## About Reverse Mortgages for seniors - Section 255 - Home Equity Conversion Mortgages (HECM)

### About the HECM Program

The HECM FHA insured reverse mortgage program could be used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. A lending institution such as a mortgage lender, bank, credit union or savings and loan association funds the loan, commonly known as HECM.

### Features

Non-Taxable "Income" (TAX FREE MONEY);

- The funds received by the borrower from a Reverse Mortgage are not really income. They are loan proceeds. Therefore it is not subject to income tax, as income would be. (With this or any other income tax or legal questions, be sure to speak to a qualified accountant or legal advisor).

Program Changes "Midstream";

- Borrower can change from a monthly income to a larger one-time cash payment, even after the loan is set up. Borrower can make multiple changes over the life of the loan, paying a small administrative fee for each change (around $50.00).

No Loan Balance "Overage";

- The property stands for the loan. Heirs, or the borrower's estate will not be liable for loan balances that exceed the property value or sales proceeds at the time the borrower leaves the property.

No Loan Pre-payment Penalty;

The Reverse Mortgage can be paid off at any time, without incurring a pre-payment penalty.

### Borrower Requirements

- Age 62 years of age or older (all borrowers on title must be at least 62 years or older and living in the home)
- Own your property
- Occupy your property as primary residence
- Participation in a consumer information session given by an approved HECM counselor
- There are no medical requirements – No medical examination or other reference to borrower's medical condition is required.

### Mortgage amount is determined by

- Dates(s) of birth of borrower(s) [Age of the youngest borrower]
- Zip code and property address
- Loan Limits for County in which property is located (Lesser of appraised value or the FHA insurance limit)
- Prevailing interest rates (The interest rate at the time of loan closing impacts how much interest will accrue during the life of the loan, so it impacts the maximum loan that can be granted to the borrower). Please Note: The loan amount is based on current interest rates. If interest rates increase in the future, the loan amount at that time may be less.

### Financial Requirements

- No income or credit qualifications are required of the borrower (even if borrower has late payments, Notice of Default Filed, or recent Bankruptcy discharge. Why? Because the Lender is not relying on the borrower making monthly mortgage payments.
- No repayment as long as the property is the primary residence
- Closing costs may be financed in the mortgage

### Property Requirements

- 1 family home or 2-4 unit property with one unit occupied by the borrower
- Condominiums or Planned Unit Developments (PUD) must be HUD-FHA approved



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## Property Requirements – Continued…

- Cooperatives that meet HUD guidelines
- Mobile Homes that meet HUD guidelines
- Property must qualify and meet certain minimum health and safety requirements (borrower may fund repairs in the mortgage)

## What are the possibilities of a Reverse Mortgage in general?

- Short-term survival – Medical needs/expenses, home maintenance needs, eliminate existing mortgage payment
- Home improvements or remodeling to suit physical limitations, home repairs
- Day-to-day living expenses, long-term health care needs, New automobile, Travel
- Prepare for future – Set aside funds for emergencies, use credit line for "financial emergencies"
- Protection against declining real estate values – What this means is that a senior may look at today's values and feel they have a lot of options, as far as selling the home for a high price, etc. As home values drop, their options decrease greatly. By taking out a Reverse Mortgage, they have already obtained a good portion of the money from their home and are less impacted as property values drop.

## The Loan Process

1. Loan Application
2. Counseling – Reverse Mortgage borrowers are required to attend a one hour counseling session with a qualified housing counselor, who cannot be affiliated with or compensated by the loan broker or the lender.
    - One hour counseling session – No cost to borrower
    - Funded by Government and by other donors
    - Borrower gets choice of counselors
    - Family advisors can, and are welcomed to attend (loan brokers are not permitted to attend)
3. Obtain a counseling certificate – when counseling is successfully completed.
4. Home appraisal is ordered (appraisal conditions resolved)
5. Loan Approval
6. Loan closing – Within the loan closing process, there are numerous additional protections afforded the borrower, such as a 3-day right to rescind the transaction after executing the loan documents and receiving the final disclosures.

## Trusts

- Loans can be made to a Trust.
- Lender and Title Company must approve the Trust.
- The borrower must sign a Trust Certification form.

## Payoffs and Estates

- Loan is paid off from proceeds of the sale of home when the borrower leaves the home.
- The home does not have to be sold, if loan is otherwise repaid (for example, if the heirs refinance the home and pay off the Reverse Mortgage).
- Loan balance exceeding value or sales proceeds is paid from the Mortgage Insurance.
- No liability to the heirs or to the estate of the borrower.

## How the Home Equity Conversion Mortgage Program Works

Homeowners 62 and older who have paid off their mortgages or have only small mortgage balances remaining, and are currently living in the home are eligible to participate in HUD's Reverse Mortgage Program. The program allows homeowners to borrow against the equity in their homes.

Homeowners can receive payments in a lump sum, on a monthly basis (for a fixed term or for as long as they live in the home), or on an occasional basis, such as a line of credit. Homeowners can select from following payment plans:

- Monthly payments – Borrower(s) can receive monthly payments (as long as at least one borrower lives and continues to occupy the property as a principal residence).
- One lump sum of cash – Borrower(s) can receive one lump sum of cash (when loan closes).
- Credit Line – Borrower(s) may use the money as needed (the unused portion of the Credit Line grows each year)
- Combination – Borrower(s) can receive part of the money in cash up-front and part in monthly income or Line of Credit.



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How the Home Equity Conversion Mortgage Program Works – Continued

Homeowners whose circumstances change can restructure their payment options for a nominal fee (as stated in the "Features" section, above)

Unlike ordinary home equity loans, a HUD Reverse Mortgage does not require repayment as long as the home is the borrower's principal residence. Lenders recover their principal, plus interest, when the home is sold. The remaining value of the home goes to the homeowner or to his or her survivors. You can never owe more than your home's value.

If the sales proceeds are insufficient to pay the amount owed, HUD (Department of Housing and Urban Development) will pay the lender the amount of the shortfall. HUD's Federal Housing Administration (FHA), which is part of HUD, collects an insurance premium from all borrowers to provide this coverage.

The size of the Reverse Mortgage loan is determined by the borrower's age, the interest rate and the home's value. The older a borrower is, the larger the percentage of the home's value that can be borrowed.

For example, based on a loan with an interest rate of approximately 9 percent, a 65-year-old senior could borrow up to 26 percent of the home's value; a 75-year-old senior could borrow up to 39 percent of the home's value; and, an 85-year-old senior could borrow up to 56 percent of the home's value. The percentages do not include closing costs because these charges can vary.

There are no asset or income limitations on borrowers receiving HUD's reverse mortgages.

There are also no limits on the value of the homes qualifying for a HUD reverse mortgage. The value of the home will be determined by an independent appraisal. However, the amount that may be borrowed is capped by the maximum FHA mortgage limit for the area, which currently varies from $172,632 to $312,895. For Alaska, Guam, Hawaii and the Virgin Islands, the FHA mortgage limits may be adjusted up to 150 percent of the ceiling depending on the area. The FHA limits usually increase each year. As a result, owners of higher-priced homes can't borrow any more than owners of homes valued at the FHA limit.

HUD's reverse mortgage program collects funds from insurance premiums charged to borrowers. Senior citizens are charged 2 percent of the home's value as an up-front payment plus a 0.5% annual premium, which is paid out on a monthly basis for the life of the loan. These amounts are usually paid by the lender and charged to the borrower's principal balance.

FHA's Reverse Mortgage insurance makes HUD's program less expensive to borrowers than the smaller Reverse Mortgage programs run by private lenders without FHA insurance.

A homeowner must receive consumer education and counseling by a HUD-FHA approved HICM counselor.

To find out if you qualify for this program, you should contact your loan representative.

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

Reverse Mortgages are becoming popular in America. The U.S. Department of Housing and Urban Development (HUD) created one of the first. HUD's Reverse Mortgage is a federally insured private loan, and it's 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. 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 a homeowner convert a portion of the equity in his or her home into cash. The equity 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. HUD's reverse mortgage provides these benefits, and it is federally-insured as well.

## 2. Can I qualify for a HUD reverse mortgage?

To be eligible for a HUD reverse mortgage, HUD's Federal Housing Administration (FHA) requires that the borrower is a homeowner, 62 years of age or older; own your home outright, or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse loan; and must live in the home. You are further required to receive consumer information from HUD-approved counseling sources prior to obtaining the loan.

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

Yes. While your property must meet HUD minimum property standards, it doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new HUD reverse mortgage will be a new FHA-insured mortgage loan.

## 4. What types of homes are eligible?

Your home must be a single-family dwelling or a two-to-four unit property that you own and occupy. Townhouses, detached homes, units in condominiums and some manufactured homes are eligible. Condominiums must be FHA-approved. It is possible for condominiums to qualify under the Spot Loan program. The home must be in reasonable condition, and must meet HUD minimum property standards. In some cases, home repairs can be made after the closing of a reverse mortgage.

## 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, 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, the lower the interest, the more you can borrow. You don't make payments, because the loan is not due as long as the home is your principal residence. Like all homeowners, you are still required to pay your real estate taxes, homeowners/fire insurance, homeowner association fees and other conventional payments such as utilities, etc. With an FHA-insured HUD Reverse Mortgage, you cannot be foreclosed on or forced to vacate your home because you "missed your mortgage payment."

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

No! Nor is the loan due. You do not need to repay the loan as long as you or one of the borrowers continues to live in the home and keeps the taxes and insurance payments current. You can never owe more than your home's value.

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

When you sell your home or no longer use it for your primary residence, 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. None of your other assets will be affected by HUD's reverse mortgage loan. This debt will never be passed along to the estate or heirs.

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

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 mortgage limits 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.



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### 9. What if I want to pay off my Reverse Mortgage?

The Reverse Mortgage can be paid off at any time, without incurring a pre-payment penalty.

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

Homeowners can select from following payment plans:

- Monthly payments – Borrower(s) can receive monthly payments (as long as at least one borrower lives and continues to occupy the property as a principal residence).
- One lump sum of cash – Borrower(s) can receive one lump sum of cash (when loan closes).
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# “Fixing to Stay” – Home Improvements for seniors

According to an AARP survey (May, 2000), the overwhelming majority of mid-life and older Americans want to remain living independently in their own homes and communities for as long as possible. The new survey found that seven in ten of those who are able to make changes to their homes have made at least one modification to make it easier for them to get around. Two thirds of those who made home modifications believe those improvements will allow them to live in their homes longer than they would have been able otherwise, most for another ten years or more. The survey is the fifth in a series of AARP senior housing studies. Based on telephone interviews of 2,000 persons of ages 45 and over, it examines the opinions and behaviors of the mid-life and older Americans regarding their current and future housing situations.

Eighty five percent of those polled said they have already made simple changes to their homes, such as placing non-skid strips in bathtubs or safety bars in showers and handrails on both side of the stairwells. The reasons most often cited by respondents for not making home improvements were the inability to make the changes themselves (37%) and not being able to afford the modifications (37%). HUD's HECM program (Reverse Mortgage) can turn the built-up wealth in your home to cash without having to move or repay a loan each month. Financing needed home repairs or improvements is one of the many good uses for funds received from a HECM.

The top 10 home improvements reported were:

1) Levered doorknobs
2) Grab bars in bathrooms
3) Levered faucets in kitchen sinks
4) Handrails on both sides of stairwells and on front and rear steps
5) Grab bars in showers; Removal of any door threshold
6) Movable shower heads (for those who must sit)
7) Portable shower seats
8) A bathroom with a bath/shower as well a bedroom on the first floor
9) Widened doors to accommodate wheelchairs
10) Ramps for those using walkers and wheelchairs

Seniors spend billions of dollars each year on home improvements. If you are planning on making repairs or improvements to your home it is important to know how to pick the best contractor, and choose the financing that's right for you. AARP has developed extensive resources on home modifications. To obtain this information visit AARP at the following website: http://www.aarp.org/