

SWMC HECM Product and Underwriting Guidelines

| Loan Parameter | HECM Fixed | Variable Rate HECM |
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| Closed-ended/Open ended | Closed-ended | Open-ended |
| Non-recourse loan | The HECM is a “non-recourse” loan. This means that the HECM borrower (or his or her estate) will never owe more than the loan balance or the value of the property, whichever is less; and no assets other than the home must be used to repay the debt. | |
| Youngest Borrower Age Eligibility | <p>All borrowers must be age eligible at time of loan closing which is 62 years old.</p> <p>Borrowers must meet one of the below eligibility requirements:</p> <ul style="list-style-type: none"> U.S. Citizens Permanent Resident Aliens Non-Permanent Aliens <p>Note: For FHA Case Assignment date on or after May 25, 2025, Non-Permanent Resident Alien is not allowed</p> <p>Note: An Employment Authorization Document (EAD) issued by the US Citizenship and Immigration Services (USCIS) is acceptable proof of eligibility to work. Social security cards alone are NOT valid proof of eligibility to work.</p> <p>Ineligible borrowers include, but are not limited to:</p> <ul style="list-style-type: none"> Blind Trusts, Irrevocable Trusts, Businesses, including limited partnerships, general partnerships, or corporations Non-occupant co-borrowers Non-arm’s length transactions when there is a relationship or business affiliation between the buyer, seller, loan agent, or originator and include, but no limited to: Owners, employees, or family member of origination broker. | |
| Occupancy Allowed | Owner Occupied Primary Residence | |
| States Allowed | Loans are accepted in all states except MA | Loans are accepted in all states except MA |
| Property Type | <p>1-4 Unit, Condos, Manufactured Homes PUDs</p> <p>Notes:</p> <ul style="list-style-type: none"> Special Interest or pricing for Manufactured Homes and Log Homes may apply Properties located in Coastal Barrier Resource System are ineligible | |
| Counseling Requirement | <ul style="list-style-type: none"> Must be completed by HUD Approved HECM Counselor Sun West Mortgage Company will only proceed to process the initial HECM loan application once the counseling is complete, as evidenced by the signed and dated counseling certificate. HUD waives off the requirement for the counseling certificate on HECM Refinance if all the below mentioned are met: <ol style="list-style-type: none"> The time period between the closing of the original HECM loan (the very first HECM taken by the borrower(s)) and the application date for the current refinance loan must not exceed 5 years. The borrower has received the required HUD Anti-Churning disclosure form which must be signed at the time of application. The increase in the borrowers’ Principal Limit (as estimated by the lender and provided to the borrower in block #2 of Anti-Churning disclosure form) exceeds the total cost of the refinancing by an amount equal to five times the cost of the transaction (block #1 on Anti-Churning disclosure form). Note: In state of CA, counseling waiver is not applicable even if the above requirements are met. The counseling certificate should include the telephone number of the prospective applicant(s) or borrower(s) in the state of Connecticut. The telephone number can be mentioned on the top or bottom portion of the certificate. | |
| Loan Purpose Allowed | Purchase and Refinance | |

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| Additional Requirement for Non HECM to HECM Refinance | <p>As per the guidelines outlined by HUD Handbook 4000.1 (II.B. 6 (2) b), in case of Non HECM to HECM refinance loans (i.e. where the borrower is refinancing a Non-HECM loan attached to the subject property with a HECM loan and the existing lien attached to the subject property is 12 months or less than 12 months old from the date of HECM Closing), the following document will be required:</p> <ol style="list-style-type: none"> 1) A copy of the HUD-1/ Closing Disclosure (Settlement Statement) for the existing lien attached to the subject property. 2) If the existing lien attached to the subject property is a Home Equity Line of Credit (HELOC), then a copy of the most recent HELOC statement or its equivalent. <p>The loan will not meet the guidelines outlined by HUD Handbook 4000.1 (II.B. 6 (2) a), if:</p> <ul style="list-style-type: none"> • the existing lien attached to the subject property is 12 months or less than 12 months old from the date of HECM Closing and • the borrower has received more than \$500 cash at closing or through cumulative draws prior to the date of HECM Closing as verified from the HUD-1/Closing Disclosure (Settlement Statement). In such case, the lien must be paid outside of closing, or the loan will be declined except for unseasoned Home Equity Line of Credit (HELOC) which can be paid off on the date of this HECM closing through borrower funds, HECM funds or a combination of borrower funds and HECM funds as long as the Initial Disbursement Limit (for HECM ARMs) and Borrower's Advance (for HECM Fixed) does not exceed the limit set by HUD. | |
| Minimum Credit Score | Not Applicable | |
| Max. Claim Amount | <p>2025: For the period of January 1, 2025, through December 31, 2025, the HECM MCA will be \$1,209,750. The MCA of \$1,209,750 is also applicable to the special exception areas: Alaska, Hawaii, Guam, and the Virgin Islands.</p> <p>2026: For the period of January 1, 2026, through December 31, 2026, the HECM MCA will be \$1,249,125. The MCA of \$1,249,125 is also applicable to the special exception areas: Alaska, Hawaii, Guam, and the Virgin Islands.</p> <p>Note: For HECM Traditional and HECM to HECM Refinance it is the lower of Appraised Value or HECM FHA Mortgage Limit and for HECM Purchase it is the lower of the HECM FHA Mortgage limit, the Appraised Value or the Purchase Price.</p> <p>If based on FHA's collateral risk assessment a second appraisal is required, then the lower value of the first and second appraisals will be considered in the calculation of maximum claim amount.</p> | |
| Available Rates / Margins | Refer to our current Rate Sheet for the best rates and margins. | |
| Subordinate Financing | Not Allowed | |

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| Title to the Property | <ul style="list-style-type: none"> • There is no seasoning requirement for ownership. However, the HECM borrower must be on title of the property being refinanced prior to the loan application date. If there is more than one borrower, at least one of them must be on title prior to the loan application date. If none of the borrowers are on title prior to the loan application date, then Sun West Management's exception will be required to proceed. • As per HECM Final (Docket # FR-5353-F-03) along with the borrower(s), Non-Borrowing Spouse and Non-Borrowing Owner(s) can remain on vesting. • All persons on title will be required to attend counseling and sign and date the counseling certificate, execute the 'Certificate of Acknowledgement' Disclosure that (1) Consents to their spouse or other borrowing owner obtaining the HECM; (2) Acknowledges the terms and conditions of the mortgage; and (3) Acknowledges that the property will serve as collateral for the HECM as evidenced by mortgage lien(s). • All persons on Title will also have to sign the security instrument evidencing their commitment of the property as security for the mortgage. • As per SWMC Overlay all Non-Borrowing Spouses and Non-Borrowing Owner(s) who will quit claim their ownership interest in the property to the borrower at closing will be required to sign and date the counseling certificate acknowledging that they have attended counseling and SWMC representative will speak to them on the implications of not being on title. They will also be required to sign and date the 'Certificate of Acknowledgement' Disclosure. <p>Irrespective of the case assignment date per SWMC Overlay, all persons who have quit claimed their ownership interest in the subject property in the past six months from the loan application date will be required to sign and date the counseling certificate acknowledging that they have attended counseling and SWMC representative will speak to them on the implications of not being on title. They will also be required to sign and date the 'Ownership Interest Certification' Disclosure.</p> | |
| Property Vested in Trust | Allowed – Must meet HUD guidelines Note: Property cannot be vested in the name of an irrevocable trust. | |
| Acceptable Type of Ownership | <ul style="list-style-type: none"> • Fee Simple • Leasehold (lease for no less than 99 years that is renewable, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest mortgagor). As per HECM Final Rule (Docket # FR-5353-F-03), Mortgagor means each original mortgagor under a HECM mortgage and his heirs, executors, administrators, and assigns. In simple words, individuals who may or may not be borrowers but those who hold title including remainder men. Borrower means a mortgagor who is an original borrower under the HECM Loan Agreement and Note. The term does not include successors or assigns of a borrower) • Life Estate | |
| Tradelines | NA | |
| Bankruptcy | <ul style="list-style-type: none"> • If the borrower is involved in an active bankruptcy at the time a HECM is being originated, approval from the Trustee must be obtained in order to proceed. • A Chapter 7 Bankruptcy does not disqualify a borrower for HECM purchase only if, at the time of case assignment, at least 2 years have passed since the date of bankruptcy discharge. During this time, the borrower should have <ul style="list-style-type: none"> ○ re-established good credit; or ○ chosen not to incur new credit obligations. • An elapsed period of less than 2 years, but not less than 12 months may be acceptable, if the borrower: <ul style="list-style-type: none"> ○ can show that bankruptcy was caused by Extenuating Circumstances beyond his/her control; and ○ has since exhibited documented ability to manage his or her financial affairs in a responsible manner. • A Chapter 13 bankruptcy does not disqualify a borrower for HECM Purchase only if, at the time of case assignment at least 12 months of the pay-out period under the bankruptcy has passed. Borrower's payment history must be satisfactory during this time. The monthly payment amount in the court-approved payment plan will be included in the expense analysis. • If bankruptcy is discharged then it does not impact qualification for HECM Traditional or HECM-HECM refinance provided that the borrower meets other guidelines related to property charge payment, residual income and satisfactory. Loan may be subject to LESA if extenuating circumstance are not documented. | |
| Delinquent Federal tax and Non-Tax Debts | <ul style="list-style-type: none"> • The loan will be suspended until borrower resolves delinquent federal tax debt with IRS; delinquent federal non-tax debt with creditor agency. | |
| Judgement | <ul style="list-style-type: none"> • The court-ordered Judgments must be paid off prior to or at closing. Only the judgment liens recorded against the Property can be paid off at closing through HECM proceeds. Judgements which are not recorded against the property must be paid by the borrowers from their own funds. | |

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| Appraisal Order | Must be ordered by Sun West Mortgage Company, Inc. or through Sun West Mortgage Company, Inc. approved Appraisal Management Companies. | |
| Special Appraisal Guidelines | <ul style="list-style-type: none"> Appraiser should be FHA approved at the time of assignment and completion of the appraisal. Appraiser should not be in the SWMC Appraiser Exclusionary List. FHA will perform collateral risk assessment of the appraisal submitted for use in the HECM origination. Based on the outcome of the assessment, FHA may require a second appraisal to be obtained prior to approving or closing the HECM. The second appraisal in such cases should not be ordered from the first appraisal company. The cost of the second appraisal is eligible to be financed as part of the closing costs. | |
| Repairs | <ul style="list-style-type: none"> Sun West Mortgage Company, Inc. would provide SWMC loan officer and SWMC Underwriting Relationship Manager (UW RM) with the required repairs as needed by the appraiser. SWMC loan officer and/or SWMC UW RM would need to confer with the borrower if the repairs would be done prior to closing or as a set-aside after the closing of the loan. Where major property deficiencies threaten the immediate health and safety of the homeowner and/or jeopardize the soundness and structural security of the property (including mold and strapping of the water heater), the repairs must be completed prior to closing. For Purchase transactions such repairs must be completed by the seller prior to closing. All CIRs or 1004Ds Appraisal Update for confirmation of completion of repairs would be ordered by SWMC prior to closing. | |
| Repair Set-asides | <p>Allowed. However, where major property deficiencies threaten the immediate health and safety of the homeowner and/or jeopardize the soundness and structural security of the property (including mold and strapping of the water heater), the repairs must be completed prior to closing.</p> <p>For Purchase transactions such repairs including lead-based paint deficiency must be completed by the seller prior to closing. Also, if the subject property is built prior to 1978 and has painting deficiencies noted by the appraiser, such deficiencies must be repaired prior to closing, if any child below the age of seven is residing at the subject property.</p> <p>Note: Required repairs estimated to cost more than 15% of the maximum claim amount should be completed prior to closing as per HUD Handbook 4000.1 (II.B. 4. ii. C. (3))</p> | |
| Property Assessed Clean Energy (PACE) | <p>Property Assessed Clean Energy (PACE) or HERO programs are used to finance the energy efficiency and renewable energy upgrades to buildings. The terms and conditions of PACE/HERO programs vary by state, locality and PACE program, but generally repayment of the PACE obligation is collected by the local government in the same manner as special assessments i.e., an addition to the property taxes paid on the property.</p> <p>Properties with PACE obligations are not eligible for an FHA-insured HECM.</p> <p>As per HUD Handbook 4000.1 (II.B. 2. (A) 7 b), the payoff of a PACE obligation is a Mandatory obligation, and it must be paid off at closing and may be paid off using HECM proceeds.</p> <p>Appraiser must report the outstanding amount of the PACE obligation for the subject property. The Appraiser must also analyze and report the impact on the value of the property from the PACE-related improvements subject to the PACE assessments being extinguished.</p> | |
| Origination Fees | The loan origination fee limit will be the greater of \$2,500 or two percent of the maximum claim amount of the mortgage, up to a maximum claim amount (MCA) of \$200,000, plus 1% of any portion of the maximum claim amount that is greater than \$200,000. The total amount of the loan origination fee may not exceed \$6,000. | |
| Discount Points | Not Allowed | |
| Special Fees | No UW Fee. Only a 'Document Preparation Fee' of \$125 for all states, except Texas. On Texas state loans 'Document Preparation Fee' will be \$225 | |
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| Re-disclosure for Increasing Margins / Interest Rate | Interest Rate Increase is Permissible only if: 1) The most recent GFE disclosed does not show that the rate is locked 2) The borrower is sent a re-disclosed TIL showing the change in the APR. | It is allowed if margin increase is beneficial to the borrower or essential for loan qualification. |
| Cash Out on Short Pay-Off | Not Allowed | |
| Interest Rate Type | Fixed | Annually adjustable HECM Monthly Adjustable HECM |
| Payment Plans | Single Disbursement Lump Sum payment options paid at closing | Term, Tenure, Modified Term, Modified Tenure and Line of Credit |
| Mortgage Insurance Premium (MIP) | <ul style="list-style-type: none"> The initial Mortgage Insurance Premium (MIP) rate is 2.00% of the Maximum Claim Amount (MCA). The Annual Mortgage Insurance Premium (MIP) rate is 0.50%. | |
| Initial Disbursement Limit | The maximum disbursement allowed at closing and during the First 12-Month Disbursement Period (for HECM ARMs) and the maximum Borrower's Advance (for HECM Fixed) shall not exceed the lesser of: A) The greater of 60% of the Principal Limit or the sum of Mandatory Obligations and additional 10% of the Principal Limit, or B) The principal limit less than sum of the funds in the Life Expectancy Set Aside for payment beyond the First 12-Month Disbursement Period and the Servicing Fee Set Aside. | |
| HECM Purchase - Interested Party Contributions | As per HUD Handbook 4000.1(II. B. 8. 4) and Mortgagee Letter 2024-06 : FHA will permit the use of an Interested Party Contribution (IPC) up to 6% of the sales price. Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction. Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the borrower's loan origination fees, other closing costs including any items Paid Outside Closing (POC), and prepaid items. Interested Parties, excluding Lenders and Third-Party Originators (TPOs), may contribute up to 6% of the sales price toward the following items: <ul style="list-style-type: none"> loan origination fees other closing costs prepaid items; and payment of the Initial Mortgage Insurance Premium (IMIP) No other items may be paid for by an Interested Party. Lenders and TPOs are prohibited from making any Interested Party Contribution. | |
| Limitation on number of mortgages | A borrower with a HECM is eligible to obtain future insured HECM loan financing if the existing HECM is satisfied prior to or at closing of the new HECM or the borrower provides legal documentation evidencing release of the borrower's financial obligation to satisfy the existing HECM. | |
| Non-Borrowing Spouse | SWMC will accept HECM loans with non-borrowing spouse. HECM loans with non-borrowing spouse must comply with all FHA's requirements as specified in HUD Handbook 4000.1 (II.B. 2. b. ii). Some of the important requirements are: <ul style="list-style-type: none"> The non-borrowing spouse does not have to be 62 years old. A non-borrowing spouse, who is less than 62 years old, is acceptable to be on the HECM loan provided the borrower meets the HECM eligibility of 62 years of age. An Eligible Non-Borrowing Spouse is legally married to the borrower and stays at the subject property. An Ineligible Non-Borrowing Spouse is legally married to the borrower but does not stay at the subject property. The principal limit will be based on the age of the younger of the borrower and the eligible non-borrowing spouse – so if the borrower is 62 years old and the eligible non-borrowing spouse is 55 years old, the principal limit will be based on the age of the eligible non-borrowing spouse i.e., 55 years in the above example. When determining the principal limit, age of any ineligible non-borrowing spouse will not be used. The non-borrowing spouse (both eligible and ineligible) must attend the HECM Counseling Session along with the borrower and sign and date the HECM Counseling Certificate. A proof of date of birth of the non-borrowing spouse must be submitted along with the application package. The borrower and the eligible non-borrowing spouse must sign the certifications as required by HUD Handbook 4000.1 (II.B. 2. b. ii) at closing. | |

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| Non-Borrowing Residents | <ul style="list-style-type: none"> • SWMC UW RM should speak to the Non-Borrowing children (the children of a prospective HECM borrower, who do not qualify for a HECM, but who currently reside on the real estate, or who are on the title for the real estate that will serve as the security for the FHA-insured HECM) to discuss the implications of not putting their name on the loan. The entire conversation should be thoroughly documented. • SWMC UW RM should speak to the Non-Borrowing Resident to discuss the implications of not putting their name on the loan. The entire conversation should be thoroughly documented. • All Non-Borrowing Residents must sign "Notice to Non-Borrowing Resident" Disclosure. | |
| Property Flipping Waiver (Purchases) | <ul style="list-style-type: none"> • 90-day flips are not allowed on HECM Purchase Loans as the waiver does not apply to HECM purchases. • Any re-sale of a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing. | |
| HECM – HECM Refinance | <p>A HECM-to-HECM Refinance must meet the following eligibility criteria:</p> <ul style="list-style-type: none"> • Seasoning test: The FHA case assignment date of the HECM refinance loan must be at least 12 (twelve) months, after the date of closing of the prior HECM loan being refinanced. • Closing cost test: The increase in principal limit from the current principal limit of the original HECM to the principal limit of the current HECM refinance must be at least five times the total closing cost amount. • Loan proceeds test: The amount of principal limit that is available to the borrower on the new HECM refinance loan, after deducting original HECM loan payoff amount and total closing costs, must be at least 5% of the new HECM refinance principal limit. • Principal limit test: The increase in principal limit from the current principal limit of the original HECM to the principal limit of the current HECM refinance must be <ul style="list-style-type: none"> i. greater of \$20,000 or 15% of Principal limit for New principal limit less than \$250,000 ii. greater than \$30,000 for new principal limit greater than or equal to \$250,000 <p>Note: If the Closing cost test is passed and the sum of initial interest rate and annual MIP rate in proposed loan is reducing by more than 1% than the sum of current interest rate and annual MIP rate of existing reverse mortgage loan, then it is an acceptable benefit and loan can be approved even if loan proceeds test or principal limit test is not passed.</p> <p>Initial MIP Calculation:</p> <p>As per HUD Handbook 4000.1 (II.B. 8. vi. B), initial MIP due to HUD will be determined as follows:</p> <ol style="list-style-type: none"> (1) Calculate New Initial MIP (IMIP) Amount: The New Initial Mortgage Insurance Premium (IMIP) Amount will be calculated as New Maximum Claim Amount (MCA) multiplied by new initial MIP (%). (2) Perform the HECM Refinance Initial MIP (IMIP) Limit: $\text{New IMIP Limit} = ((\text{new Maximum Claim Amount (MCA)} - \text{old Maximum Claim Amount (MCA)}) * 3\%) - \text{old Initial MIP paid to HUD}$. Note: Old Initial MIP paid: If the HECM that is being refinanced was also a HECM refinance, this includes only the Initial MIP paid on the HECM being refinanced without any credit for money paid on any previous HECM(s). (3) Determine the New Initial MIP (IMIP) Due: Take the lesser of the New Initial MIP (IMIP) Amount or the New Initial MIP (IMIP) Limit. No refunds will be given if the initial MIP paid on the existing HECM exceeds the initial MIP due on the new HECM. | |
| Self-Serving Transfer of Ownership | <p>A self-serving transfer happens when agents with authority over principal by virtue of Power of Attorney (POA) or guardianship and uses that authority to transfer property from the principal to themselves. This is a conflict of interest which hinders the agent's ability to act impartially. This is not in the principal's best interest. Therefore, self-servicing transfer of ownership is not allowed.</p> | |

Financial Assessment and Life Expectancy Set-Aside

HUD requires a Financial Assessment to be completed for each prospective borrower as part of the HECM loan approval

The Financial Assessment will include:

- Documenting and verifying credit, income, assets and property charges
- Evaluating extenuating circumstances and compensating factors
- Analyzing credit history/property charge payment history and calculating cash flow/residual income
- Completing a [HECM Financial Assessment Worksheet](#)

Based on the results of the Financial Assessment, a Partially- or Fully Funded Life Expectancy Set-Aside may be required. The Life Expectancy Set-Aside is the amount withheld from the proceeds of the HECM for the projected payment of property charges during the life of the borrower and will be calculated based on the following:

- The life expectancy of the youngest borrower.
- The HECM expected average mortgage interest rate.
- The sum of the current property taxes and homeowners and flood insurance premiums; and
- A factor to reflect increases in tax and insurance rates.

Fully Funded Life Expectancy Set-Aside: may be required for both adjustable and fixed interest rate HECMs and Sun West will be responsible for making timely property tax and insurance payments.

Partially Funded Life Expectancy Set-Aside: may be required for adjustable interest rate HECMs only and the borrower will receive semi-annual payments from Sun West, which must be used to make timely property tax and insurance payments.

If, after considering any applicable Extenuating Circumstances, the borrower’s credit and/or Property Charge Payment History is not acceptable, A Fully Funded Life Expectancy Set aside (LESA) is required to approve HECM.

If, after considering any applicable Compensating Factors, the borrower’s residual income is not sufficient:

- A Partially Funded LESA is required if the amount of Partially Funded LESA is less than or equal to 75% of the Projected Life Expectancy Property Charge Cost.
- A Fully Funded LESA is required if the amount of the Partially Funded LESA is greater than 75% of the Projected Life Expectancy Property Charge Cost.

In making the loan decision, we take into account the impact of Fully Funded or Partially Funded LESA on borrower’s residual income.

Where the amount of property charges to be paid through the Fully funded LESA is such that the borrower will still fall significantly short of the residual income standard, the HECM could not be approved.

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| Servicing Fee | \$0 to \$30 | \$5 to \$35 |
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Disclaimer:

- All loans are subject to approval. Certain restrictions may apply. Rates and prices are subject to change.

GENERAL REQUIREMENTS

Summary of the clarifications and the additional information related to HECM (Home Equity Conversion Mortgage) provided by HUD (U.S. Department of Housing and Urban Development)

The U.S. Department of Housing and Urban Development (HUD) conducted a [webinar](#) session on September 22, 2016, which provided further clarifications and important reminders related to the HECM Financial Assessment and Property Charge Set Asides. Please see the summary of the clarifications and the additional information provided by HUD in the webinar session.

- HUD requires that the borrower must document 24 (twenty-four) months of property charge payment history for all the properties owned by the borrower, including the previous principal residence, if the borrower has changed the principal residence in the past 24 (twenty-four) months.
- HUD states that only the debts attached to the subject property can be paid at the closing of a HECM.
 - The non-real estate debts (revolving, installment or other debts) not attached to the subject property cannot be paid off at the time of closing of a HECM.
- HUD states that the compensating factors may not be used to support the loan approval if the credit and the property charge payment history standards outlined by HUD Handbook 4000.1(II. B. 5) are not met.
 - Compensating Factors are limited to those listed in HUD Handbook 4000.1(II. B. 5. f. v.).
 - No additional compensating factors other than those listed in the HUD Handbook 4000.1(II. B. 5. f. v.) are acceptable.
- HUD states that the extenuating circumstances may not be used to support loan approval if residual income standards are not met.
 - Extenuating Circumstances are NOT restricted to those mentioned in HUD Handbook 4000.1(II. B. 5. 3.).
 - Circumstances that meet the following criteria can be considered as extenuating circumstances provided adequate and satisfactory documentation is included in the loan file.
 1. There is a connection between the circumstance and the measurable impact on finances.
 2. Action of the borrower did not contribute to the circumstance (e.g., assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.);
 3. The circumstance is not likely to recur; **and**
 4. The borrower has access to other financial resources that enhance the ability to meet future financial challenges
- HUD clarifies that the unused HECM proceeds (which are not used for paying off the mandatory obligations) can be considered as dissipated asset and can be used in the calculation of the residual income.
- HUD states that in cases of a residual income shortfall or negative residual income, a HECM loan can be approved provided the following conditions are met:
 1. The Fully Funded Life Expectancy Set Aside (LESA) or the Partially Funded LESA is sufficient to completely mitigate the residual income shortfall.
 - a. it must be noted that if the \$ amount of the Partially Funded LESA (calculated as per the formula provided in the HECM Financial Assessment and Property Charge Guide) is 75% or more of the \$ amount of the Fully Funded Life Expectancy Set Aside, then Fully Funded LESA must be used in place of Partially Funded LESA.
 2. The borrower has satisfactory property charges payment and debt payment history, and the documented compensating factors are sufficient to completely mitigate the residual income shortfall.
 - a. it must be noted that if the compensating factors are used to mitigate the residual income shortfall, then LESA is not required.
 - b. it must also be noted that to use satisfactory property charges payment history as the compensating factor, the borrower's residual income must be at between 80% - 99% of the standard residual income for the family size and the region in which the subject property is located.

Examples:

1. The borrower has satisfactory debt and property charges payment history. The borrower has a residual income shortfall of \$100.00. The borrower will receive sufficient HECM proceeds to pay off all the revolving and installment debts after closing of the HECM loan. This will reduce the borrower's monthly expenses by \$120.00.
 - With this compensating factor of sufficient HECM proceeds reducing the borrower's monthly expenses by the amount more than the shortfall amount, there will be no residual income shortfall. In such a case, the loan may be approved.

2. The borrowers, husband and wife, have satisfactory debt and property charge payment history. The residual income of the borrowers is \$772.00 and the required residual income for a family size of 2 is \$906.00. The borrowers have a residual income shortfall of \$134.00. The amount of the Partially Funded LESA is \$16,743.00 and the Fully Funded LESA is \$50,501.00. The Fully Funded LESA and/or the Partially Funded LESA, both are sufficient to completely mitigate the residual income shortfall.
 - In this case, the \$ amount of the Partially Funded LESA is 33.00% of the \$ amount of the Fully Funded LESA. The loan may be approved with the Partially Funded LESA.
 3. The borrowers, husband and wife, have satisfactory debt and property charge payment history. The residual income of the borrower is \$662.00 and the required residual income for a family size of 2 is \$886.00. The borrowers have a residual income shortfall of \$224.00. In other words, the residual income of \$662.00 is 74.72% of the standard residual income of \$886.00 for the family size and the region. The \$ amount of the Partially Funded LESA is \$30,132.00 and the \$ amount of the Fully Funded LESA is \$31,628.00.
 - In this case, the \$ amount of the Partially Funded LESA is 95.00% of the \$ amount of the Fully Funded LESA. The satisfactory property charges payment history cannot be used as the compensating factor because the borrowers' residual income is not between 80% - 99% of the standard residual income for the family size and the region in which the subject property is located. In this case, the loan can be approved with Fully Funded LESA.
- HUD states that if the residual income shortfall cannot be mitigated by the compensating factors or the Fully Funded LESA, then a HECM loan cannot be approved – because in such a case, a HECM is not a sustainable solution to the borrower's circumstances.

Examples:

1. The borrower has satisfactory property charges payment and the debt payment history. The borrower has a monthly residual income shortfall of \$500.00. The monthly \$ amount of the taxes and insurance is \$250.00. There are no compensating factors or extenuating circumstances.
 - In this case, even if the Fully Funded LESA is used, the borrower's expense will reduce only by \$250.00. The borrower's residual income will still be short by \$250.00(\$500.00-\$250.00). Such a loan cannot be approved in spite of the satisfactory property charge payment history because the residual income shortfall cannot be mitigated.
2. The borrower does not have satisfactory debt and property charge payment history. There are no documented extenuating circumstances. The borrower has a residual income shortfall of \$500.00. The monthly \$ amount of taxes and insurance is \$350.00. The borrower will receive sufficient HECM proceeds to pay off the revolving and the installment debts. This will reduce the borrower's monthly expenses by \$600.00.
 - In this case, with Fully Funded LESA, the borrower's monthly expenses will be reduced by \$350.00. This will not be sufficient to completely mitigate the residual income shortfall of \$500.00. With the compensating factor of HECM proceeds sufficient to reduce the monthly expenses by \$600.00, there will be no residual income shortfall. However, this compensating factor cannot be used. HUD states that the compensating factors may not be used to support loan approval if the credit and the property charges payment history standards are not met. In this case, since the borrower does not have satisfactory debt and property charge payment history, the loan cannot be approved.
3. The borrower has satisfactory property charges and the debt payment history. The borrower has a monthly residual income shortfall of \$638.00. The \$ amount of the Partially Funded LESA is \$86,077.00 and the \$ amount of the Fully Funded LESA is \$41,150.00. The \$ amount of the monthly real estate taxes and insurance is \$305.00.
 - The \$ amount of the Partially Funded LESA is 75.00% or more as compared with the \$ amount of Fully Funded LESA. Therefore, Fully Funded LESA must be used in this case. Even after using Fully Funded LESA, there will be a residual income shortfall of \$333.00 (\$638.00 - \$305.00). Such a loan cannot be approved in spite of the satisfactory property charge payment history because the residual income shortfall cannot be mitigated.