

# ask the servicer



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*“I’ve heard that there is a process where a HECM loan can be assigned to HUD. How does that process really work?” ,from a reader of The Reverse Review.*

Servicing transfers are commonplace in the forward mortgage industry. When my wife and I purchased our first home, our mortgage was transferred four times within the first year! We were intrigued by the first notice of transfer; the second notice piqued our curiosity. The third notice was laughable, and to be perfectly blunt, the fourth notice was flat-out aggravating.

Because I am well-acquainted with mortgage servicing, I didn’t take these notices personally, but I did find them irritating. Your borrowers, however, may not understand the servicing transfer process and it’s important for lenders and servicers alike to be ready with a proper and complete explanation of what occurs.

To help frame my response to the question, let’s review the basic structure of the HUD assignment option. The Maximum Claim Amount (MCA) is set at the time of closing as the lesser of the appraised value for the property and the HUD lending limit. Once established, the MCA never changes over the entire life of the loan, and is exactly what it sounds like: the *maximum amount* that would be paid out by HUD if a claim were to be filed. HUD gives the investor the option to assign the servicing of the loan to HUD when the outstanding loan balance reaches 98% of its MCA.

Let’s now look at the assignment process from both the perspective of the servicer and the borrower.

## The Servicer Perspective

Servicers are responsible for reviewing their portfolios on

a regular basis (sometimes as frequently as daily) to identify any loans that are approaching, or have reached, the 98% MCA threshold. Most loans reach this level over an extended period of time as interest, mortgage insurance premiums, and monthly servicing fees are capitalized to the loan balance at the end of each month.

That said, it is possible that a borrower with a line of credit could take a draw that would – in a single transaction – raise the loan balance up to 98% of the MCA, with little or no “warning” to the servicer. In this scenario, the servicer must act quickly to collect, prepare, and submit the proper documentation to HUD for assignment review.

*An interesting note: If a borrower requests funds from their loan during the assignment review process, either as a line of credit draw or a scheduled monthly payment, the servicer notifies HUD’s contractor and the contractor disburses the funds directly to the borrower.*

In either case, when the loan balance reaches 98% of the MCA and the investor elects to exercise their assignment option, the servicer is required to submit a specific set of loan documents and information (known as the assignment review package) to HUD’s contractor. This contractor reviews assignment applications and handles all servicing responsibilities (handling borrower telephone calls, mailing monthly statements, processing draw requests, etc.) for the loan once the assignment has been completed. Currently, the contractor handling these duties for HUD is C&L Service Corporation/Morris-Griffin Corporation.

After a thorough review of the loan documents, chain of title, and other pertinent data, HUD’s contractor will either reject or approve the assignment request. Once the assignment request has been approved, a RESPA-required “good-bye” letter is mailed to the borrower. In addition, the servicer removes the loan from their system, and an assignment claim is filed with HUD for the benefit of the loan investor. As long as the loan balance has not exceeded 100% of the MCA, the investor will receive full reimbursement in the amount of the current loan balance.

An often misunderstood aspect of this process is that **not all HECM loans are eligible for assignment**. Specifically, HUD will not accept assignment of a loan if it is currently in a default status, or the borrower has force-placed insurance. In either of these cases, the investor must keep that loan in their portfolio until a maturity event (death of the last surviving borrower, non-occupancy of the property, transfer of title, etc.) occurs.

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## The Borrower Perspective

As mentioned at this article's beginning, my mortgage was re-assigned four times in its first year. Because I was knowledgeable of the servicing transfer process, I was bothered, but not traumatized. However, a servicing transfer can be a very traumatic experience for a senior homeowner. Generally speaking, no one likes change they have no control over, and the older adult population is highly suspect of anything they don't understand. Our experience has taught us that the senior borrower population is highly adverse to change, especially when it comes to anything involving their home.

Servicers must therefore, engage in both sensitive and extensive communication with the borrower to help guide them through this assignment process.

When the loan balance reaches 98% of the MCA, the borrower receives a letter from their servicer about the forthcoming assignment process. This HUD-required notice provides the borrower with all of the information related to the pending assignment of their loan. Often the servicer will follow up this notice with a phone call to the borrower explaining the letter, taking the appropriate time to answer all of their questions, and hopefully, calming any concerns or fears they may have regarding the transfer. Once the transfer has been completed, the borrower will also receive a "welcome" letter from HUD's contractor.

You may be familiar with the quote attributed to Gustave Flaubert, "The devil is in the details". It means that whatever one does, it should be done thoroughly; details are of critical importance. Competent and professional servicing before, and especially during HUD assignment process, is all about knowing the details of the process. Of equal, and sometimes even greater, importance it's also about displaying sensitivity to the borrower.

I hope I have been able to shed a little light on the HUD assignment process, and it helps everyone understand that whatever the case, a servicing transfer on a reverse mortgage needs to be done with the utmost concern for the senior borrower.

I look forward to receiving any questions you may have regarding servicing at: ryan@celink.com. If you wish to remain anonymous for my response, just let me know.