



## NRMLA ETHICS ADVISORY OPINION 2013- 04

### ETHICAL CONSIDERATIONS AFFECTING HECM LOAN MIP PREMIUM DECISIONS

October 17, 2013

The Ethics and Standards Committee (the "Committee") of the National Reverse Mortgage Lenders Association ("NRMLA"), the trade association of the reverse mortgage lending industry, enforces the NRMLA Code of Ethics and Responsibility (the "Code of Ethics"). All NRMLA Members are required to comply with the Code of Ethics as a condition of their continued membership in NRMLA. If the Committee determines that a NRMLA Member has not complied with the Code of Ethics, sanctions may be imposed, up to and including the termination of NRMLA Membership. Committee decisions enforcing the Code of Ethics may be made public.

The Committee also interprets the Code of Ethics, and, from time to time, proposes changes to it for consideration and approval by the NRMLA Board of Directors.

On September 3, 2013, HUD published Mortgagee Letter 2013-27 (Changes to HECM Program Requirements). Under its authority, and effective September 30, 2013, consumers seeking HECM reverse mortgage loans may have an election to make with respect to the amount of the Initial Disbursement at closing and during the First 12-Month Disbursement Period (referred to in this Ethics Advisory Opinion 2013-4 as the consumer's "Disbursement Amount Election"). And, under this Mortgagee Letter 2013-27, the Disbursement Amount Election can affect the amount of initial mortgage insurance premium (Initial MIP) the consumer is required to pay to HUD.

This Ethics Advisory Opinion 2013-4 establishes certain ethical requirements under the Code of Ethics to which NRMLA Members must adhere as they describe to consumers the HECM loan Initial MIP costs associated with their Disbursement Amount Elections.

The Code of Ethics establishes Values that convey the ethical and professional principles that NRMLA Members are expected to portray in all business and professional interactions. The Code of Ethics also establishes Rules that address the guidelines and standards of ethical and provisional behavior applicable to NRMLA Members and to which they are required to adhere.

One of those Values under the Code of Ethics is Fairness. It requires that NRMLA Members treat consumers in a manner that is fair and reasonable, as they would want to be treated. One of the Rules related to the Value of Fairness requires that NRMLA Members provide consumers with products and services that may provide a "bona fide advantage" to consumers (Rule 107).

Under Mortgagee Letter 2013-27, if the consumer's Disbursement Amount Election is to receive 60 percent or less of the Principal Limit of the HECM loan, then the amount of the Initial MIP owed HUD in connection with that loan is an amount equal to 0.50% of the Maximum Claim Amount (MCA) of that loan.

However, if the consumer's Disbursement Amount Election is to receive more than 60 percent of the Principal Limit of the HECM loan, as permitted under certain circumstances as described in Mortgagee Letter 2013-27, then the amount of the Initial MIP owed HUD in connection with that loan is an amount equal to 2.50% of the MCA of that loan.

To illustrate in dollar terms the effect of these MIP provisions and the consumer's Disbursement Amount Elections, consider General MIP Example 4, in Mortgagee Letter 2013-27. In that Example, HUD describes a HECM loan with an MCA of \$200,000, a Principal Limit of \$100,000, and a Disbursement Amount Election of \$61,000. For that loan, as described in that Example, since the Disbursement Election Amount (\$61,000) is more than the 60% of the Principal Limit (\$60,000), the Initial MIP owed HUD is \$5,000 (2.5% of the MCA).

However, if, instead, the borrower had decided (elected) to take an Disbursement Election Amount of only \$1,000 less (\$60,000 rather than \$61,000), then the Initial MIP owed HUD in connection with that loan would be only \$1,000 (0.50% of the MCA), rather than the \$5,000 Initial MIP owed HUD for the slightly larger Initial Disbursement described above (or a difference of \$4,000 in the amount of the Initial MIP).

Stated differently, in this Illustration the borrower effectively would have been charged and would have been required to pay to HUD an Initial MIP of \$4,000 more for borrowing (and receiving) only \$1,000 more as an Initial Disbursement, if the borrower made the Disbursement Amount Election to receive \$61,000 rather than \$60,000 under this HECM loan.

**In order to help assure that NRMLA Members provide consumers with HECM loans that may provide to them a "bona fide advantage" (as required under Rule 107 and the Code of Ethics), this Ethics Advisory Opinion 2013-04 requires that NRMLA Members describe to consumers, in a clear and timely manner, the amounts of the Initial MIP that they will owe to HUD under the Disbursement Amount Elections reasonably available to such consumers, and compare those amounts with the amounts such consumers will receive as Initial Disbursements as a result of their elections.**

Accordingly, and under this same illustration, in order to assure that consumers are provided with loans that may provide to them a "bona fide advantage," NRMLA Members are required to describe to such consumers, in a clear and timely manner, the Disbursement Amount Elections they have to choose an Initial Disbursement Amount of more than \$60,000, or \$60,000 or less; the amounts of the Initial Disbursement at closing and during the First 12-Month Disbursement Period under each such election; and the resulting amounts of the Initial MIP they will owe to HUD if they make the first (\$5,000) or the second (\$1,000) of these elections.

NRMLA Members, seniors, and others are urged to bring to the attention of NRMLA's President and the Committee concerns they may have about potential violations of the NRMLA Code of Ethics, including the requirements of this Ethics Advisory Opinion 2013-04, by NRMLA Members, for consideration and action in accordance with the procedures described in the NRMLA Code of Ethics. A form for that purpose also may be found at the NRMLA website, at [www.NRMLAOnline.org](http://www.NRMLAOnline.org).