

# How Loan Servicing and Servicing Oversight Help Maximize Reverse Mortgages Value

## Book 4: Repair Set Aside

*An eBook Series from Reverse Market Insight*



*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 Repair Set Aside.*

### What Reverse Borrowers Need to Understand about the Repair Set Aside

Originators should ensure borrowers fully understand maintenance and repair requirements from the start. Right up front at origination you can make sure they understand:

1. How the Repair Set Aside is Calculated and Disbursed
2. The Two Types of Repairs
3. The Timing and Funding of All Repairs
4. How Critical Timely Inspection Is

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## 1. The Ins and Outs of the Repair Set Aside

Originators should ensure borrowers fully understand maintenance and repair requirements from the start and what funds they'll have access to throughout the process. The two most important things to cover are:

**How the Repair Set Aside is Calculated:** An FHA appraiser will estimate repair costs and the lender will calculate the set-aside as 150% of the estimate to allow for potential cost overruns or additional repairs.

Loan Officers can assess whether the appraiser's estimate and set-aside amount are reasonable and help ensure the borrower completes repairs on time.

The servicer may charge a repair administration fee not to exceed \$50.00 or 1.5% amount advanced for repairs.

**How Funds are Disbursed:** The Repair Set Aside funds are typically disbursed in one or two disbursements. Receipts for labor and materials that have been delivered to a job site may be required prior to a disbursement of funds being made. The final disbursement is made once an inspection of the property is completed confirming that the repairs were done in accordance with applicable requirements and the servicer's receipt of a Repair Affidavit/Lien Waiver and/or a Homeowner Repair Certification.

Borrowers need to know that every repair mentioned in the loan rider is an obligation they agreed to at closing. They all have to be completed even if the Repair Set Aside has been exhausted.

## 2. The Two Types of Repairs

Some repairs must be made before closing and others can be completed after. It's critical for borrowers to understand the difference and where the necessary funds will come from.

**Upfront Repairs:** If repairs are structural or related to health and safety, they need to be completed before the loan can be closed. This means borrowers cannot use their Repair Set Aside to pay for them. Examples of structural repairs are the roof or foundation, and health and safety issues can include mold or even clearing out the effects of hoarding to make space for safe living.

**Repairs in the Repair Rider:** Repairs that qualify to be completed after the loan is closed and funded by the Repair Set Aside are generally considered to be required repairs that impact the marketability of the property. Required Repairs to be completed after closing cannot exceed 15% of the maximum claim amount.

### 3. The Funding and Timing of Repairs

Earlier is better. Advise borrowers to start the repair process as soon as possible after closing, rather than waiting until the last minute. If the repairs are not completed within the allowable time frame, the loan will be placed into default which can prohibit the borrower from accessing any available Line of Credit and suspension of monthly payments..

- **Emphasize the repair timeline during origination:** You should clearly explain to borrowers that they typically have 6 months, with possible extensions up to 12 months, to complete the required repairs outlined in the repair rider.
- **Check in with the borrower.** Confirm they have started repairs 30-60 days after loan closing.
- **Provide regular reminders:** The loan servicer should proactively reach out to borrowers 3-6 months into the loan to check on the status of the repairs and remind them of the deadline.
- **Leverage the Repair Set Aside:** Encourage or assist the borrower in obtaining bids prior to loan closing to help ensure the set-aside is calculated appropriately based on the appraiser's estimate. This helps borrowers have sufficient funds and promotes timely completion of work.

### 4. The Inspection of Repairs is Essential

Clearly communicating inspection requirements to borrowers is important because inspection enables servicers to disburse repair funds and keep the loan in good standing. It's important to address what needs to be inspected, who does it, by when, and why it's so critical:

- **What Must be Inspected:** Any repairs completed, whether by a contractor or the borrower themselves, must be certified by an FHA-approved inspector as meeting FHA standards.
- **Who Does the Inspection:** The servicer will typically try to use the original FHA appraiser who assessed the property initially as they are already familiar with the needed repairs. If the original appraiser is unavailable, the servicer will use another FHA-approved inspector.
- **When Must Inspection Happen:** Repairs and inspection must be completed within 6 months after closing or an approved extension timeframe.
- **Why is Inspection Important:** FHA inspection is required before the servicer can make the final disbursement from the Repair Set Aside.

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## Learn How To Minimize Losses In Any Reverse Servicing Portfolio

Upfront education about the Repair Set Aside 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.



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# FAQ

### How is the Repair Set Aside Calculated?

*An FHA appraiser will estimate repair costs and the lender will calculate the set-aside as 150% of the estimate to allow for potential cost overruns or additional repairs.*

### How Are Funds from the Repair Set Aside Disbursed?

*The Repair Set Aside funds are typically disbursed in one or two disbursements. Receipts for labor and materials that have been delivered to a job site may be required prior to a disbursement of funds being made. The final disbursement is made once an inspection of the property is completed confirming that the repairs were done in accordance with applicable requirements and the servicer's receipt of a Repair Affidavit/Lien Waiver and/or a Homeowner Repair Certification.*

### Why is Inspection of Repairs Important?

*Any repairs completed, whether by a contractor or the borrower themselves, must be certified by an FHA-approved inspector as meeting FHA standards. FHA inspection is required before the servicer can make the final disbursement from the Repair Set Aside.*

### Can the Repair Set Aside Be Used For Any Repair?

*If repairs are structural or related to health and safety, they need to be completed before the loan can be closed. This means borrowers cannot use their set aside to pay for them. Examples of structural repairs are the roof or foundation, and health and safety issues can include mold or even clearing out the effects of hoarding to make space for safe living.*