



Financial, LLC

The power of home.™

Wholesale HECM for Purchase Playbook

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Table of Contents



Overview	Page 3
Key Differences Between Traditional Purchase Loans & HECM Purchase Loans	Page 4
Other Important Details	Page 5
QuantumReverse (QR) H4P Input	Page 7
ReverseVision (RV) H4P Input	Page 9
Common Errors to Avoid	Page 10
HECM Exclusive! Purchase a Home and Establish a Line of Credit at the Same Time	Page 12
Pre-Approval Process	Page 13
Pre-Approval Checklist	Page 14
Job Aid HECM for Purchase Settlement Agent Information	Page 16

Overview



The purpose of this playbook is to help educate loan officers about the HECM for Purchase (H4P) loan program so that they can be more confident in offering it as a solution to borrowers. There were approximately 5.95 million homes sold in 2022¹ and approximately 43% of the homes purchased were by buyers over the age of 59². And because the H4P loan program is not widely understood, it's a virtually untapped market! With a better understanding of H4P, loan officers can diversify and increase originations from their builder, contractor, and real estate professional referral partners by offering an option for the Senior borrowers that makes it easier for them to make a move. Whether it be to a warmer climate, closer to family or one-level living, the H4P offers opportunities that no other loan can.

When asking loan officers, *"Why isn't the HECM for Purchase part of your business model?"* a common response is: *"I don't know what to do and I don't want to make a mistake with so many people involved."*

To alleviate this common dilemma, we have developed this HECM for Purchase (H4P) Playbook as a quick reference guide to provide every loan officer with a step-by-step plan to successfully utilize H4P to grow their business.

Why should I originate HECM for Purchase business?

- ✓ H4P borrowers have assets to qualify
- ✓ H4P borrowers typically have fewer credit issues because they have assets to stay current on their credit
- ✓ H4P borrowers typically meet the residual income requirements
- ✓ H4P properties almost always appraise for at least the purchase price
- ✓ H4P transactions have a scheduled closing date and borrowers that are eager to close
- ✓ Satisfied customers, builders, and real estate professionals who have had a good experience with their H4P transaction are likely to refer more business.
- ✓ **THESE LOANS CLOSE!**

¹<https://www.statista.com/statistics/226144/us-existing-home-sales/>

²<https://cdn.nar.realtor/sites/default/files/documents/2023-home-buyers-and-sellers-generational-trends-report-03-28-2023.pdf>

Key Differences Between Traditional Purchase Loans and H4P Loans



As part of your loan officer (LO) toolbox, offering H4P loans can be a powerful way to grow your business. However, it's important to note that there are a few differences between a traditional purchase loan and H4P loans:

- ✓ **Seller Concessions:** FHA now allows Interested Party Contributions of up to 6% of the sales price to be used towards the borrower's closing costs, prepaids, origination fees and IMIP.
- ✓ **Names on the Contract:** Only borrowers and vested owners who will remain on title after closing may be listed on the purchase agreement/contract of sale
- ✓ **Appraisals:** NEW! New Construction appraisals may now be ordered at any time. We no longer need to wait until the home is at least 90% complete.
- ✓ **Second Appraisal:** With FHA HECM loans, the FHA can require a second appraisal. The lender has no control over this meaning everyone needs to be prepared for this possibility.
- ✓ **Personal Property:** The purchase agreement/sales contract must specifically state that any personal property (refrigerators, window treatments, furniture, etc.) is conveying with no value
- ✓ **Closing Fees:** Closing costs are generally the same as for a traditional FHA purchase loans however, adjustable-rate loans will have two deeds/mortgages recorded with HECM loans so there will be two recording charges (fixed rate loans will only have one recorded deed/mortgage)
- ✓ **Closing Documents:** HUD requires that HECM loans close using a HUD-1 Settlement Statement and a Good Faith Estimate (GFE). Closing Disclosures (CD) and Loan Estimates (LE) are not allowed
- ✓ **New Construction:** We must have the Certificate of Occupancy in-house and approved by the Underwriter prior to closing

Your Account Executive and Partner Support Specialist, backed by our dedicated Purchase Team, can assist you with any contract questions.

Other Important Details



H4P New Construction Appraisals:

- ✓ Initial appraisal can now be ordered as New Construction. The following documents will be required to be provided at the time appraisal is ordered:
 - Fully executed contract of sale including all amendments and change orders
- ✓ If appraisal is ordered prior to home being at least 90% complete, also provide a **copy of the Plans and Specs**
- ✓ If appraisal is ordered after home is at least 90% complete, also provide a **list of remaining items to be installed/completed prior to the final inspection**

Sales Contract Reminders:

- ✓ Check the closing date in the Sale Contract. Allow for at least 30 days whenever possible
- ✓ H4P loans allow Interested Party Contributions (typically seller concessions) of up to 6% of the sales price towards the borrower's origination fees, other closing costs, prepaid items, and IMIP.
- ✓ The contract should show that no monetary value is given on any personal property being conveyed
- ✓ The borrower can be the listing or selling real estate agent and receive a commission. However, the commission cannot be part of the funding dollars for the H4P loan.
- ✓ The Sales Contract can contain rent-back options, but they are not to exceed 30 days
- ✓ Any necessary repairs that the appraiser identifies must be completed before closing and paid by the seller, including any final inspections associated with those repairs

Miscellaneous Reminders:

- ✓ FHA HECM loans follow the same Anti-Flipping guidelines as traditional FHA purchase loans. Be aware of how long the seller has owned the home.
- ✓ HECM loans require the borrowers to attend a 3rd party counseling session. Make sure to check the guidelines or check with your AE/PSS for counseling requirements. Some states have "cooling off" periods.

Other Important Details, cont.



Solar Heating System Requirements

Dwellings with solar heating systems as a primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. The system must be installed in accordance with the manufacturer's recommendations.

NOTE: If the agreement for an energy system lease (i.e., solar lease agreement) or a power purchase agreement (PPA) restricts transferability in any way, that must be rectified prior to loan closing.

Purchased Energy Systems (i.e., Solar Equipment Purchase):

- ✓ If borrowers are purchasing their solar equipment, the remaining balance owed must be paid in full at the time of closing as a mandatory obligation.

Leased Energy Systems (i.e., Solar Leases):

- ✓ A Solar Lease or a Power Purchase Agreement (PPA), which may be incorporated in your contract of sale, requires a review by an independent legal counsel that has no other involvement in the transaction (i.e., cannot be the closing attorney). Legal counsel must provide an attorney opinion letter to confirm if the lease and/or Power Purchase Agreement meets the Longbridge Financial and FHA requirements. A solar review fee may be charged to the borrower at closing when the fee is disclosed in accordance with RESPA guidelines. For Longbridge Platinum reverse mortgage for purchase loans, the Underwriter can review the Solar Lease or PPA.
- ✓ If the agreement for an energy system lease (i.e., solar lease agreement) or a power purchase agreement (PPA) restricts transferability in any way, it must be rectified prior to loan closing.

Solar Lease on HECM for Purchase:

- ✓ Any UCC filing in the seller's name must be extinguished
- ✓ The solar company must not be named loss payee or named insured on the HOI policy
- ✓ The Solar Lease is subject to legal review
- ✓ Longbridge solar acknowledgment must be executed by all parties
- ✓ The Solar Lease MUST reference warranty and liability coverage of the equipment
- ✓ The assumption of the existing solar lease is possible if the lease is assumable and there are no transference issues. The borrowers must sign the HUD-provided amendment at closing.

QuantumReverse (QR) H4P Input



You will complete all QR screens as you normally would, but be sure to pay attention to the following items when entering HECM for Purchase loans:

Initial Loan Setup Dialogue Box or Loan Details Screen

- ✓ Select Purpose as “Purchase”
- ✓ Click on the pop out box to the right of the purpose dropdown
- ✓ Fill in all the appropriate fields including but not limited to:
 - Earnest Money
 - Property Status
 - Seller is Builder
 - Interested Party Contributions (if applicable):
 - For any IPCs use appropriate fields (Seller Concessions, Listing Agent, Buyer’s Agent)
- ✓ **HUD-1 Screen:** If IPCs are added, click “IPC” button to the left of the amounts on lines 206-209 to correctly apply the contributions.

Borrowers Screen

- ✓ Change Mailing Address to departure home address prior to pulling credit

Property Screen

- ✓ Enter subject property address and validate
- ✓ If Pre-Approval, change from “Detail” to “Simple” in the top right and enter “TBD” as the address

Fee Screen

- ✓ Change to “Manual” and make sure to update fees to match the fees estimate from the title company/closing agent.
 - With HECM for Purchase loans it is mandatory that Owner’s Title Insurance be disclosed

Assets/Income Screen

- ✓ If the departure home has already been sold, add information to show where the borrower has the net proceeds from the sale (checking account, savings account, etc.)
- ✓ If the departure home has not yet sold, add a checking or savings account with the amount of proceeds and in the Footnote box add “Estimated Net Proceeds from Sale of Departure Residence”

QuantumReverse (QR) H4P Input, cont.



Liabilities/Expenses Screen

- ✓ Don't forget to enter the estimated amounts for the property charges on the subject property (taxes, insurance, HOA, etc.)

Schedule of Real Estate Owned Screen

- ✓ Enter the departure home information in the Schedule of Real Estate Owned section and make sure to indicate the "Status"
 - "Owned" if they are retaining the home
 - "Sold Within the Last 60 Months" if sold
 - "To Be Sold"

ReverseVision (RV) H4P Input



You will complete all RV screens as you normally would, but be sure to pay attention to the following items when entering HECM for Purchase loans*:

Borrower Screen or Initial Loan Creation Screen

- ✓ Select “Purchase” for Loan Purpose (this can be found on the Case screen once loan is established)
- ✓ Enter borrower’s departure home address for the “Mailing Address”

Property Screen

- ✓ Pre-Approval: “Property Location” should be TBD**
- ✓ Regular Submission: “Property Location” should be the subject property address**
- ✓ If new construction, type “New Construction” in the Brief Legal Description box
- ✓ Don’t forget to enter estimated amounts for the property charges on the subject property (taxes, insurance, HOA Dues, etc.)

Case Screen

- ✓ Enter the Earnest Money amount and Contract Date (if not a Pre-Approval)***
- ✓ Enter the departure home information in the Schedule of Real Estate Owned section and indicate if sold or pending sale

Fee Screen

- ✓ Be sure to update fees to match the fees estimate from the title company/closing agent

Notes Screen

- ✓ Add a note giving details about the situation (back-to-back closing, departure home already sold and borrower in interim housing, etc.)

If using proceeds from the sale of the departure home to purchase the new home:

Asset Dissipation Screen

- ✓ If the departure home has already been sold, add information to show where the borrower has the net proceeds from the sale (checking account, savings account, etc.)
- ✓ If the departure home has not yet sold, add a checking or savings account with the amount of proceeds and in the Description box add “Estimated Net Proceeds from Sale of Departure Residence”

**Currently there are no options to enter and apply Interested Party Contributions (IPC) in ReverseVision (RV). Please reach out to your Account Executive for assistance.*

***Remember you must list the departure home address on the Property screen (as the Subject Property) in order to pull credit correctly, then change it back to “TBD” (for a Pre-Approval or the correct subject property address for a normal submission).*

****The Earnest Money entered on the Case screen will not flow through to the Comparison screen. You will need to manually subtract the Earnest Money from the Cash Due from Borrower amount.*

Common Errors to Avoid



The following are a list of common mistakes we see on HECM for Purchase (H4P) loans:

1. Setting unrealistic closing date expectations with the buyers, sellers, and agents

Try to get a minimum of 30 days whenever possible and discuss the loan process with the borrowers. (Remember, it may have been decades since they last purchased a home!) Early in the process, prepare them for the fact that they will need to provide requested documentation quickly and discuss how you'll accomplish obtaining the requested documentation, so they know what to expect and what to do when the time comes.

2. Failing to ensure the seller is willing to sign the FHA Amendatory Clause/Real Estate Certification

The FHA Amendatory Clause/Real Estate Certification disclosure is required for H4P loans, just as they are on traditional FHA purchase loans. It's prudent to ensure your sellers are aware they will be required to sign these disclosures early in the process or even prior to the contract, if possible, to avoid issues later in the process.

3. Failing to ensure the fees are as accurate as possible prior to generating the proposal or application

It's a good idea to contact the title company/closing agent/attorney to get a list of the fees prior to generating the application. Some fees and charges cannot be added in later so to avoid any potential reduction in commissions, take the time to confirm charges and fees in advance.

4. Failing to confirm with the title company/closing agent/attorney that they have the capability and are aware they will have to generate a HUD-1 Settlement Statement and Good Faith Estimate (GFE)

HUD requires that HECM loans close with a HUD-1 Settlement Statement and Good Faith Estimate (GFE). Closing Disclosures (CD) and Loan Estimates (LE) are not allowed.

5. For new construction, not providing the name and contact information for the correct person to the AMC so they can schedule the appraisal and final inspection

Not having the correct person and contact information will cause delays.

6. Not clearly understanding when the borrower's departure home will be sold and where they will be living before the closing of the new home

If the borrower is selling their departure home in advance of the closing on the new home (meaning it's not a back-to-back closing), their interim living arrangements must be documented and verified.

Common Errors to Avoid, cont.



7. Neglecting to instruct the borrower not to move assets that are being used in the transaction

Borrowers often move funds around if they are not educated on the “sourcing and seasoning” requirement. However, if they move funds during this process, those funds will have to be re-verified and re-approved, delaying the process.

8. Failure to check on state-specific counseling requirements for “cooling off” periods when setting your closing dates

Be sure to check the guidelines or with your AE on any state required “cooling off” periods when determining closing dates. These are required by state laws and the lender cannot circumvent them, so plan accordingly with your closing dates.

HECM Exclusive!

Purchase a Home and Establish a Line of Credit at the Same Time



The HECM for Purchase loan offers an exclusive feature that is not offered with any other loan. Your borrower can bring funds over and above what they need to close and use it to establish a line of credit!

Why would your borrowers want to consider this? The HECM Line of Credit (LOC) has a growth factor, so available funds will grow at the same pace as the interest rate on the loan!

Details:

- ✓ Borrowers must bring more funds than needed to close — minimum of \$100
- ✓ Borrowers must choose a HECM ARM loan product (this option is not available with HECM fixed rate loans)
- ✓ Borrowers may not have access to the funds until the beginning of year two if they surpass the 60% Initial Disbursement Limitation at closing (however, available funds will be growing during that time)
- ✓ The 3 Day Right to Cancel will apply to excess funds used to establish the HECM LOC (but the purchase funds will be available at the closing table)

To Add Additional Funds to an H4P Loan in QR:

On the Loan Details screen in the Disbursement of Proceeds box follow these steps:

- Click and drag the “Line of Credit” line to the top and check the box to the right
- Type the amount of additional funds the borrower wants to bring in the box
- Contribution from loan amount will decrease by amount that was entered and that amount will show up in LOC on the Comparison screen

To Add Additional Funds to an H4P Loan in RV:

On the Loan screen in the Allocation of Available Principal Limit box follow these steps:

- Make sure the order is “Cash-LOC-Payment”
- Enter the borrower amount due at closing for the purchase plus any amount they want to use to set up the LOC. *Enter it as a negative number or it won't work!*
- On the Comparison screen, you'll now see the borrower amount to close increase by the amount they want to use to establish the LOC, and the amount they want to use to establish the LOC will show up on the LOC Available line

The Pre-Approval Process



Longbridge offers the option of a full H4P Pre-Approval if needed. To obtain a Pre-Approval letter, the borrower **cannot be under contract** to purchase, unless the subject property is new construction. If they are already under contract on an existing home, this option is not available.

In addition to the completed Pre-Approval Checklist (see next page), the following will need to be provided for a Pre-Approval Underwriting review:

- ✓ A full Tri-Merge credit report or signed Credit Authorization form for each borrower
- ✓ Copies of Drivers licenses and Social Security cards
- ✓ Loan comparison showing chosen HECM loan product along with selected margin or rate
- ✓ Proof of Funds to Close
 - All pages of most recent 60-day bank/asset statements; AND/OR
 - Documentation to show current home value if closing funds are coming from the sale of the departure home (listing agreement, sales contract, Zillow/Realtor.com value, etc.)
 - Calculate net proceeds as follows:
 - Home value – 10% (costs and fees to sell) – any existing mortgages/liens
- ✓ 24-month tax payment history for the departure home and any other real estate owned
- ✓ Evidence homeowners insurance has been in place for the departure home for the last 12-months
- ✓ 24-month homeowners association (HOA) dues payment history for the departure home and any other real estate owned
- ✓ Completed Verification of Rent (VOR) if borrower is renting
- ✓ Clear indication if the departure home will be sold before closing on the new home or retained after closing

LOS Data Entry Tips:

- ✓ Enter the subject property address in QR or RV as “TBD.”
- ✓ If the Borrower is retaining their departure home (or it will not be sold prior to the closing of the purchased home), enter it in the REO screen along with all of the current property charges.
- ✓ Consider asking for more than the borrower thinks they might need (if the numbers work) so you don’t have to do this more than once.

Submit all documentation to:

PurchasePreApprovals@longbridge-financial.com

Subject line should include borrower name and loan number

Wholesale Purchase Pre-Approval Checklist



Documentation required for Pre-Approval consideration:

- **Comparison Page (hard copy)** reflecting proposed purchase transaction, including loan product and proposed rate or margin
- **Tri-Merge credit report for each borrower**
 - Or, Credit Report Authorization Form (if LBF pulls credit for you) for each borrower
- **Identification documents for each borrower:**
 - Photo ID – Copy of driver's license, valid passport, military ID, or state-issued ID card
 - Social Security Number – Copy of Social Security card or copy of SSA-1099 from previous tax season
- **Assets being used for Cash to Close:**
 - Two months of bank or asset statements, all pages
 - › Include Letter of Explanation (LOE) from borrower for any unsourced large deposits
 - Value of property being sold (If funds coming from the sale of previous residence)
 - › MLS listing, if currently for sale
 - › Zillow/Trulia/Realtor.com value, if not yet listed for sale
- **For the departure residence:**
 - Mortgage Statement (if applicable)
 - Property tax information and proof of 24 months of on-time payments*
 - HOA information (if applicable) and proof of 24 months of on-time payments
 - Homeowner's Insurance – evidence it is in place, and has been paid on time for the last 12 months*

*If property taxes are escrowed and the mortgage has been in place for at least two years, then a mortgage statement is all you need to provide for the mortgage, taxes and insurance. You will still need to document HOA information (if applicable).

Additional information needed, if applicable:

- **Closing Disclosure/HUD-1** from sale of departure home (if already sold)
- If renting, provide a **VOR** including the name, address, and phone number of the landlord
- If borrower was or is required to pay alimony or child support, provide entire **Divorce Decree, including financial/property settlement**
- If borrower is in a **Federal Tax Lien Repayment Plan**, provide all documentation
- If borrower has derogatory credit, provide a **Letter of Explanation (LOE)** and supporting documentation if it was an extenuating circumstance
- If borrower owns other real estate, make sure all addresses are in **ReverseVision (RV)** or **QuantumReverse (QR)** in the **REO** section. In addition, please provide for these additional properties:
 - Mortgage statements (if applicable)
 - Property tax information and proof of 24 months of on-time payments*
 - HOA information (if applicable) and proof of 24 months of on-time payments
 - Proof of homeowner's insurance (if applicable) and proof of 12 months of on-time payments*

The following questions require "Yes" or "No" responses:	Yes	No
Does the borrower have any open Federal tax Liens?	☐	☐
If yes, are they in a repayment plan? (If yes, provide documentation)	☐	☐
Is the borrower currently a co-signer on any other FHA-insured mortgage?	☐	☐
If yes, does the borrower occupy that property?	☐	☐
If yes, provide the FHA Case Number (can be found on the Note/Mortgage) _____		
In the last three years, has the borrower had a Foreclosure, Short Sale, or Deed-in-Lieu of an FHA, VA, or USDA mortgage loan?	☐	☐
In the last two years, has the borrower had a conventional mortgage loan Foreclosure?	☐	☐
Is the borrower shopping for a Condo?	☐	☐
If yes, is the Condo FHA approved?	☐	☐
Were or are the borrowers obligated to pay alimony or child support?	☐	☐

Please make sure the following information is entered in RV or QR:

1. Income estimates for all borrowers
2. Estimated Monthly Assessment, if borrowers are shopping for condos/PUDs or any other property that will have a monthly assessment
3. Estimated Property Taxes for new home
4. Estimated Homeowner's Insurance costs for new home
5. The Comparison Page must correctly reflect the estimated purchase price and fees

NOTE: Make sure you have "TBD" in for the subject property address as to not trigger a GFE Requirement

Email all documentation, including this completed Pre-Approval Checklist, to:
purchasepreapprovals@longbridge-financial.com

(Job Aid) HECM for Purchase HUD-1 Settlement Statement & Mortgage Requirements



Please make sure your Settlement Agents are aware of the following:

- ✓ This is an FHA-insured HECM for Purchase (reverse mortgage)
- ✓ FHA requires the use of a HUD-1 Settlement Statement including the GFE/comparison page.
Closing Disclosures (CD) are not permitted.
- ✓ Longbridge Financial will prepare a Preliminary HUD-1 with all lender and broker fees and send it to the Settlement Agent so they can prepare the Final HUD-1. It is the Settlement Agent's responsibility to prepare the Final HUD-1.
- ✓ Schedule A – Mortgage Amount is 1.5 times the Maximum Claim Amount. This is referenced on page 1 or 2 of the Mortgage/Deed of Trust.
- ✓ Schedule A – Loan Policy Amount is the same as the Maximum Claim Amount
 - Maximum Claim Amount = the lesser of: Purchase Price, Appraised Value or HECM Lending Limit (The HECM Lending Limit for 2024 is \$1,149,825)
- ✓ Mortgage/Deed of Trust – There will be 2 security instruments for an adjustable-rate loan and 1 security instrument for a fixed rate loan.

Endorsements:

1. Alta 9, CLTA 100 or T-19: Restrictions, encroachments, minerals. Not required in New Mexico. If the property is a condo, policy may not include Alta 9.
2. Alta 14.03, T-43 reverse mortgage. Alta 6.2-06 variable rate-negative amortization is also acceptable.
3. Alta 22 or CLTA 116: Location or street address. Not required Florida, New Mexico, New York, Pennsylvania, and Texas.
4. Alta 8.1, CLTA 110.9 or T-36: Environmental Protection Lien.
5. Following endorsements if applicable: PUD (Alta 5, CLTA 115.2 or T-17), Condo (Alta 4 or CLTA 115.1), Manufactured Home (Alta 7 or CLTA 116.5), NJ (No survey, Survey endorsement), interest in the land leasehold (Alta 13.1 or CLTA 107.5).

Have a question? For more information, contact Givanni Alexander or Jane Brady:

Givanni Alexander
Closing Manager
551.252.5568
galexander@longbridge-financial.com

Jane Brady
Closing Supervisor
201.642.4056
jbrady@longbridge-financial.com

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