

ask the servicer

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In “forward” mortgages, provisions in the loan documents for the death of the borrower are not often utilized. Given that the reverse mortgage product is designed exclusively for older adults, it’s imperative that reverse mortgage industry professionals are familiar with the standard processes of what occurs once the last surviving borrower passes away. This topic is inevitable when discussing the unique servicing requirements of these loans and the death of a reverse mortgage borrower is an ultra-sensitive issue that servicers are required to face on a daily basis.

Whenever death enters the reverse mortgage servicing process, the servicer must work very closely, and sensitively, with the estate or heirs. It requires the servicer to exhibit a delicate balance between empathy for the heirs of the lost loved one, and the requirements of the servicer under the HUD guidelines. This month I received a question on this topic from a reader of *The Reverse Review*, and will answer it in two parts below.

How do servicers know when a borrower has passed away?

In order to keep the data in their servicing platforms fresh and up-to-date, as well as to remain in compliance with HUD guidelines, servicers typically subscribe to a monthly “death audit” service. These third-party companies compare borrower information to a variety of database sources, ultimately producing a final report of any new matches to the servicer. Death information is generally obtained from the social security death index, but service providers also utilize a variety of proprietary sources for this information as well. Servicers are typically made aware of a borrower’s death through the results of this monthly audit, but occasionally an heir or family member will contact the servicer directly to pass along the information. In either case, once the servicer has confirmed that the last surviving borrower has died, a series of HUD-required actions are set into motion.

What happens to a reverse mortgage once the last surviving borrower has died?

Once the servicer has confirmed the death of the borrower, a Condolence Letter is sent to all known heirs. ***(To see the required language that must be present in the letter, please refer to the HUD Handbook 4330.1, 13.33.)*** This letter provides invaluable information to the heirs and/or estate about the options available to them under the HECM program for satisfying the loan balance, and these options are:

- Pay the loan balance in full;
- Complete a short sale of the property (in which the estate is able to sell the property to an **unrelated third party** for 95% of a current HUD appraised value, less any customary closing costs and realtor commissions);
- Walk away from the home (which would result in a foreclosure action by the servicer); or

- Complete a deed in lieu of foreclosure (where the estate signs documents titling the property back to the investor).

The reverse mortgage is considered to be a “non-recourse” loan. This means that the only collateral on the loan is the property itself. If the estate elects to complete a deed in lieu, short sale, or have the servicer initiate foreclosure, there is no negative financial impact on the borrower’s heirs or the estate.

Servicers typically receive this question from the heirs upon receipt of the Condolence Letter: “How much time does the estate have to pay the loan off after the borrower passes away?” The ambiguous answer is... it depends! The variable factor is the extent and frequency of the communication efforts of the estate. As long as the estate remains in regular communication and they have provided the documentation required by the servicer (a letter detailing their intentions with the property, copy of the real estate listing, etc.), HUD guidelines allow them time extensions for up to one year from the date of death.

The actual HUD language regarding the time extensions available to the estate can be found in the HUD Handbook 4330.1, 13.34:

If the mortgagor or the mortgagor’s estate fails to repay the outstanding balance on a due and payable mortgage or if the mortgagor fails to deed the property to the mortgagee within the prescribed time, the mortgagee must begin foreclosure proceedings... ..If the estate is making a reasonable effort to sell the property, extensions should be granted in 3-month intervals with the entire period not to exceed 12 months.

It should be noted that if the estate is uncooperative or unresponsive to requests for information, the servicer does not have to wait the entire 12 months to begin foreclosure proceedings. In certain cases, the estate may be upside-down on the property and servicers are asked by the heirs to initiate immediate foreclosure, as there is no equity remaining for them to sell the home. If the estate is unable to pay the loan off, or is unwilling or unable to complete a deed in lieu within the 12 month period, then the servicer is required to initiate foreclosure in an effort to gain title of the property for the investor.

I recall one particular situation where a borrower’s daughter was thrown into complete and devastating grief over the sudden loss of her mother. She was emotionally paralyzed for months; although almost daily she was faced with the daunting task of dealing with the loss of her mother, and undertaking the necessary actions to finalize her estate. We worked closely with the daughter, counseling her through the entire process until she was able to sell the home and pay off the reverse mortgage balance. Reverse mortgage servicers spend a great deal of important and extended time with these grieving family members as they coach them through this process.

I look forward to receiving your servicing inquiries at: ryan@celink.com. Please remember: **there is no such thing as a stupid question!** No doubt, the question you ask will have been in the minds of other readers as well. If you wish to remain anonymous for my response, just let me know.