Reverse Mortgage

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EQUAL HOUSING OPPORTUNITY

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What Is a Reverse Mortgage?

Home Equity Conversion Mortgage (HECM):

- An FHA loan that uses home equity as collateral
- For borrowers aged 62 and over
- No mortgage payments due
- Provides the borrower with tax-free money to use however he or she chooses
- Amount of loan is based on the value of the home, the interest rate, and the age of the youngest borrower
- Does not have to be repaid until the last surviving borrower permanently moves out of the home or passes away. At that time, the borrower or the borrower's estate has 12 months to repay the balance of the loan or sell the home to repay that balance. Any remaining equity from the sale goes to the borrower or the borrower's heirs.

Benefits and Typical Uses

- No monthly mortgage payments
- The borrower continues to own the home – NOT the bank
- Can receive funds as a lump sum, monthly tenure, line of credit, or a combination*
- No effect on Social Security or Medicare eligibility
- Loan can be paid down or paid off at any time – there are no prepayment penalties

There are no restrictions on how the borrower spends the funds:

- Make necessary home repairs or renovations
- Take a dream vacation
- Fund major purchases
- Pay for health care costs
- Fund in-home care services
- Create a “safety net” emergency fund

*Any mortgages on the property must be paid off before the borrower can obtain any funds from a reverse mortgage.

Is the Home at Risk?

The borrower will never be forced into foreclosure because of missed mortgage payments since no mortgage payments due. The borrower does have to meet the following obligations:

- Continue to pay property taxes and homeowners insurance
- Live in the home as his or her primary residence
- Maintain the residence according to FHA requirements

The loan is not due and payable for as long as the borrower lives and resides in the home as her primary residence.

- The bank does not own the home, ownership is retained by the borrower.
- The bank records a lien (mortgage) on the home for collateral, as with a traditional forward mortgage.

Eligibility

Qualifying Borrowers:

There are no income, asset, or credit score requirements.* In order to qualify, borrowers must:

- Be 62 or older – application can be taken 6 months prior to 62nd birthday
- Have sufficient equity in their home
- Pay off any existing mortgage(s) with the loan proceeds
- Attend HUD counseling

Eligible Home Types:

- Single-family homes
- Approved condominiums (according to FHA requirements)
- Some manufactured homes (subject to specific qualifications)
- Townhouses

*HUD is considering the addition of income/debt ratios for qualification.

Product Options

- **HECM Libor Standard ARM**: Provides maximum proceeds with flexible payment options, including initial draw, line of credit, term, or tenure monthly payments
- **HECM Saver Fixed**: No up-front mortgage insurance premium (MIP), lower loan-to-value, lump sum distribution at closing
- **HECM Saver ARM**: No up-front MIP, lower loan-to-value, flexible payment options: initial draw, line of credit, term, or tenure monthly payments
- **HECM for Purchase**: Enables seniors to purchase a home and never have a mortgage payment
- **HECM Fixed Standard (to be discontinued)**: Provides maximum proceeds in a lump sum disbursement at closing

When Is the Loan Repaid?

The loan is due and payable when:

- The borrower sells the home
- The borrower vacates the home for more than 12 months for any reason
- The last borrower on title passes away
- The borrower fails to pay property taxes and/or homeowners insurance
- The borrower does not maintain the home according to FHA requirements

Options for Repayment

If the borrower moves from the property, or the last remaining borrower on title passes away, the borrower or estate can choose to:

- Repay the reverse mortgage
- Sell the home

If the home's equity is more than the loan balance:

- Any remaining equity goes to the borrower or the heirs minus typical closing costs

If the home sells for less than the remaining balance of the loan:

- The lender takes a loss and requests reimbursement from the FHA

Assets are not affected by the reverse mortgage. This means investments, second homes, cars, or other valuable possessions cannot be taken from the estate to pay off the mortgage. The borrower or heirs will never owe more than the home is worth.