

## **FHA REVERSE MORTGAGES**

A reverse mortgage is a type of mortgage loan that allows a homeowner to get cash from the equity of their home while they live in the property. Instead of making a monthly payment to the lender, the lender makes a payment to the homeowner. The loan gets paid back (with interest) when the borrower dies or moves out of the property. In the event that the homeowners dies, their estate will repay the lender with proceeds of sale. Any remaining equity in the property belongs to the homeowner's heirs. The repayment amount cannot exceed the value of the home at the time payment is due (i.e. death).

### **ELIGIBILITY**

- ◆ Homeowner has to be at least 62 years of age. If there is more than one borrower/homeowner then FHA, the youngest would have to be at least 62 years of age. Per FHA HECM's (Home Equity Conversion Mortgages), the age of the youngest borrower is taken as the determinative age when owned by a couple. HECM's are the only reverse mortgage insured by the federal government.
- ◆ The property must be a single family residence in a 1 to 4 unit dwelling, or part of a PUD, or a HUD-approved Condo, and be the primary residence.
- ◆ The amount of money a homeowner can get is not based on the value of the property, but is based on FHA's limits (varies from county to county).
- ◆ HECM maximum loan amount in Monmouth and Ocean Counties is \$290,319.00.
- ◆ The interest rate is always adjustable (include Alta 6).
- ◆ A reverse mortgage is based on equity in the home, there can be another mortgage on the property.

### **FEES**

- ◆ In addition to the standard closing costs associated with a mortgage loan, there are always the following fees:
- ◆ Minimum HECM origination fee is \$2000.
- ◆ Maximum HECM origination fee is 2% of the value of the property or lending limit, whichever is less.
- ◆ HECM's include MIP of 2%. (Insures loan if lender goes bankrupt).
- ◆ Monies are tax-free (IRS considers them to be loans).
- ◆ There is always an appraisal fee – the mortgage amount cannot exceed 70% of the appraised value.

## **DEFAULT CLAUSES**

◆ All reverse mortgages become due and payable when the last surviving borrower dies, sells the property, or permanently moves out of the property. Or for:

- ◆ Failure to pay property taxes.
- ◆ Failure to maintain the property.
- ◆ Failure to keep the property insured.
- ◆ Declaration of bankruptcy.
- ◆ Donation or abandonment of property.
- ◆ Fraud or misrepresentation.
- ◆ Eminent domain or condemnation proceedings.

## **ACCELERATION CLAUSES**

◆ A reverse mortgage may include acceleration clauses that make it due and payable, such as:

- ◆ Renting out all or part of the property.
- ◆ Adding a new owner to title.
- ◆ Change in zoning classification.
- ◆ Taking out additional/new debt on the property.

## **PAYMENTS**

- ◆ There is a wide array of cash-advance choices. Borrower can take the loan as:
- ◆ A single lump sum of cash.
- ◆ A “credit-line” account , deciding when and how much to take, as needed.
- ◆ A fixed monthly cash advance for a specific period (term plan), or for as long as borrower lives in the home (tenure plan).