

# Guide to Reverse Mortgages

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## **Overview**

A reverse mortgage is a loan against your home's equity that allows you to convert the equity in your home into cash without having to repay the loan while you're living in the home.

A Home Equity Conversion Mortgage (HECM) is a reverse mortgage that is insured by the Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD). With a HECM, you have multiple options for receiving payments, with no limitations on how you use the money. You can use a HECM to pay for medical expenses, house repairs, travel, or any other living expenses.

### **HECM Eligibility**

To get a HECM loan, you must:

- Be 62 years old or older.
- Own your home outright or have a low mortgage balance that can be paid off at closing with proceeds from the HECM loan.
- Live in the home as the primary residence.
- Complete a HECM counseling session with a HUD-approved HECM counselor.

Eligible Properties:

Your property must meet the highest state/local code or HUD's minimum property standards. Eligible types of homes include:

- Single family detached homes.
- Townhouses.
- Two- to four-unit single family homes with one unit occupied by the borrower.
- Manufactured homes and condominiums that meet HUD/FHA guidelines.

### **How HECM Loans Work**

A HECM loan allows you to convert a portion of your home's equity into cash, paid to you according to a payment plan that you choose. You do not have to repay the loan for as long as you live in your home. You will still own your home. However, a lien will be placed on your property, which will be security for the HECM loan. As the homeowner, you must continue to live in the house, and you must continue to pay property taxes and insurance.

**Loan Amount:** You will work with a lending institution, such as a mortgage lender, bank, credit union, or savings and loan association, to obtain the HECM loan. The amount you can borrow depends on your age or the co-owner's age (whichever is less), the current interest rate, other loan fees, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less.

Generally, the more valuable your home is, the older you are, and the lower the interest rate, the more you can borrow. To determine how much you qualify to borrow, contact a HUD-approved HECM counseling agency. To find one near you, call toll-free 1-800-569-4287 or search online at [www.hud.gov/offices/hsg/sfh/hecm/hecmclist.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/hecmclist.cfm).

### **Receiving HECM Payments**

You have several options for receiving HECM payments:

- A regular monthly cash advance for a specific number of years that you select (a *Term* plan).
- A regular monthly cash advance for as long as you live in your home (a *Tenure* plan).
- A creditline of a specific dollar amount, withdrawn at unscheduled times or in a lump sum payment in amounts of your choosing until the line of credit is exhausted.
- A combination of these payment methods.

### **HECM Loan Fees**

Standard closing costs associated with all mortgages are usually financed with proceeds from the HECM loan, such as an origination fee, third-party closing costs, a loan servicing fee, and interest, which is the amount paid for the privilege of borrowing the money. In addition, a mortgage insurance premium is financed as part of the loan costs. Since the HECM program is self-supported by FHA, the mortgage insurance premium is assessed on all borrowers to provide loss protection for lenders. This protection makes lenders more willing to offer HECM loans to you. Also, FHA will pay you what you are owed if your lender is unable. The total cost of getting a HECM loan may vary depending on the payment option you choose and the number of years you intend to remain in the house. Since HECM loans are made by commercial lenders, you should compare costs from two or more lenders.

## **HECM in Detail**

The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program which enables you to withdraw some of the equity in your home. You choose how you want to withdraw your funds, whether in a fixed monthly amount or a line of credit or a combination of both.

You can also use a HECM to purchase a primary residence if you are able to use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

HECM counselors will discuss program eligibility requirements, financial implications and alternatives to obtaining a HECM. They will also discuss provisions for the mortgage becoming due and payable. Upon the completion of HECM counseling, you should be able to make an independent, informed decision of whether this product will meet your needs. You can search online for a HECM counselor.

You can use a reverse mortgage calculator to help you see if you qualify. If you meet the eligibility criteria, you can complete a reverse mortgage application by contacting a FHA-approved lender.

### **Borrower Requirements**

You must:

- Be 62 years of age or older
- Own the property outright or have a small mortgage balance
- Occupy the property as your principal residence
- Not be delinquent on any federal debt
- Participate in a consumer information session given by an approved HECM counselor

### **Mortgage Amount Based On**

- Age of the youngest borrower
- Current interest rate
- Lesser of appraised value or the HECM FHA mortgage limit

### **Financial Requirements**

- No income or credit qualifications are required of the borrower
- No repayment as long as the property is your principal residence
- Closing costs may be financed in the mortgage

### **Property Requirements**

The following eligible property types must meet all FHA property standards and flood requirements:

- Single family home or 1-4 unit home with one unit occupied by the borrower
- HUD-approved condominium
- Manufactured home that meets FHA requirements

### **How the Program Works**

If you are a homeowner age 62 or older and have paid off your mortgage or have only a small mortgage balance remaining, and are currently living in the home, you are eligible to participate in FHA's reverse mortgage program. The program allows you to borrow against the equity in your home. You can select from five payment plans:

- **Tenure** - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- **Term** - equal monthly payments for a fixed period of months selected.
- **Line of Credit** - unscheduled payments or in installments, at times and in an amount of your choosing until the line of credit is exhausted.
- **Modified Tenure** - combination of line of credit plus scheduled monthly payments for as long as you remain in the home.
- **Modified Term** - combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

You can change your payment options for a fee of \$20.

Unlike ordinary home equity loans, a FHA reverse mortgage HECM does not require repayment as long as the home is your principal residence. Lenders recover their principal, plus interest, when the home is sold. The remaining value of the home goes to you or your heirs. You can never owe more than your home's value.

If the sales proceeds are insufficient to pay the amount owed, FHA will pay the lender the amount of the shortfall. FHA collects an insurance premium from all borrowers to provide this coverage.

The amount you can borrow depends on your age, the current interest rate, other loan fees, and the appraised value of your home or FHA's HECM mortgage limit for your area, whichever is less. Generally, the more valuable your home is, the older you are, and the lower the interest, the more you can borrow. If there is more than one owner, the age of the youngest owner is

used to determine the amount you can borrow. For an estimate of HECM cash benefits based on your age, home value, and current interest rate, go to an online calculator.

There are no asset or income limitations in order for you to be eligible for a HECM. In addition, there is no limit on the value of homes qualifying for a HECM. The value of your home will be determined by an appraisal. However, the amount that you may borrow is derived from the lower of the appraised value or the FHA HECM mortgage limit of \$625,500. You are charged an upfront insurance premium of 2 percent of the maximum claim amount that may be borrowed plus a 0.5 percent annual premium.

### **HECM Costs**

You can pay for most of the costs of a HECM by financing them and having them paid from the proceeds of the loan. Financing the costs means that you do not have to pay for them out of your pocket. On the other hand, financing the costs reduces the net loan amount available to you.

The HECM loan includes several fees, including an origination fee, closing costs, mortgage insurance premium, interest and servicing fees.

### **Origination Fee**

You will pay an origination fee to compensate the lender for processing your HECM loan. A lender can charge a HECM origination fee up to \$2,500 if your home is valued at less than \$125,000. If your home is valued at more than \$125,000 lenders can charge 2% of the first \$200,000 of your home's value plus 1% of the amount over \$200,000. HECM origination fees are capped at \$6,000.

### **Closing Costs**

Closing costs from third parties can include an appraisal, title search and insurance, surveys, inspections, recording fees, mortgage taxes, credit checks and other fees.

### **Mortgage Insurance Premium (MIP)**

You will incur a cost for HECM insurance. You can finance the mortgage insurance premium (MIP) as part of your loan. You will be charged an upfront MIP at closing which will be 2% of the lesser of your home's value or the FHA HECM mortgage limit for your area. You will also be charged a monthly MIP that equals 0.5% of the mortgage balance.

The HECM insurance guarantees that you will receive expected loan advances and that you will not have to repay the loan for as long as you live in your home. The insurance also guarantees that, if you or your heirs sell your home to repay the loan, your total debt can never be greater than the value of your home.

### **Servicing Fee**

Lenders or their agents provide servicing throughout the life of the HECM. Servicing includes sending you account statements, disbursing loan proceeds and making certain that you keep up with loan requirements such as paying taxes and insurance. HECM lenders may charge a monthly servicing fee of no more than \$30 if the loan has an annually adjusting interest rate and \$35 if the interest rate adjusts monthly. At loan origination, HECM lenders set aside the servicing fee and deduct the fee from your available funds. Each month the monthly servicing fee is added to your loan balance.

### **Interest Rate**

HECM borrowers can choose an adjustable interest rate or a fixed rate. If you choose an adjustable interest rate, you may choose to have the interest rate adjust monthly or annually. Lenders may not adjust annually adjusted HECMs by more than 2 percentage points per year and not by more than 5 total percentage points over the life of the loan. FHA does not require interest rate caps on monthly adjusted HECMs.

### **Repaying a HECM**

A HECM loan must be repaid in full when you die or sell the home. The loan also becomes due and payable if:

- You do not pay property taxes or hazard insurance or violate other obligations.
- You permanently move to a new principal residence.
- You, or the last borrower, fail to live in the home for 12 months in a row. An example of this situation would be if you (or the last borrower) were to have a 12-month or longer stay in a nursing home.
- You allow the property to deteriorate and do not make necessary repairs.

## **Top Ten Things to Know if You're Interested in a Reverse Mortgage**

Reverse mortgages are becoming popular in America. HUD's Federal Housing Administration (FHA) created one of the first. The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program which enables you to withdraw some of the equity in your home. The HECM is a safe plan that can give older Americans greater financial security. Many seniors use it to supplement social security, meet unexpected medical expenses, make home improvements and more. You can receive free information about reverse mortgages in general by calling AARP toll free at (800) 209-8085. Since your home is probably your largest single investment, it's smart to know more about reverse mortgages, and decide if one is right for you!

### **1. What is a reverse mortgage?**

A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The equity that built up over years of home mortgage payments can be paid to you. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence. FHA's HECM provides these benefits. You can also use a HECM to purchase a primary residence if you are able to use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

### **2. Can I qualify for FHA's HECM reverse mortgage?**

To be eligible for a FHA HECM, the FHA requires that you be a homeowner 62 years of age or older, own your home outright, or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan, and you must live in the home. You are further required to receive consumer information from an approved HECM counselor prior to obtaining the loan. You can contact the Housing Counseling Clearinghouse on (800) 569-4287 for the name and telephone number of a HUD-approved counseling agency and a list of FHA-approved lenders within your area.

### **3. Can I apply if I didn't buy my present house with FHA mortgage insurance?**

Yes. It doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new FHA HECM will be FHA-insured.

#### **4. What types of homes are eligible?**

To be eligible for the FHA HECM, your home must be a single family home or a 1-4 unit home with one unit occupied by the borrower. HUD-approved condominiums and manufactured homes that meet FHA requirements are also eligible.

#### **5. What's the difference between a reverse mortgage and a bank home equity loan?**

With a traditional second mortgage, or a home equity line of credit, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The reverse mortgage is different in that it pays you, and is available regardless of your current income. The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow.

You don't make payments, because the loan is not due as long as the house is your principal residence. Like all homeowners, you still are required to pay your real estate taxes, insurance and other conventional payments like utilities. With an FHA HECM you cannot be foreclosed or forced to vacate your house because you "missed your mortgage payment."

#### **6. Can the lender take my home away if I outlive the loan?**

No. You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. You can never owe more than the value of your home at the time you or your heirs sell the home.

#### **7. Will I still have an estate that I can leave to my heirs?**

When you sell your home, you or your estate will repay the cash you received from the reverse mortgage plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs.

## **8. How much money can I get from my home?**

The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow. You can use an online calculator like the one on the AARP website to get an idea of what you may be able to borrow.

## **9. Should I use an estate planning service to find a reverse mortgage?**

FHA does NOT recommend using any service that charges a fee for referring a borrower to an FHA lender. FHA provides this information free, and HUD-approved housing counseling agencies are available for free or at very low cost, to provide information, counseling, and a free referral to a list of FHA-approved lenders. Search online or call (800) 569-4287 toll-free, for the name and location of a HUD-approved housing counseling agency near you.

## **10. How do I receive my payments?**

You have five options:

- Tenure - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- Term - equal monthly payments for a fixed period of months selected.
- Line of Credit - unscheduled payments or installments, at times and in amounts of your choosing until the line of credit is exhausted.
- Modified Tenure - combination of line of credit with monthly payments for as long as you remain in the home.
- Modified Term - combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.