Date:	November 3, 2015
Subject:	**Ethical Refinancing of HECM Reverse Mortgages**
Audience:	All Channels (Retail (Consumer Direct, Distributed Retail), Wholesale and Correspondent Partners

NRMLA (National Reverse Mortgage Lenders Association) is the Reverse Mortgage industry trade association that works with congress, bank regulators, state legislators, investors, news media and senior advocates to assure the reverse mortgage product continues to be a sustainable solution for our borrowers.

The National Reverse Mortgage Lender's Association (NRMLA) released a new Ethics Advisory Opinion 2015-2, with new guidelines for the ethical refinancing of a HECM reverse mortgage loan. Reverse Mortgage Solutions, Inc., is a member of NRMLA, and as such is committed to following all NRMLA requirements. The suggested guidelines are to be used to determine the benefit of a HECM-to-HECM refinance loan to the potential borrower. In order to be considered a benefit to the borrower, NRMLA has established specific test which must be applied to each loan.

Effective Date:

The below requirements are effective for all HECM-to-HECM refinance loans ***with case numbers assigned on or after Monday, November 23rd, 2015 for all loan channels.***

Seasoning Requirements:

For ***all*** refinances of an existing HECM loan, the FHA case number assignment for the new HECM ***must be*** at least 18 months after the closing date of the prior HECM and…. In addition to the seasoning requirement, the Closing Cost Test, Loan Proceeds tests and Loan type test must also be met.

The only exception to this requirement is when the new HECM loan is originated at the request of the borrower, ***as documented by written request****, to add a non-borrowing spouse or other family member residing in the subject property to the loan who is qualified to be a mortgagor*

Closing Cost Test:

The Closing cost test compares the (1) total calculated amount of the closing cost for the HECM refinance that are to be paid by (charged to) the borrower and the total increase in the Principal limit between the current Principal limit of the original HECM(HECM being paid off) and the current HECM (new HECM) (Principal Limit increase amount)

The increase in the borrower's principal limit **must equal or exceed five (5) times the closing costs paid by the borrower in order to pass the Closing Cost Test**. **See example below:**

Eligible Borrower	
Closing Costs	$6,700
Principal Limit Increase	$33,500
Refinance Factor	5.0

Loan Proceeds Test:

The Loan Proceeds test compares the (1) Available benefit amount defined as the amount of the principal limit that is available to the consumer AFTER deducting the sum of the original HECM loan balance being paid off and the Total Closing Cost Amount of the New HECM refinance and (2) the Principal Limit of the NEW HECM refinance available to the consumer at closing.

In order to pass this test the Available Benefit Amount from the new HECM, defined as the amount of Principal Limit that is available to the borrower after deducting the HECM loan balance, must equal or exceed 5% of the HECM Refinance Principal Limit. See examples below:

PASS

Original Loan	HECM Refinance
Program: Fixed	Program: Libor
Current Principal Limit: $200,000	Principal Limit: $250,000 Total Closing Cost Amt: $5,000
Closing Date: 4/1/2012	FHA Case No. Date: 11/1/2015

- Meets 5:1 Closing Cost Test
- Meets 18 month Seasoning Requirement
- Meets 5% Loan Proceeds Test

FAIL

Original Loan	HECM Refinance
Program: Cap 10	Program: Cap 5
Current Principal Limit: $200,000	Principal Limit: $200,000 Total Closing Cost Amt: $0
Closing Date: 4/1/2012	FHA Case No. Date: 11/1/2015

- Fails Loan Type Test

PASS	FAIL

PASS

Original Loan	HECM Refinance
Program: Libor	Program: Libor
Current Principal Limit: $200,000	Principal Limit: $225,000 Total Closing Cost Amt: $5,000
Closing Date: 4/1/2014	FHA Case No. Date: 11/1/2015

- Meets 5:1 Closing Cost Test
- Meets 18 month Seasoning Requirement
- Meets 5% Loan Proceeds Test

FAIL

Original Loan	HECM Refinance
Program: Libor	Program: Libor
Current Principal Limit: $200,000	Principal Limit: $205,000 Total Closing Cost Amt: $5,000
Closing Date: 4/1/2015	FHA Case No. Date: 11/1/2015

- Fails 5:1 Closing Cost Test
- Fails 18 month Seasoning Requirement
- Fails 5% Loan Proceeds Test

Loan Type Test:

In addition to the above tests, NRMLA has defined a **Loan Type Test**. A HECM-to-HECM Refinance with the sole purpose of changing the type of HECM loan does **not**, by itself, provide a benefit to the borrower. The loan must also meet the requirements of the Closing Cost Test as well as the Loan Proceeds test described above. A change in loan type includes, but is not limited to, a change from a fixed rate to an adjustable rate loan, a change between a monthly and an annual adjustable rate loan, or a change in rate cap.

All HECM-to-HECM refinance loans must adhere to these requirements.

Reference:

A complete copy of this Ethics advisory is available via the below link:

- NRMLA Ethics Advisory Opinion 2015-2