

MOST FREQUENTLY ASKED QUESTIONS AT CLOSING

In an effort to help facilitate the closing process, we have listed below questions that are routinely asked by borrowers and closing agents at the closing table. Please review the questions and answers carefully. If you still have any questions or are unclear on any answers, please do not hesitate to call the Closing Department for further clarification.

1. Why is the loan amount on the mortgage/deed of trust higher than the max claim amount for the area?

This is required because the loan payments are secured not only by the current value of the house but also by any possible appreciation in value. This amount is intended to protect the borrower in the later years of the mortgage. When a maximum mortgage amount is stated in the mortgage, the lender is not secured for payments to the borrower beyond the stated amount. If the mortgage balance reaches the maximum mortgage amount, payments to the borrower would cease or the borrower would have to try to extend the mortgage which may not be possible if the property value has declined or if other liens were placed on the property. Both of these risks are greatly reduced when the maximum mortgage amount is a higher amount.

2. Why are there two mortgages on the HECM program?

Financial Freedom has the first lien and HUD assumes the second lien. The second mortgage and second note secure any mortgage payments which might be made by HUD to the borrower in the event that the lender fails to make the payments under the loan Agreement. There is only one title and one payoff on the property. The second mortgage is not subject to any State or local recording taxes, or stamp taxes, because the second mortgage is a mortgage to the Federal Government. Taxation of the property of the Federal government violates the supremacy clause of the U.S. Constitution. However, fees are distinguished from taxes. Recording fees, which are a charge for a service, may be imposed by the local recording office.

3. What is the amount of coverage needed on the title policy?

Due to HUD regulations- on the HECM loan program, coverage will be the amount of the max claim amount on the loan. On a Home Keeper loan, coverage should be the principal limit times 150 %. Many State laws require that a maximum mortgage amount be stated in the mortgage or deed of trust, and consequently the amount recorded will be equal to 150% of the maximum claim amount, rather than the property value or the maximum mortgage amount under Section 203(b) of the National Housing Act. Notwithstanding this larger amount for the purpose of recordation, the title insurance policy obtained should be equal to the maximum claim amount, NOT 150% of that amount.

4. What is the loan amount that should appear on the HUD 1 Settlement Statement?

The total of the closing costs, liens and draws to the borrower.

5. Who is responsible for refunding additional fee credits to borrower at closing?

Whoever receives the app fees at the time the application is taken.

6. How is the wire amount calculated?

The wire amount is calculated by taking the loan amount minus any lender fees.

7. When can changes to the HUD 1 Settlement Statement be made?

Depending on the situation: If the borrowers are taking a draw and closing costs increase, decrease the draw. If closing costs decrease, increase the draw. All financing must remain as originally provided. Borrowers will either have to pay additional costs or be refunded any extra money due. In the event the borrower is not receiving a draw and the closing costs are increasing, the package must be redrawn to include the additional amount in the financing or collected from borrower at closing.

8. How is the rate calculated?

Home Keeper rates are based on the most current weekly average of the one-month secondary CD index. HECM rates are tied to the one-year U.S. Treasury Security Rate. The index plus the margin will give you the rate.

The margin for Home Keeper loans is currently 3.4.
The margin for HECM monthly loans is currently 1.50.
The margin for HECM yearly loans is currently 2.10.

9. What happens if the borrower wants to change the payment plan?

If the borrower gets to the closing table and wants to change the payment plan from a monthly payment to a lump sum or lump sum to monthly payment, they have 2 options. The first option is to close the loan "as is" and request a payment plan change after 30 days. This change will be processed free of charge. The second option is to have the changes made the day of closing. If changes are made the day of closing, documents will have to be redrawn and a \$75.00 redraw charge will be accessed to the borrower.

10. May the borrower return the lump sum payment to increase their line of credit?

The borrower can return the lump sum payment received at closing. However, interest will be charged on the amount of the lump sum until the loan has been purchased by Fannie Mae and FFSFC is able to apply the funds back to the loan.

11. How long does the borrower have to wait before line of credit funds are available?

Borrowers may begin accessing funds approximately thirty (30) days from the day of closing. This allows FFSFC time to receive the loan from the closing agent and get all of the documentation in order to begin servicing the loan. After this initial set up is complete the borrower may access the line of credit as often as they like.

12. How does the borrower retrieve funds from their line of credit?

To access the line of credit, the borrower will either need to mail or fax a **written** request in to Financial Freedom. **Phone-in requests will not be accepted.** Once the request has been received, a check will be processed and mailed or directly deposited within five (5) business days.

13. How long will it take before the check will be directly deposited into the borrower's account?

If the borrower has elected the direct deposit option, please allow 30 to 60 days for processing. The first payment will be mailed to the borrower. Once the set up is complete the funds will be deposited on the first day of the month. A direct deposit request is included in all closing packages. A voided check must be returned with the completed form.

14. When will the first payment be mailed?

If the loan includes a monthly payment, the first payment will be mailed on the first business day of the month following the day after the rescission date has passed. (if the loan closed in June and disbursed in June, the first payment will be in July; if the loan closed in June but disbursed in July, the first payment will be in August.) **ALL** monthly payments are mailed or direct deposited on the first business day of the month.

15. What do you need to know if repairs are being done?

In accordance with the **Loan Agreement**, all necessary repairs are required to be completed within 6 months from the date of loan closing. The **Repair Rider** lists the repairs to be done, how much money has been set aside to pay for the repairs and date items must be completed. Funds to pay for completed repairs after closing may not be available for 30 days.

16. Why is there a monthly servicing fee being charged?

The servicing fee on the Reverse Mortgage covers the monthly costs of processing payments, mortgage insurance premiums (if applicable) and record keeping. This is a flat fee that is added to your loan balance each month.

17. What is Mortgage Insurance Premium (MIP)?

If the borrower has chosen the Home Equity Conversion Mortgage (HECM) Reverse Mortgage, the Mortgage Insurance Premium (MIP) protects the lender against the risk that the loan balance might at some time exceed the value of the home. The mortgage insurance premiums on HECM's consist of two types of charges: a one-time premium at closing of 2 percent of maximum claim amount, and annual premiums of ½ percent per year on your mortgage loan balance. This ½ percent will be broken up into twelve monthly installments (1/12 of the ½ percent per month). This charge will appear on the monthly statement.

18. Can funds be direct deposited into a bank account where the party named on the account is other than the borrower?

Yes. As long as you use the Direct Deposit Authorization Form, attached, and on the Direct Deposit Authorization Form you name the party that is included on the bank account and specifically authorize FFSFC to deposit into that account.

Explanations given were taken from the U.S. Department of Housing and Urban Development Handbook No: 4235.1 REV-1, issued November 18, 1994.