to one of the government insured products?

Counseling

110. Does the institution maintain a current listing of HUD-approved counseling agencies? Please provide the list.

111. How and when are consumers referred to counseling? What is included in the referral?

112. Does the institution ensure that the homeowner's HECM counseling certificates are current?

113. Does the institution ensure that all homeowners shown on the deed signed the HECM counseling certificate?

114. What are the various methods by which counseling may be conducted?

115. What steps does the institution undertake to ensure that counseling is in compliance when conducted in person?

116. What steps does the institution undertake to ensure that counseling is in compliance when conducted by telephone?

117. Does the institution ascertain the sufficiency of the counseling? How?

118. Are there any charges incurred by the homeowner prior to counseling? If yes, explain.

119. If counseling is other than with homeowner (e.g., conservator or guardian), does the institution obtain appropriate legal documents to support HECM counseling certificates?

120. Does the institution ever pay for counseling services?

121. Does the institution accept specific or direct referrals from HECM counselors?

122. What steps does the institution take if it has concerns or complaints about the services provided by a particular HECM counselor?

123. Does the institution receive any reimbursement for counseling fees?

State Specific Counseling Requirements

Indirect Origination (for institutions funding HECM loans originated through others)

124. Are all HECM third-party originators FHA approved?

125. Under what circumstances would originations be accepted from non-FHA approved third-parties?

126. Does the institution inquire as to the type of business activity the third-party performs other than reverse mortgages (e.g., forward mortgages, insurance sales, securities, etc.)?

127. Are there any financial interests between third-parties and the mortgagee or the institution? Please explain.

128. Are non-approved entity fees included as part of the origination fee paid to the institution?

B. UNDERWRITING

129. Does the institution have "Designated Endorsement" with HUD (i.e., the ability to conduct its own underwriting)?

130. If the institution does not have its own Designated Endorsement, has the institution contracted the underwriting out to an entity that is authorized to do underwriting? Please identify contract underwriters.

131. Are all persons listed as an owner on the property also borrowers on the loan?

132. Are all homeowners 62 years of age or older?

133. Does the institution have copies of the counseling certificates signed by all parties?

134. Has the institution avoided incurring any costs prior to having the counseling certificate signed by all parties?

135. Are all reverse mortgage liens secured by a first lien on the property?

136. Have all loan amounts been determined in accordance with FHA's actuarial calculations based on the appraised value of the property?

137. Have all loans been properly registered with FHA?

138. Is the institution aware of any situations in which under 62 home owners have been removed from title prior to or during underwriting?

C. SERVICING HECM LOANS

139. In case of institution default is HUD notified, and how?

140. Has the institution ever failed to make a disbursement as required? Please identify these transactions.

141. Does the institution monitor HECM loan balances to maximum loan amount to determine if HECMs should be assigned to FHA?

142. Does the institution provide an Annual Statement?

143. Is a Line of Credit and Payment Change Statement provided every time a line of credit payment is made or a new payment plan initiated?

144. Has the institution foreclosed on any homes after maturity of a HECM? Please identify transactions.

MODULE 7 [STATE AGENCY NAME] REVERSE MORTGAGE ACTIVITY SUMMARY		
Name of Licensee:	Date of Examination:	
Person Completing Report: [NAME AND TITLE]	Telephone No: Email Address:	
For period beginning: MO/DY/YR and ending: MO/DY/YR Note: Unless otherwise	Total #	$ Volume
1. HUD insured reverse mortgage loans originated by licensee but closed in the name of another party.		$
2. Proprietary reverse mortgage loans originated by licensee but closed in the name of another party.		$
3. HUD insured reverse mortgage loans originated by another party but closed (within the examination period) in the name of the licensee.		$
4. Proprietary reverse mortgage loans originated by another party but closed (within the examination period) in the name of the licensee.		$
5. HUD insured reverse mortgage loans originated and closed in the name of the licensee.		$
6. Proprietary reverse mortgage loans originated and closed in the name of the licensee.		$
7. HUD insured reverse mortgage loans serviced by licensee as of the examination date.		$
8. Proprietary reverse mortgage loans serviced by licensee as of the examination date.		$
9. HUD insured reverse mortgage loans on the institution’s books as of the examination date?		$
10. Proprietary reverse mortgage loans on the institution’s books as of the examination date.		$
11. HUD insured reverse mortgage loans sold by the licensee.		$
12. Proprietary reverse mortgage loans sold by the licensee.		$
13. HUD insured reverse mortgage loans referred to another party.		$
14. Proprietary reverse mortgage loans referred to another party.		$

MODULE 8
REVERSE MORTAGE PRODUCT WORKSHEET

- **Please complete this worksheet for each loan product.**
- **If any question is not applicable, please insert N/A.**

REVERSE MORTGAGE LENDER		
PRODUCT NAME		
LOAN TYPE	☐ **Government Insured**	☐ **Proprietary**

LOAN TERMS	
What is the maximum loan amount for the product type?	
How is the maximum principal limit calculated?	
List all indices used.	
What is the initial interest rate?	
What is the margin spread?	
What is the lifetime cap?	
INTEREST RATE	
Is the interest rate fixed or adjustable?	
If adjustable, how often does the rate adjust?	
COSTS & FEES	
What is the origination fee?	
What is the monthly servicing fee?	
Is there a cap on the fees charged to consumers?	
Itemize all other miscellaneous loan fees.	
PAYMENT PLANS	
What are the payment plans?	
What is the draw period?	
Are there any minimum draw restrictions?	
What is the fee for a change in payment plan?	
PREPAYMENT PENALTY	
Is there a prepayment penalty?	
If so, describe the terms of the prepayment penalty.	
EQUITY PRESERVATION	
Is there an equity preservation option wherein the borrower may elect to preserve a specific percentage of the equity in the property?	
What is the minimum and maximum % that a borrower can preserve?	
BORROWER COUNSELING	
Will borrower counseling be mandatory?	

Who will be paying for the counseling sessions that the borrower will be attending?	
In the event that the borrower does not commit to the loan subsequent to the counseling, who is responsible for the payment of the counseling?	
REVERSE MORTGAGE LENDER	
PRODUCT NAME	

BORROWER PROTECTIONS & PRIVATE INSURANCE

Is there any type of (private) insurance offered in the event of default by the lender?	
Describe the safeguards in place to protect the consumer in the event that the lender is unable to meet its financial obligations.	

ESCROW OPTIONS

Are borrowers required to escrow real estate taxes and homeowners insurance?	
If yes, describe how the insurance and/or taxes would be escrowed?	
If homeowner’s insurance and real estate taxes are not escrowed, in the event of non-payment by the borrower, describe what steps are taken in order to ensure payment.	
Does the non-payment of either real estate taxes or homeowners insurance trigger a default?	

HOME REPAIRS AND MAINTENANCE

Under what circumstances could a person lose their home for maintenance issues?	
Is there a specific schedule imposed by the lender that must be adhered to in terms of monitoring home maintenance? If yes, provide a copy of the schedule.	

MATURITY, SUSPENSION, CANCELLATION AND TERMINATION CLAUSES

What are the repayment triggers?	
What are the contractual contingencies that could trigger default?	
Describe the suspension and cancellation provisions.	
Describe the termination and cancellation provisions.	

HEIRS AND REPAYMENT

What is the process following the death of the last borrower to request payment of the loan in full?	
Is there a grace period that will permit the heirs to repay the loan within a certain period of time?	
If yes, what is the grace period?	
Does the lender look only to the value of the property at the time the loan is repaid to satisfy any outstanding debt?	
In the event that the value of the property is less than the amount of the outstanding loan, will the lender look beyond the value of the property for any debt repayment?	

MODULE 9 – REVERSE MORTGAGE SERVICING WORKSHEET

Licensee No: _______________

Date Reviewed: ____________
Reviewer: _________________

Kept for life of mortgage plus 3 years

☐ Adjustable Rate ☐ Investor Loan ☐ Escrows ☐ Paid Off

☐ Foreclosure ☐ Servicing Transferred

Borrowers Name: ____

Subject Property Address: ____

Loan Number: ____

Were errors or discrepancies found with regard to the following? If yes, please explain.

	YES	NO	N/A
Annual Statement (provided by 1/31 for each proceeding year) Summarize total principal amount for the year, MIP paid to the Secretary, total amount of deferred interest added to mortgage balance, total mortgage balance and current principal limit	☐	☐	☐
Line of Credit and Payment Change Statement When it make a line of credit payment or new payment plan every time it recalculates monthly payments	☐	☐	☐
Proper Boarding of Loan	☐	☐	☐
Determining Receipt Date of Mortgage Loan Payment	☐	☐	☐
Timely and Proper Posting of Payment	☐	☐	☐
Depositing of Money in Escrow Account	☐	☐	☐
"Hello" Letter	☐	☐	☐
"Good-bye" Letter	☐	☐	☐
Proper Charging of Late Fees Late Charge % ___________	☐	☐	☐
Proper Payment of Taxes and Insurance	☐	☐	☐
Escrow Account Analysis	☐	☐	☐
Adjustment of Interest Rate	☐	☐	☐
Proper Assessment of Service Charges	☐	☐	☐
Foreclosure Notices	☐	☐	☐
Notification of Principal Balance	☐	☐	☐
1098 Interest Statements	☐	☐	☐
Timely Remittance of Money to Investor	☐	☐	☐
Pay-off Calculation Pay-off Date _____________	☐	☐	☐
Retention of Communication Records	☐	☐	☐
Discharge Discharge Date ___________	☐	☐	☐
Prepayment Penalty %_________ Years _________	☐	☐	☐
Other ______________________________________	☐	☐	☐

VIOLATIONS:

COMMENTS:

REQUESTED INFORMATION YET TO OBTAIN