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Senior Citizens Handbook: Reverse Mortgages

What Is a Reverse Mortgage?

A "reverse mortgage" is a special type of mortgage which allows a homeowner to convert a portion of the equity in the homeowner's home into cash. There are various types of reverse mortgages available today, including the United States Department of Housing and Urban Development (HUD) Federal Housing Administration (FHA) Home Equity Conversion Mortgage (HECM), and other products offered by private lenders. Unlike a traditional home equity loan or second mortgage, no repayment is required until the borrowers no longer use the home as their principal residence. The remainder of the information provided here is about the HUD Reverse Mortgage (HECM) which is a federally insured private loan. You can receive free information about reverse mortgages by calling AARP at (800) 209-8085. In addition, there are listed at the end of this section, numerous web sites and toll-free telephone numbers to obtain information about reverse mortgages in general.

Who can qualify for a HUD HECM?

HUD's Federal Housing Administration requires that the borrower be a homeowner: (a) who is 62 years of age or older; (b) who owns his or her home outright (or who has an existing mortgage balance which is low enough that it can be paid off at closing with the proceeds from the reverse mortgage); and (c) who resides in the home. Before obtaining an HECM, you are required to obtain consumer information from a HUD-approved counseling source. You can contact the Housing Counseling Clearinghouse on (800) 569-4287 to obtain the name and telephone number of a HUD-approved counseling agency and a list of FHA-approved lenders within your area. With a traditional second mortgage or home equity loan, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The HECM is different, in that it pays you and is available regardless of your current income. The amount that you can borrow

depends upon your age, the current interest rate, and the current appraised value for your home (or FHA's mortgage limit 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 that you can borrow.

What types of homes are eligible for HECM loans?

The borrower's home must be a single family dwelling or a two-to-four unit property which the borrower owns and occupies. Townhouses, detached homes, units in condominiums and some manufactured housing are eligible.

How are the proceeds of the HECM loan paid to the homeowner?

There are five options available to the homeowner:

1. Tenure-equal monthly payments as long as one borrower continues to live in and occupies the property as a principal residence;
2. Term-equal monthly payments for a fixed period of months selected by borrower;
3. Line of credit - unscheduled payments or in installments, at times and amounts of borrower's choosing, until the line of credit is exhausted;
4. Modified tenure - combination of line of credit with monthly payments as long as borrower remains in the home;
5. Modified term - combination of line of credit with monthly payments for a fixed period of months selected by the borrower.

Must the proceeds of the HECM loan be used by the homeowner only for certain specified things?

No, the homeowner may use the proceeds of the HECM for any legitimate purpose, such as to supplement Social Security or retirement benefits, maintenance of the property, payment of real estate taxes and insurance, medical bills, living expenses, etc.

Is the homeowner personally liable to repay the HECM loan?

HECM loans are non-recourse loans, that is, the homeowner is not personally liable to repay the HECM loan; liability is limited to the net sales proceeds from the property. No deficiency judgment may be taken against the homeowner or the homeowner's estate.

Does the homeowner have obligations under the HECM loan?

The borrower has continuing obligations, such as maintaining the property in good repair, keeping the property properly insured, paying real estate taxes when they are due, and not using the property for any illegal purposes.

When must the HECM be repaid?

The due date for repayment of the HECM is when one of the following occurs:

- when the last borrower dies;
- all borrowers have conveyed their title to the property;
- the property is no longer any borrower's principal residence;
- because of physical or mental illness, a borrower fails to occupy the property as his or her principal residence for a period of more than 12 consecutive months, and the property is not the principal residence of another borrower;
- an HECM loan obligation of the borrower is not performed (for example, real estate taxes are not paid, the property is not maintained in good repair, etc.)

Does the homeowner need to pay a fee to a planner or loan finder in order to obtain an HECM loan?

No, it is not necessary to pay such a fee. There have been abusive instances reported in this area, in which "loan finders" or "estate planners" have contacted homeowners and have offered to find a reverse mortgage for the homeowners for a percentage fee (such as 5% to 10% of the loan amount). This is not necessary and should not be done.

Is an HECM loan expensive?

There are costs associated with an HECM. They include FHA mortgage insurance, closing costs, interest, and loan service costs. The longer a homeowner keeps an HECM, the lower the total annual loan costs (TALC) will be, because they will be

spread over a greater number of years. On the other hand, the longer an HECM is held, the higher the amount of interest will be, because the amount of principal advanced will usually be higher.

Should the homeowner obtain counseling before obtaining an HECM?

As mentioned above, HUD requires that a homeowner obtain consumer information from a HUD approved counseling source. In addition, because of the complexity of reverse mortgages, a homeowner should consult with an experienced attorney before obtaining a reverse mortgage.

Are there web sites or toll free telephone numbers from which homeowners can obtain information about HECM loans or other reverse mortgage loans?

If you do not have access to a computer at home or work, access can be obtained at your local public library, and the library staff will gladly assist you in accessing the internet.

- HUD's web site:
https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome
- National Reverse Mortgage Lender's Association web site:
<http://www.reversemortgage.org/>
- National Reverse Mortgage Lenders Association consumer information: (866) 264-4466
- AARP consumer information: (800) 209-8085
- Call HUD (800) 225-5342

Reverse mortgage documents are complex and can be confusing. Consequently, anyone contemplating a reverse mortgage should consult and be counseled by an experienced attorney who is completely independent of the mortgage lender. It is essential that the homeowner or mortgagor understands the contract and its disadvantages, as well as its advantages, before signing.

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