

How Loan Servicing and Servicing Oversight Help Maximize Reverse Mortgages Value

An eBook Series from Reverse Market Insight



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While servicing oversight can help minimize potential losses of inefficient loan servicing, it's first essential to properly educate borrowers at the time of origination. One of the most important areas to focus on is the Loan Maturity/Death Default process.

The 3 Most Important Things for Borrowers and their Heirs to Know About Death Default

All the details of reverse mortgages can be difficult to explain at any time, but it's even harder when the person you're talking to is freshly grieving the loss of a loved one. This is why it's so important for loan officers and originators to include heirs in the origination process alongside potential borrowers. Too often, heirs don't even know there is a reverse mortgage in place until the time of death and certainly aren't prepared for their new responsibilities and the tight timelines they face. Many misunderstandings and potential mistakes during this important time can be avoided if heirs are educated up front along with the borrower at the time of origination.



FIND OPPORTUNITY FASTER

1. Heirs Have 30 Days to Declare Their Intent

Upon the death of the last borrower, servicers will send a “Due and Payable” letter to the mailing address and all other addresses on file. The language is prescribed by HUD and usually includes a Letter of Intent form to be completed by the heirs. Within 30 days, the heirs must say whether they intend to:

- Pay off the loan using personal funds, a new loan, or both
- Sell the property at market value or through an approved short sale
- Transfer the property to the lender using a deed in lieu of foreclosure.

One exception to the 30-day rule is that the loan will not be referred for foreclosure if there is a qualifying, non-borrowing spouse who continues to meet the requirements of the loan. However, they will not be able to draw from the remaining line of credit or receive any payment.

2. Extension Can Help Avoid Foreclosure Costs and Control Loan Balances

Within 90 days of the death of the last borrower, the servicer needs to refer a loan to foreclosure for the first legal action to be able to occur within six months.

The faster heirs can resolve matters the better if they plan to pay off the loan balance. If a loan is referred to foreclosure, all recoverable legal costs that are incurred are added to the loan balance and the estate is responsible for them.

HUD allows heirs to apply for up to two 90-day extensions to make time for selling the property, paying off the loan, and avoiding foreclosure. These extensions require documentation that will be difficult to have in place without prior planning:

1. **If selling**, heirs need to be able to prove they've marketing the property and the sale price
2. **If paying off the loan**, heirs need proof of necessary liquid assets or an approved loan

3. Establishing Who Has Authority is Essential

While borrowers are alive, they can assign a power of attorney to speak and act on their behalf, but after they pass away, the power of attorney is void. After death, only the executor of the estate has authority.

This can be difficult news for heirs who are not executors of the estate. If they have questions, the servicer can only share general information with them.

If there is a trust in place, there's a clear delineation and who can speak on behalf of the estate, and who has a right to all assets, and who can take desired action.



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How to Quickly Get Heirs Involved During the Origination Process

Most people like talking about their property and their family. Unfortunately, loan originators often focus only on the house and the loan and fail to ask potential borrowers about the people that matter most to them. By simply asking about family and trusted advisors, the people who care about the borrowers and their financial decisions can be part of the reverse mortgage process from day one.

Learn How To Minimize Losses In Any Reverse Servicing Portfolio

Upfront education is just one step to effective loan servicing. Portfolio Managers and HECM Issuers holding financial interest are often unaware of how operational inefficiencies can inflate loss severities within their servicing portfolios. RMI's seasoned servicing experts specialized in reverse can provide insights to transform performance, and our cutting-edge software is equipped with business rules designed to appropriately manage these assets. Contact us to learn about Servicing Oversight with Reverse Market Insight at sales@rminsight.net or (682) 651-5632.



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Who Can Speak on Behalf of the Borrower after they Pass Away?

While borrowers are alive, they can assign a power of attorney to speak and act on their behalf, but after they pass away, the power of attorney is void. After death, only the executor of the state has authority.

What Happens to a Reverse Mortgage When the Borrower(s) Pass Away?

Upon the death of the last borrower, servicers will send a "Due and Payable" letter to the mailing address and all other addresses on file. Within 30 days, the heirs must say whether they intend to: 1) Pay off the loan to retain the property, 2) Sell the property, or 3) Transfer the property to the lender. It is important for heirs to contact the servicer promptly as the loan becomes subject to foreclosure referral after the deadline stated in the "Due and Payable" letter.

How Fast Does Everything Happen After a Borrower Passes Away?

Within 90 days of the death of the last borrower, the servicer will generally refer a loan to foreclosure so that the first legal action can occur within 6 months which is the regulatory timeframe.