LESA – Life Expectancy Set Aside

Any reverse mortgage loan that is originated on or after April 27th, 2015 will subject the borrower to the Financial Assessment. As we have discussed, that assessment requires that potential borrowers submit a good deal more paperwork than they previously needed to. That paperwork is intended to help the originators, the underwriters, the processors and the lenders understand a borrowers' "willingness and ability" to meet the basic financial obligations of this loan.

The FHA has provided the mortgage market with the basic guidelines of how this is going to work: your income, assets, and credit payment history will be considered, and the lender will determine if you have demonstrated "willingness" and "ability" to be an ongoing partner in maintaining your home.

**What are my obligations again?**

You will be required to continue to pay your property taxes, homeowner's insurance, and flood insurance for the lifetime of the loan.

**What happens if you do not have a demonstrated "willingness" and "ability" to meet these obligations?**

If you do not meet these two requirements—which are defined below—then the FHA and HUD require lenders to set aside a portion of the reverse mortgage's proceeds to cover these costs either partially or in-full.

Not meeting these obligations is the number one reason for default on a reverse mortgage, so it is important that these payments be made. The FHA and HUD's intention is to make sure that the New Reverse Mortgage is as secure as it ever has been for borrowers. One of the results of this change is that, depending on your financial history over the last 24 months, you may not receive as much of the loan's proceeds as you would if you had filed before April 27th, 2015.

**Willingness to meet your obligations**

Fortunately or unfortunately, depending on how you look at it, proving that one is **willing** to maintain one's property taxes, homeowner's insurance and flood insurance obligations is the simplest and possibly most subjective part of considering your application for a reverse mortgage. Does your credit history reflect **multiple delinquent payments** that cannot be explained by extenuating circumstances (see the previous post) and proven by documentation?  That might look like willing disregard about not paying people you owe on time. Also, however unlikely it is, if you or your borrowing spouse are **too rude, glib, or playful** about the need to meet these obligations, the underwriter may determine that you are "unwilling" to do what needs doing. If you and your spouse have explanations for any problems with your credit report, and engage your loan application with dignity, then this should not be a problem.

If the underwriter determines that you are “unwilling” to meet your obligations, for any reason, then they will be automatically required to impose a fully-funded set-aside.

The lender uses that portion of your loan’s proceeds to pay your property’s obligations on your behalf. They are required to pay them promptly and inform you well in advance if there is a looming concern that needs addressing.

**Ability to Meet your Obligations**

The Financial Assessment will require you to submit a range of information about your credit, assets and income — as was mentioned above and shared in the last blog post.

Your “ability” to meet your monthly tax and insurance payments has more of a sliding scale than did your “willingness.” That’s easy to explain: were you *willing* to provide for your obligations? *Yes or no*? But you can easily see that one’s *ability* to pay is determined by a lot more factors than that: income sources, credit, asset bases, and home value/potential reverse mortgage proceeds are just a few of those factors.

Your loan originator is the only one can explain the specifics of how the Financial Assessment will gauge your ability to meet your obligations, but there are a few things that you can anticipate.

**What will be deemed “Satisfactory Credit”?**

The previous post explained how important credit history will be to assessing your application. The loan officer may consider the borrower to have “satisfactory credit if”:

(From the HUD Manual on the Financial Assessment)

- The [borrower] has made all housing and installment debt payments on time for the pervious 12 months and no more than two-30 day late mortgage or installment payments in the previous 24 months; and
- The [borrower] has no major derogatory credit on revolving accounts (credit cards, etc.) in the previous 12 months.

Major derogatory credit on revolving accounts shall include *any* payments made more than 90 days after the due date, or *three* or more payments more than 60 days after the due date.

If a [borrower’s] credit history does not reflect satisfactory credit as stated above, the [borrower’s] payment history *requires additional analysis*.

Now you know what HUD deems to be a minimum threshold on your credit history. A 24 month period without **credit** problems to this level will not automatically require a set-aside.

Note: The lender will still have to evaluate your income and assets, and they may still determine that one must have either a fully-funded or partially-funded set aside.

Continue reading to find out what the difference is.

**Fully-Funded vs. Partially-Funded Set Asides**

If one needs a set-aside to get a reverse mortgage, then the amount of funding needed is based on a formula that accounts for the following:

- The projected sum of:
  - Current property taxes;
  - Homeowners insurance premiums; and
  - Flood insurance premiums.
- A factor to reflect increases in tax and insurance rates:
- The HECM expected average mortgage interest rate; and
- The life expectancy of the youngest borrower.

A **Fully Funded Set-Aside** is required when it seems you will not be able to meet your monthly payments. The full amount of the set-aside formula is taken out of the proceeds of your reverse mortgage, **and the bank pays the fees directly.** The borrower remains responsible for all other property charges.

Note: A borrower can **elect** to have a fully-funded set-aside if they think it sounds like a good plan for their personal situation. If a borrower elects to institute a voluntary set-aside, then it must be fully funded.

A **Partially Funded Set-Aside** is for if you seem to be capable of managing a portion of what a fully-funded set-aside would have required. Your lender may set up a partially-funded set-aside with a smaller part of the proceeds from the reverse mortgage than would have been used for full-funding. The funds will be **disbursed to you every 6 months**. The borrower is the one that remains responsible for timely payment of **all** property charges.

Note: If the formula spits out that you require a partially-funded set-aside that is 75% (or above) of what the fully-funded set-aside would require, then you **must have a fully-funded set-aside**.

**Conclusion**

The New Reverse Mortgage is going to be here on April 27th, 2015. The Financial Assessment is the newest set of regulations passed down from the FHA and HUD, and it will change the way that reverse mortgages are originated in the United States.

The New Reverse Mortgage will still be a powerful tool for any aging American who desires greater financial flexibility in their retirements, but applying will be more involved.

The Financial Assessment is designed to ensure—as much as is possible—that the New Reverse Mortgage is as secure for borrowers as it has ever been. Keeping up with your property taxes, homeowner's insurance and flood insurance over the lifetime of the reverse mortgage is the most important part ensuring security with a reverse mortgage.