



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: April 26, 2024

Mortgagee Letter 2024-06

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Home Equity Conversion Mortgage (HECM) Program – Updates to Acceptable Monetary Investment Funding Sources

Purpose This Mortgagee Letter (ML) updates the acceptable funding sources for satisfying the monetary investment for HECM for Purchase transactions.

Effective Date The provisions of this ML are effective for all HECM case numbers assigned on or after April 29, 2024.

All policy updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to the Title II HECM program.

Background

On October 24, 2023, HUD published a Federal Register [Notice](#) (October FR Notice) announcing and seeking public comment on changes to its HECM for Purchase - Acceptable Monetary Investment Funding Sources and Interested Party Contributions requirements that included, among other things: (1) permitting premium pricing as an additional funding source used to satisfy a HECM for Purchase borrower’s monetary investment; (2) defining “interested party contribution” to include discount points; (3) permitting an interested party payment for permanent and temporary interest rate buydowns within the 6% interested party contribution cap; and (4) allowing mortgagees and third-party originators (TPOs) to make interested party contributions. These and other proposed changes from HUD’s October FR Notice were included in an update to HUD’s Single Family Housing Policy Handbook, which was published October 31, 2023, and becomes effective on April 29, 2024.

On April 26, 2024, HUD published a Federal Register notice (April 2024 FR Notice) announcing that, after consideration of the public comments received in response to the notice of the proposed changes announced in the October FR Notice, and particularly in light of significant concerns raised about how certain proposed changes could negatively impact HECM borrowers, FHA has decided not to implement the four proposed changes highlighted above at this time. Additionally, FHA is restoring its previous policy not to allow discount points or interest rate buydowns as permissible closing costs for HECM for Purchase transactions. FHA had made them allowable through the October FR Notice and related handbook update.

This ML implements the provisions of the April 2024 FR Notice by updating the Asset Requirements - Acceptable Sources of Funds provisions in Handbook 4000.1 for HECM for Purchase transactions.

Summary of Changes

This ML:

- adds Premium Pricing as an Unacceptable Monetary Investment Funding Source (II.B.8.a.xii(C)(2)(b)(ii));
- removes Premium Pricing as an acceptable funding source that can be used towards the Borrower’s Monetary Investment (II.B.8.a.xii(C)(3));
- revises and renumbers the section and subsection citations for Interested Party Contributions (II.B.8.a.xii(C)(3));
- removes Discount Points from the definition of and standard for Interested Party Contributions (II.B.8.a.xii(C)(3)(a));
- updates the Standard for Interested Party Contributions to remove Interested Party payments for permanent and temporary interest rate buydowns and excludes Mortgagees and Third-Party Originators

(TPOs) from making Interested Party Contributions (II.B.8.a.xii(C)(3)(b));

- removes Premium Pricing as an Exception to Interested Party Contributions and adds an Exception for certain fees paid by a Mortgagee for services performed by a sponsored Third-Party Originator (TPO) (II.B.8.a.xii(C)(3)(b));
- updates the requirements for documenting Interested Party Contributions (II.B.8.a.xii(C)(3)(c));
- revises Discount Points section to make Discount points and interest rate buydowns prohibited Closing Costs and Fees (II.B.8.a.xiii(D)(3)); and
- renumbers and makes a technical edit to change text from Interested Party credits to Interested Party Contributions (II.B.8.a.xiii(D)(4)).

The model HECM Fixed and Adjustable Rate Mortgage Payment Plans and model Exhibit II - Schedule of Closing Costs have been modified to align with the provisions of this ML.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Performing the Financial Assessment (II.B.8.a.xii)

(C) Asset Requirements – Acceptable Sources of Funds [Text was deleted in this section.]

**HECM
Origination
through Post-
closing and
Endorsement –
HECM for
Purchase**

(1) Earnest Money Deposit

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a Third Party Verification (TPV) vendor, subject to the following requirements:
 - o the Borrower has authorized the Mortgagee to verify assets;
 - o the date of the completed verification conforms with FHA requirements in [Maximum Age of HECM Documents](#) (II.B.2.a.i(A)(1)); and

- o the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with [Standards for Gifts](#) (II.B.5.g.ii(F)(2)).

(2) Monetary Investment

(a) Definition

Monetary Investment refers to the amount Borrowers must provide to satisfy the difference between the Principal Limit and the sale price for the Property, plus any HECM-related fees that are not financed into the HECM, minus the amount of the earnest deposit.

(b) Source Requirements for the Borrower's Monetary Investment

(i) Acceptable Monetary Investment Funding

To satisfy the required monetary investment, Borrowers may use:

- Cash on Hand;
- cash from the sale or liquidation of the Borrower's assets;
- HECM proceeds;
- Interested Party Contributions; and
- other [Acceptable Sources of Funds](#) (II.B.5.g.ii).

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

A Borrower who also serves as the licensed real estate agent on a HECM for Purchase transaction may use the real estate commission to satisfy the required monetary investment.

The Borrower may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws.

(ii) Unacceptable Monetary Investment Funding Sources

The Borrower may not use the following funding sources to satisfy the required monetary investment:

- Sweat Equity;
- Trade Equity;
- rent credit; or

- Premium Pricing.

(iii) Required Documentation

The Mortgagee must document that the Borrower's monetary investment is from an acceptable monetary investment funding source and there will be no outstanding or unpaid obligations incurred by the Borrower in connection with the HECM for Purchase transaction.

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Subject Property being purchased.

(3) Interested Party Contributions [Text was deleted in this section.]

(a) Definitions

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.

(b) Standard

Interested Parties, excluding Mortgagees and Third-Party Originators (TPOs), may contribute up to 6 percent of the sales price toward the following items:

- loan origination fees;
- other closing costs;
- prepaid items (II.B.5.g.i(B)(4)); and
- payment of the IMIP.

No other items may be paid for by an Interested Party.

Mortgagees and TPOs are prohibited from making any Interested Party Contributions.

Exceptions

Fees required to be paid by a seller under [state](#) or local law or customarily paid by a seller in the subject property locality, including real estate agent commissions or fees, and the purchase of the Home Warranty policy by the seller are already permitted under 24 CFR § 206.44(c)(1) and will be excluded from the six percent interested party contribution limit.

Mortgagees may pay for services performed by a sponsored TPO if allowed under the Loan Origination Fee Calculation requirements.

The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(c) Required Documentation

The Mortgagee must accurately document the total amount of Interested Party Contributions on the HUD-1 Settlement Statement, and reflected on the sales contract or applicable legally binding document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

Closing (II.B.8.a.xiii)

(D) Closing Costs and Fees

(1) Mandatory Obligations

The Mortgagee may use HECM proceeds to satisfy the Borrower's Mandatory Obligations.

Mandatory Obligations include:

- IMIP;
- loan origination fee;
- HECM counseling fee;
- reasonable and customary amounts, but not more than the amount actually paid by the Mortgagee for any of the following items:
 - recording fees and recording taxes or other charges incident to the recordation of the insured HECM;
 - credit report;

Mortgagee Letter 2024-06, Continued

- survey, if required by the Mortgagee or the Borrower;
- title examination;
- Mortgagee's title insurance; and
- fees paid to an Appraiser for the initial appraisal of the Property;
- delinquent Federal Debt;
- fees and charges for real estate purchase contracts, warranties, inspections, surveys, and engineer certifications;
- the total amount of property tax and Flood and Hazard Insurance charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount;
- property tax and Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing;
- the amount of the principal that is advanced toward the purchase price of the subject Property;
- other charges as authorized by the Secretary; and
- for adjustable rate HECMs:
 - the total amount of property charge payments scheduled for payment through the optional Borrower authorized option during the First 12-Month Disbursement Period; and
 - the total amount of semiannual Disbursements scheduled to be made during the First 12-Month Disbursement Period to the Borrower from a Partially Funded LESA.

(2) Property Assessed Clean Energy

The PACE obligation must be paid off in full by the seller prior to or at closing.

(3) Discount Points and Interest Rate Buydowns

- The Mortgagee may not charge Discount Points.
- Temporary and permanent interest rate buydowns are not permitted.

(4) Interested Party Contributions on the HUD-1 Settlement Statement

The Mortgagee may apply permissible [Interested Party Contributions](#) (II.B.8.a.xii(C)(3)(b) toward the Borrower's closing costs and other fees required to obtain a HECM.

Mortgagee Letter 2024-06, Continued

The Mortgagee must identify the total Interested Party **Contributions** on the front page of the HUD-1 Settlement Statement or similar legal document or in an addendum, and on Exhibit II – Schedule of Closing Costs. The Mortgagee must identify each item and fee paid by **an** Interested Party Contribution.

HECM Model Loan Documents

The model HECM Fixed and Adjustable Rate Mortgage Payment Plans and model Schedule of Closing Costs have been updated to comply with the requirements of this ML and are available for download from the [Single Family Model Documents](#) webpage.

Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
