



# An Introduction to Reverse Mortgages



# The Basics

- All borrowers must be 62 and on the deed  
(some exceptions such as life estates and trusts)
- HECMs are federally insured
- Primary residences
- Owner Occupied
- Subject to 203b county limit
- All borrowers must receive counseling
- No income or credit qualifications

# Qualifying for a Reverse

- All borrowers must be 62 years of age or older.
- Citizenship of the U.S. is not required for eligibility
- Non-U.S. citizens with no lawful residency status in the U.S. are not eligible.

# Reverse Mortgage Terms

- **Expected Rate** – The rate used in determining the Principal Limit (HECM's only).
- **Forward** – Regular mortgages
- **HECM** – Home Equity Conversion Mortgage. HECMs are insured by HUD.
- **Initial Rate** – Also known as Note Rate or Applied rate, the rate charged on the loan balance.
- **Max Claim** – The lesser of the county 203b limit or the property value. Single family limit apply to all property types.

# Reverse Mortgage Terms

- **MIP** (HECM's only)– Guarantees that you will receive the promised loan advances and not have to repay the loan as long as you live in your home. 2% of the max claim paid at Closing and .5% monthly.
- **Non-recourse** - The borrower or their estate will not have to repay more than the property's value at time of repayment.
- **Principal Limit** – Determined by borrower's age, max claim, loan type, and expected rate.
- **Servicing Set-Aside** - Amount is subtracted from the current Principal Limit and reduces the amount of borrowing capacity to the borrower(s). It is NOT a closing cost. Rather, it is an estimate of how much the monthly servicing fees will amount to over the life of the loan.
- **UPB** – the amount paid out at Closing, consisting of closing costs, lien advances, and other draws paid at closing.

# Property Eligibility

- **Eligible Property**

- Single family
- 2-4 units, as long as one unit is the borrower's primary residence (not Home Keeper)
- Coops (NY only for Reverse Select product line only)
- Condominiums and PUD's
- Manufactured Homes (Not Home Keeper)
- Second homes (case-by-case basis – Reverse Select only)

- **Non-Eligible Properties**

- Investment properties
- Vacation homes
- Properties with illegal accessories units or mixed use properties where more than 25% is used for non-residential purposes
- Manufactured homes which are legally recorded as a condominium or if property is not taxed as real estate
- Two parcels on one deed

# Payment Options

- **Lump Sum** - Provides the ability for the borrower to draw **all** the available funds at Closing.
- **Line of Credit** - Provides for payments to be made to the borrower whenever the borrower requests a disbursement and in any amount as long as the remaining Principal Limit has not been reached (Not on PA Fixed)
- **Tenure** - Provides the borrower equal monthly payments for as long as the borrower occupies the property as his or her primary residence (HECM, Reverse Select, and Home Keeper)
- **Modified Tenure** - Combines the tenure plan above with a line of credit (Not available on Reverse Select)
- **Term**- Provides for equal monthly payments to the borrower over a fixed period of time (HECM only)
- **Modified Term** - Same characteristics as the Term plan above adding a line of credit feature (HECM only)

# Products

- HECM Monthly- Rate is adjusted each month, offered with a variety of margins, usually 1.0, 1.25, 1.5, 1.75, and 2%. Usually offers the highest Principal Limit
- HECM Annual – Rate is adjusted yearly, only 1 margin (3.1%). Offers a lower Principal Limit. Has the lowest lifetime cap. Not a popular product
- HECM Fixed – One rate for the life of the loan, usually taken as a full draw. Most attractive for borrowers who are rate sensitive or those paying off a large first mortgage.
- Home Keeper – FNMA product, offers higher max claim and more liberal condo guidelines, but lower LTVs. Not a popular option unless the property value is very high while in a low 203(b) limit county.

# Application Process

- Applications most often done face-to-face.
- Borrowers need photo id, proof of identity, tax bills, copies of deeds, death certs (if applicable), existing lien information, homeowners insurance, etc.
- Typically no funds are collected upfront
- Counseling must be performed prior to loan processing (for HECM's and HomeKeepers only).

# Processing

- When a borrower signed counseling cert is received, the file may start being processed.
- Services needed include, FHA Case #, LDP, GSA, Postal Lookup, Credit Report, Flood, Appraisal, and Title
- Appraisal must be logged in FHA Connection when received.

# Underwriting

- Emphasis on appraisal (comps, supported value, appraiser comments)
- Verify docs are signed and dated correctly
- Assets to close (if needed)
- Repairs
- Adequate homeowners and flood insurance

# Closing

- Clear to Close
- Order Payoffs
- Schedule closing with settlement agent and borrower
- Prepare HUD1 for settlement agent to approve
- Prepare final HUD1 and additional Closing Docs.

# Closing Costs

- Closing costs are financed into the loan and include, but are not limited to, the appraisal, title insurance, FHA mortgage insurance premium (HECM), origination fee, doc prep fee, recording fees and escrow/settlement fees

# Servicing

- After Closing loans are “boarded” by the Servicer.
- Monthly statements
- Modify payment plans
- Requests funds
- Payoff information