DEPARTMENT OF HUD REVERSE MORTGAGE INFORMATION

Homeowners 62 and older who have paid off their mortgages or have only small mortgage balances remaining 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 as a line of credit. Homeowners whose circumstances change can restructure their payment options.

Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the borrower lives in the home. 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. If the sales proceeds are insufficient to pay the amount owed, HUD will pay the lender the amount of the shortfall. The Federal Housing Administration, which is part of HUD, collects an insurance premium from all borrowers to provide this coverage.

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

For example, based on a loan at today's interest rates of approximately 9 percent, a 65-year-old could borrow up to 26 percent of the home's value, a 75-year-old could borrow up to 39 percent of the home's value, and an 85-year-old could borrow up to 56 percent of the home's value.

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

There are also no limits on the value of homes qualifying for a HUD reverse mortgage. However, the amount that may be borrowed is capped by the maximum FHA mortgage limit for the area, which varies from $81,548 to $160,950, depending on local housing costs. 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 one-half percent on the loan balance each year. 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.

About the HECM Program:

The HECM FHA insured reverse mortgage can 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. The loan, commonly known as HECM, is funded by a lending institution such as a mortgage lender, bank, credit union or savings and loan association.

Borrower Requirements:

- Age 62 years of age or older
- Own your property
- Occupy your property as primary residence
- Participation in a consumer information session given by an approved **HECM counselor**

Mortgage Amount Based On:

- Age of the youngest borrower
- Current interest rate
- Lesser of appraised value or the FHA insurance limit

Financial Requirements:

- No income or credit qualifications are required of the borrower
- 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 1-4 unit home with one unit occupied by the borrower
- Condominiums or Planned Unit Developments (PUD) must be HUD-FHA approved
- Cooperatives that meet HUD guidelines
- Mobile Homes that meet HUD guidelines
- Meets minimum property standards (borrower may fund repairs in the mortgage)

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 select from five payment plans:

- 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 in installments, at times and in amount of borrower's choosing until the line of credit is exhausted.
- Modified Tenure - combination of line of credit with monthly payments for as long as the borrower remains in the home.
- Modified Term - combination of line of credit with monthly payments for a fixed period of months selected by the borrower.

Homeowners whose circumstances change can restructure their payment options for a nominal fee of $20.

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 will pay the lender the amount of the shortfall. HUD's Federal Housing Administration (FHA) collects an insurance premium from all borrowers to provide this coverage.

The amount a homeowner can borrow depends on their age, the current interest rate, other loan fees and the appraised value of their home or FHA 's mortgage limits for their area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow.

For example, based on a loan with an interest rates of approximately 9 percent, and a home qualifying for $100,000, a 65-year-old could borrow up to 22 percent of the home's value; a 75-year-old could borrow up to 41 percent of the home's value; and, an 85-year-old could borrow up to 58 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 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 varies from $132,000 to $239,250. 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 .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.
A homeowner must receive consumer education and counseling by a HUD-FHA approved **HECM counselor**. You can also use this handy **Reverse Mortgage Calculator** to help you see if you qualify.

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. You can receive free information about reverse mortgages by calling AARP at: 1-800-209-8085, toll-free. 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. You can contact the Housing Counseling Clearinghouse on 1-800-569-4287 to obtain the name and telephone number of a HUD-approved counseling agency and a list of FHA approved lenders within your area.

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 house is your principal residence. Like all homeowners, you still are required to pay your real estate taxes and other conventional payments like utilities, but with an FHA-insured HUD Reverse Mortgage, you cannot be foreclosed or forced to vacate your house 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 house and keeps the taxes and insurance 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, the lower the interest, the more you can borrow.

9. Should I use an estate planning service to find a reverse mortgage?

I've been contacted by a firm that will give me the name of a lender for a "small percentage" of the loan? HUD does NOT recommend using an estate planning service, or any service that charges a fee just for referring a borrower to a lender! HUD provides this information without cost, and HUD-approved housing counseling agencies are available for free, or at minimal cost, to provide information, counseling, and free referral to a list of HUD-approved lenders. Before you agree to pay a fee for a simple referral, call 1-800-569-4287, toll-free, for the name and location of a HUD-approved housing counseling agency near you.

10. How do I receive my payments?

You have 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 in installments, at times and in amounts of borrower's choosing until the line of credit is exhausted.
- Modified Tenure - combination of line of credit with monthly payments for as long as the borrower remains in the home.
- Modified Term - combination of line of credit with monthly payments for a fixed period of months selected by the borrower.