

SERVICING

A Recipe for Successful Repair Administration

By Sydney Godbehere



work alongside the borrower to complete repairs. In the best loan experiences, the borrower has been informed up-front in the loan origination process of what must transpire in order to satisfy the Repair Rider requirements associated with their reverse mortgage. We still encounter borrowers who are unaware of the deadline associated with the repairs or the stipulations wrapped around releasing funds from the Repair Set-Aside, and don't understand why loan servicers won't hire the contractors to complete the work on their property! When borrower understanding, the most important ingredient in the loan process, is neglected or overlooked, the recipe for success can rapidly become a recipe for failure.

The essential ingredients for a satisfactory property repair

Every effort, whether one is making a chocolate pie (my favorite!) or facilitating the repair administration of a reverse mortgage loan, should follow a proven recipe for success. I can't vouch for the flakiness of my piecrust, but I can vouch for how well the professionals on my team follow a recipe for success in the repair administration process. I've been asked to share that recipe and I'm proud to do so on their behalf.

Assemble the Ingredients

During the loan origination process, a determination is made as to whether or not repairs need to be completed on the property. Many borrowers have lived in their homes for decades and in that time the property has aged and building codes have changed. A HUD appraiser visits the property and indicates if and what repairs need to be completed to bring the property up to FHA standards. The borrower can either complete the repairs prior to closing or

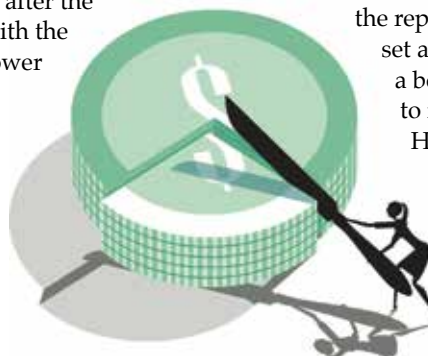
the repairs will be required on a Repair Rider. The borrower cannot close on the loan without first agreeing to this Repair Rider. Additionally, when there are repairs that must be completed, the additional Net Principal Limit will be withheld from the borrower and kept in the Repair Set-Aside. The loan servicer will monitor repairs to the property.

Preparation and Baking

The borrower's understanding of the repair process lays the foundation for a successful loan experience and can be likened to the quality of the piecrust in determining the overall quality of the pie. Shortly after the loan is boarded with the servicer, the borrower receives a letter explaining the repair process and Repair Administration servicing professionals

The deadline date is the first and most critical piece of information the servicer must relay to the borrower of a loan with Repair Requirements. HUD Mortgagee Letter 2015-10 stipulates that a loan must be forwarded to HUD to review for due and payable within 30 days of becoming "eligible" (loan with a repair set-aside would become "eligible" when it reaches the Repair Rider due date, or the expiration of any previously approved HUD time extensions). The servicer stresses this deadline to ensure repairs are completed within the specified timeline on the Repair Rider.

If the deadline is less than 12 months away, the borrower may request extensions from HUD for up to one year from the closing date to complete the repairs. If the deadline is set at one year from closing, a borrower is not eligible to request extensions from HUD. Once the loan reaches the deadline date, including any applicable extensions, the loan must be placed into default



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if the Repair Requirement has not been fulfilled.

Extending our pie metaphor, the Repair Set-Aside funds can be likened to pie filling. The pie is not yet ready and the servicer cannot pay contractor deposits to begin work prior to the repairs being completed and approved. The loan servicer can only remove some of the “filling” that has been set aside for materials that have been delivered to the worksite, are being held in a secure location, and are not yet incorporated into the work.

Once repairs are complete, a HUD-certified appraiser visits the property to ensure the repairs meet FHA guidelines. Once they confirm the repairs have been approved, the appraiser adds the top crust and the servicer is then able to put the pie in the oven.

Serve and Enjoy!

Once our “pie” is baked, the servicer is able to release the Repair Set-Aside funds to a contractor for their unpaid labor costs. Funds can also be given to

the borrower to reimburse out-of-pocket expenses.

If there are any remaining Repair Set-Aside funds, the payment plan type determines their disposition. The servicer is unable to release any unused Repair Set-Aside funds to the borrower if the payment plan is a lump sum. This can be difficult for a borrower to understand. We explain unused funds as the unused portion of a line of credit. Credit card holders are only charged for the amount of credit they have used—not the entire credit limit. If a borrower doesn’t use all the funds available, he does not owe or receive the funds and is not charged with interest on the funds. The servicer transfers any remaining Repair Set-Aside funds to the available line of credit when a loan is not a lump sum.

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There’s a great feeling of satisfaction for both the borrower and the Repair Administration professional when repairs are certified complete. The borrower savors the slice of comfort that comes with the knowledge that their home, their investment, has been enhanced. The Repair Administration

professional has the satisfaction that comes with having created a great borrower experience.

What happens when the borrower ignores the timer set for proper baking? As a servicer, we would love if all repairs were completed before the deadline. Unfortunately, this is not the case. I’ll discuss more of what occurs when repairs are not completed in a future issue. Bon appétit! ■

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