

Common Questions on Home Equity Conversion Mortgage

When a reverse mortgage is being explored as an option to pay for care at home, it is beneficial to better understand how these types of non-traditional mortgages work.

1 What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets the owner convert a portion of the equity in the home into cash. The equity that is built up over years of home mortgage payments can be paid to the owner. 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.

2 Who qualifies for FHA's Home Equity Conversion Mortgage (HECM) reverse mortgage?

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

3 Can a person apply if he didn't buy his present house with FHA mortgage insurance?

Yes. That doesn't matter. The new FHA HECM will be FHA-insured.

4 What types of homes are eligible?

To be eligible for the FHA HECM, the 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?

A reverse mortgage is different from a home equity loan in that it pays the borrower, and is available regardless of current income. The amount available to borrow depends on the borrower's age, the current interest rate, and the appraised value of the home or FHA's mortgage limits for the area, whichever is less.

Generally, the more valuable the home is, the older the borrower, the lower the interest, and the higher the amount available to borrow.

With HECM, payments are not made because the loan is not due as long as the house is the principal residence. Like all homeowners, borrowers are required to pay real estate taxes, insurance, and other conventional payments like utilities.

With an FHA HECM, borrowers cannot be foreclosed or forced to vacate the house because the mortgage payment was missed.

⑥ **Can the lender take the home away if the owner outlives the loan?**

No. The loan does not need to be repaid as long as one of the borrowers continues to live in the house and keeps the taxes and insurance current. The owner can never owe more than the value of the home at the time the heirs sell the home.

⑦ **Will there still be an estate to leave the heirs?**

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

⑧ **How much money can a homeowner get for his or her home?**

As previously stated, the amount available to borrow depends on the homeowner's age, the current interest rate, and the appraised value of the home or FHA's mortgage limits for the area, whichever is less. Generally, the more valuable the home is, the older the homeowner is, the lower the interest, the higher the amount available to borrow.

An online calculator like the one on the AARP Web site rmc.ibisreverse.com/rmc_pages/rmc_aarp/aarp_index.aspx can be used to get an idea of what may be available to borrow.

⑨ **Should an estate planning service be used 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 at www.hud.gov/offices/hsg/sfh/hecm/hecmelist.cfm or call (800) 569-4287 toll-free for the name and location of a HUD-approved housing counseling agency.

⑩ **How are payments received?**

There are 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 the homeowner's choosing until the line of credit is exhausted.
- **Modified Tenure** – combination of line of credit with monthly payments for as long as the homeowner remains in the home.
- **Modified Term** – combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

Source: The U.S. Department of Housing and Urban Development (HUD) Federal Housing Administration (FHA)