ask the servicer

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What are a reverse mortgage borrower's occupancy requirements?

Misunderstanding and confusion often surround a borrower's reverse mortgage occupancy requirements. The topic is a timely one! The return of warm weather signals the migratory return of "snowbirds" to their primary residences north of the Mason-Dixon Line. (The term "snowbirds" refers to those fortunate individuals who spend the winter months in a much warmer climate.)

A condition of all reverse mortgages is the stipulation that the borrower live in the property as their primary residence. Borrowers are allowed to leave the primary residence for designated periods of time such as: rehabilitation from an injury in an off-site facility; extended visits to family or extended vacations; or their own "snowbird" migration to warmer climates through the winter months. There are stated restrictions on how long they are allowed to be absent from the property and certain attestations that must be made on an annual basis. The general rule of thumb used in servicing is that the borrower is allowed to be absent from the property for up to 12 months before the loan is considered to be in default.

Here's an interesting exception. If a borrower is travelling on a mission trip, HUD may allow them to be away from the primary residence for longer than 12 months. An important cautionary note: Borrowers should always seek HUD approval before leaving on any mission trip that is anticipated to extend beyond 12 months. HUD reserves the right to deny this type of request. These timelines and guidelines provide borrowers with the freedom to travel and enjoy life away from their primary residences without violating their loan covenants. Occupancy guidelines are in place primarily to protect the investor (Fannie Mae or others) and insurer (HUD). As the property itself is the only real collateral on a reverse mortgage, servicers must monitor occupancy status vigilantly. Vacant or abandoned properties can quickly fall into disrepair, and the result is diminished property value - a loss for all.

How is the reverse mortgage occupancy requirement monitored?

There are two primary tools that servicers use to monitor occupancy status: Annual Occupancy Certificates and Return Mail. HUD requires accurate tracking and follow-up without exception, and the task of monitoring occupancy requirements is a key component of the servicing function. It can be time-consuming, and from time-to-time, requires extensive and sensitive follow-up with borrowers.

Annual Occupancy Certificate

Around the first anniversary of loan funding, and every year thereafter, servicers must mail out an Occupancy Certificate to borrowers asking them to sign and attest to the fact that the property remains their principal residence. Borrowers are required to sign this certificate and return it to their servicer in a prompt fashion (typically within 30 days). Each servicer has their own variation of an Annual Occupancy Certificate, but HUD requires one piece of standard language be present:

"Warning: Section 1001 of Title 18 of the United States Code makes it a criminal offense to make a willfully false statement or misrepresentation to any department or agency of the United States government as to any matter within its jurisdiction."

This required HUD language is strong, yet vitally important. Servicers rely solely on the borrower to be completely truthful about their occupancy status when signing and returning this document. If a borrower was absent from the primary residence for longer than 12 months, or indicates that they have permanently moved from their primary residence, then the servicer must seek HUD's approval to call the loan due and payable. Once approval from HUD is received, the servicer mails out a demand letter to the borrowers requiring them to either repay the loan in whole, or cure the default by re-occupying the property as their principal residence.

Return Mail

As previously stated, borrowers may move in and out of their homes at different times throughout the year, and for various reasons. When a piece of mail addressed to the borrower gets returned by the Post Office to the servicer, the returned mail (typically a monthly statement) serves as a red flag indicator that there may be an occupancy issue with the property. Certainly not all cases of returned mail result in an occupancy default! The borrower could be in the midst of traveling; or the borrower may have forgotten to inform their servicer to forward their statements to their winter home or to the son or daughter who handles their affairs. Whatever the reason for return mail, the servicer uses the occasion to reach out to the borrower to validate that there might, or might not be, a valid occupancy default.

Consider how sensitive a servicing agent must be when fielding calls from very irate borrowers wanting to know why the follow-up to a simple piece of returned mail could result in their loan being called due and payable! There is an inherent nervousness in some reverse mortgage borrowers, and what appears to be routine and standard follow-up must be handled with finesse and professionalism by the servicer.

The occupancy requirements and annual certification process provides a valuable service to the investor, insurer and borrower. Lenders can assist in this process, and ultimately create a better experience for their borrowers, by setting expectations on the front end. Loan origination is the opportune time to educate new borrowers on the occupancy verification processes that are in place to protect them and the viability of the reverse mortgage program.

I look forward to receiving any questions you may have regarding servicing 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.