## What is a Reverse Mortgage?

A reverse mortgage, or HECM, is a government-insured loan program which allows homeowners 62 and older to access a portion of their homes equity.

## What Does HECM Stand For?

HECM stands for Home Equity Conversion Mortgage and is the only type of reverse mortgage insured by the Federal Housing Administration.

## Who is Eligible for a Reverse Mortgage?

Homeowners at least 62 years of age with equity in their homes who want to eliminate existing mortgage payments or receive additional cash.

## Do Both Spouses Need to be 62?

No. Only one borrower needs to be 62, but loan proceeds are based on the younger homeowner's age.

## Does the Loan Limit Cash-Out Use?

No, you can use the money for monthly bills, medical expenses, home renovations—anything you want!

## I Still Have a Mortgage. Can I Take Out a Reverse Mortgage?

Absolutely—the existing mortgage is paid at closing, and then you receive any remaining cash. You no longer have monthly mortgage payments, although as the homeowner you're responsible for insurance, property taxes, and maintaining the property.

## Do Some Homes Not Qualify for a Reverse Mortgage?

Yes. Vacation homes, secondary residences, and rental properties of more than four units do not qualify for a reverse mortgage.

## What Upfront Costs Come with the Loan?

Most costs are financed as part of the loan. Commonly borrowers will pay the counseling fee of $125. The appraisal fee maybe required depending on mortgage balance and value of home. *Appraisal will not be required upfront if has 60% of equity.

## How is the Loan Repaid?

When the loan comes due when the last surviving spouse moves out of the home or passes away. The heirs will have a total of 12 months to make the decision if they want to keep the home and refinance it into their name or put the home up for sale.

## Can I Owe More than the House is Worth?

No, a reverse mortgage is a non-recourse loan, meaning the original owner never owes more than the home is worth – this is why all reverse mortgages are federally-insured.

## When does the Loan Come Due?

The loan is due and payable when the last remaining borrower sells the property, permanently leaves the home, or passes away.

## Eligibility For a Reverse Mortgage

To be eligible for a HECM reverse mortgage, the Federal Housing Administration (FHA) requires that all homeowners be at least age 62. The home must be owned free and clear or all existing liens must be satisfied with proceeds from the reverse mortgage. If there is an existing mortgage balance, it can be paid off completely with the proceeds of the reverse mortgage loan at closing. Generally there are no credit score requirements for a reverse mortgage.

## Outliving the Reverse Mortgage

Generally speaking, a reverse mortgage loan cannot be outlived and will not become due, as long as at least one homeowner lives in the home as their primary residence, continues to pay required property taxes and homeowners insurance and maintains the home in accordance with FHA requirements.

## Estate Inheritance

In the event of death, whomever inherits the home - family or heirs - will have 12 months to make the decision to refinance the balance or put the home up for sale.

If the home is sold for $200,000 and the mortgage balance is $75,000; then the heirs would receive the $125,000.

If the sale of the home is not enough to pay off the reverse mortgage, the lender is reimbursed from the FHA Mortgage Insurance. No other assets are affected by a reverse mortgage. For example, investments, second homes, cars, and other valuable possessions cannot be taken from the estate to pay off the reverse mortgage.

## Distribution of Money From a Reverse Mortgage

There are several ways to receive the proceeds from a reverse mortgage.

- Lump sum – a lump sum of cash at closing.
- Tenure – equal monthly payments as long as the homeowner lives in the home.
- Term – equal monthly payments for a fixed number of years.
- Line of Credit – draw any amount at any time until the line of credit is exhausted.
- Any combination of those listed above

## Difference between a Reverse Mortgage and a Home Equity Loan

Generally a home equity loan, a second mortgage, or a home equity line of credit (HELOC) have strict requirements for income and credit scores. Also, with other traditional loans the homeowner must still make monthly payments to repay the loans. A reverse mortgage generally has no credit score requirements and instead of *making* monthly mortgage payments, the homeowner receives cash from the lender.

With a reverse mortgage the amount that can be borrowed is determined by an FHA formula that considers age, the current interest rate, and the appraised value of the home. Typically, the more valuable the home, the higher the loan amount will be, subject to lending limits.

## Home Eligibility

Your home must be a single-family residence in a 1- to 4-unit dwelling, or a FHA-approved condominium.

## You Own Your Home

You will still own your home and you can stay in it for as long as you wish, provided you pay your taxes, insurance and maintain the home according to FHA requirements.

## Home Owners Insurance and Property Taxes

Since you still own your home with a reverse mortgage loan you're responsible for the general maintenance and upkeep as well as for paying all ongoing property taxes and insurance. You can often pay for these expenses with funds from your reverse mortgage loan.

## Is Tax Free

No, the money you receive is not considered income, and therefore it is tax-free.

## Social Security Benefits

HECM reverse mortgage loan payments typically do not affect your Social Security or Medicare benefits. However, regulations vary for the Federal Supplemental Security Income program and for state-administered programs such as Medicaid, Aid for Dependent Children (AFDC), and food stamps. We suggest that you consult a benefits specialist at your local Area Agency on Aging or the local offices for these programs to determine how HECM payments may affect your particular situation.

## No Prepayment Penalties

No. You can pay back the loan at any time without the worry of being penalized.