

Extenuating Circumstances

Where the borrower's credit and/or property charge payment history does not meet the described criteria of the [HECM Financial Assessment Property Charge Guide](#), Smartfi must consider the extenuating circumstances that led to the credit/financial issues. Separate documentation must be provided for each incident/individual circumstance that affected the borrower's credit and or/property charge payment history.

What the Documentation Needs to Demonstrate

Smartfi must have documentation for the presence of any extenuating circumstances as part of the financial assessment. Documentation of extenuating circumstances must demonstrate:

- The **connection between** the specific occurrence(s) and the measurable impact of the occurrence(s) on the borrower's finances;
- That **no** other actions taken by the borrower contributed to the derogatory incident(s) (e.g., assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.);
- The likelihood that these circumstances will **not** happen again. In assessing, Smartfi may consider the impact of the HECM on the borrower's circumstances, through the elimination of financial obligations and/or through an increase in borrower income.

Example

If a borrower cited loss of income due to unemployment, reduced work hours, or furlough, then we will need:

- A **Letter of Explanation (LOX)** and **supporting documents**.

Documentation includes the credit report, W-2s, tax returns, statements from the borrower and other info.

- To show that the loss of employment or reduction in hours was not voluntary.
- To use a verification of employment (VOE) for verifying the previous income and reduced income.

QUESTIONS TO ASK

1. What date did you lose your job?
2. Do you have something from the employer to show the reduction in hours or documentation showing that you filed for unemployment?
3. Have you found a new job? Do you plan to go back to work?
4. If your hours were reduced, Date? Hours reduced from ____/week to ____/week. Reason for reduced hours?
5. Unpaid furlough? Dates? Were you brought back to original paid employment status? Date re-instated? Do you have a letter from your employer stating mandatory unpaid furlough status and dates it affected?

see more examples on pages 2-3

Extenuating circumstances beyond the borrower's control may include, but are not limited to:

The loss of income due to a divorce or the death of a spouse.

EXAMPLE A

The borrower's spouse passes away, resulting in a loss of income, such as the spouse's Social Security.

DOCUMENTATION NEEDED

- LOX
- Death Certificate of spouse
- Tax returns or other docs showing loss of income

QUESTIONS TO ASK

- What was your spouse's income contribution?
- Date of Death? Can you send us a copy of the Death certificate?
- Do you have documentation to show how much income your spouse was receiving?

EXAMPLE B

The borrower gets divorced. Borrower's LOX explains derogatory debt (charge offs, collections, etc.) are the responsibility of the spouse they divorced.

DOCUMENTATION NEEDED

- LOX
- Divorce Decree
- Tax returns or other docs showing loss of income

QUESTIONS TO ASK

- Is your divorce final?
- Are you receiving any payments from your spouse as required by the Divorce Decree?
- Do you have a copy of your Divorce Decree?
- If divorce is not final, is your spouse withholding their normal contribution to the household? Amount being withheld? Date when this started?

An increase in expenses due to a divorce or the death of a spouse.

EXAMPLE

The borrower's spouse passes away leading to an increase in expenses, such as from hospital and funeral charges.

DOCUMENTATION NEEDED

- LOX
- Death certificate of spouse
- Docs showing how the death has increased expenses for the borrower

QUESTIONS TO ASK

- What additional expenses do you have related to this hardship? Funeral costs? Medical bills? Care giver expenses? Treatment costs?
- Documentation to evidence those expenses.

EXAMPLE

The borrower gets divorced leading to an increase in expenses, such as alimony, child support, or insurance.

DOCUMENTATION NEEDED

- LOX and Divorce Decree
- Docs showing additional expenses (e.g., alimony, child support, etc.) if the Divorce Decree does not

QUESTIONS TO ASK

- Are you required to make payments to your ex?
- Are there any conditions of your divorce that increase your expenses?
- Do you have a copy of the Divorce Decree to show your additional expenses?
- Do you have attorney fees that you can document to show the increased expense?

The loss of income or an increase in expenses due to a medical emergency or hospitalization for the borrower or spouse.

EXAMPLE A

The borrower sustained an injury that caused him to miss work for a few months while he recovered and attended physical therapy.

DOCUMENTATION NEEDED

- LOX with a high level overview of the medical cause
- Docs regarding the financial impact, **not** the medical issue

Docs must be obtained directly from the client and can only include information regarding the loss of income. No documentation regarding the medical issue is needed

QUESTIONS TO ASK

- Did this medical hardship cause you or your spouse to miss work? Dates of missed work and _____ wages lost?
- Was this hardship considered a disability that affected the hours you can work? Hours reduced from _____/week to _____/week. Was this reduction permanent or temporary?
- Did your doctor give your employer a letter showing that you were unable to work or needed reduced hours and the time period that your doctor requested?

EXAMPLE B

The borrower and his wife are living off of SSI when the wife fell and broke her hip. Medicare only covered 80% of her required surgery, causing the borrower's expenses to increase in order to cover the remaining medical bills.

DOCUMENTATION NEEDED

- LOX with a high level overview of the medical cause
- Docs regarding the financial impact, **not** the medical issue

Docs must be obtained directly from the client and can only include information regarding the loss of income. No documentation regarding the medical issue is needed

QUESTIONS TO ASK

- How did this medical hardship increase your expenses? Medical bills?
- What were the dates of the medical emergency?
- Were you hospitalized? Do you have a hospital bill? What were your out of pocket expenses?
Docs needed to show what **you had to pay** toward the bill, such as insurance statement, Medicare statement, or canceled checks.
- Increased prescription costs? Do you have anything to show the amount **you are paying** for prescriptions?
Docs to show amount paid can be insurance statement, pharmacy printout or statement, canceled checks, or debit/credit card statements

An increase in financial responsibilities due to property repairs.

EXAMPLE A

A retired couple's property was recently significantly damaged and they had to stay in a motel during repairs. They are still awaiting insurance money.

DOCUMENTATION NEEDED

- LOX including date of incident & damage repaired
- Docs showing damage was fixed (appraisal)
- Paid in full invoices for the work

QUESTIONS TO ASK

- What caused the property repairs?
- What had to be repaired?
- Dates?
- What was your out of pocket expense for this repair?
- Do you have a completion invoice showing your expenses and that the work has been completed?
- If HOI helped pay for the repairs, can you show documentation to show your out of pocket expenses?