

Turn the equity in your home into an income you  
can't outlive

# What Is a Reverse Mortgage?

A reverse mortgage is a loan designed for senior homeowners age 62 or older, that allows them to convert some of the **equity** in their home into **cash**.

# False Beliefs:

- **“The lender takes the house”**
  - Homeowner retains full ownership & occupancy
- **“I can be thrown out of my home”**
  - Homeowner can stay in home until loan maturity event occurs
- **“I can owe more than my home is worth”**
  - Homeowner can never owe more than value of home
- **“My heirs will be against it”**
  - Experience has shown that many heirs are in favor of a reverse mortgage

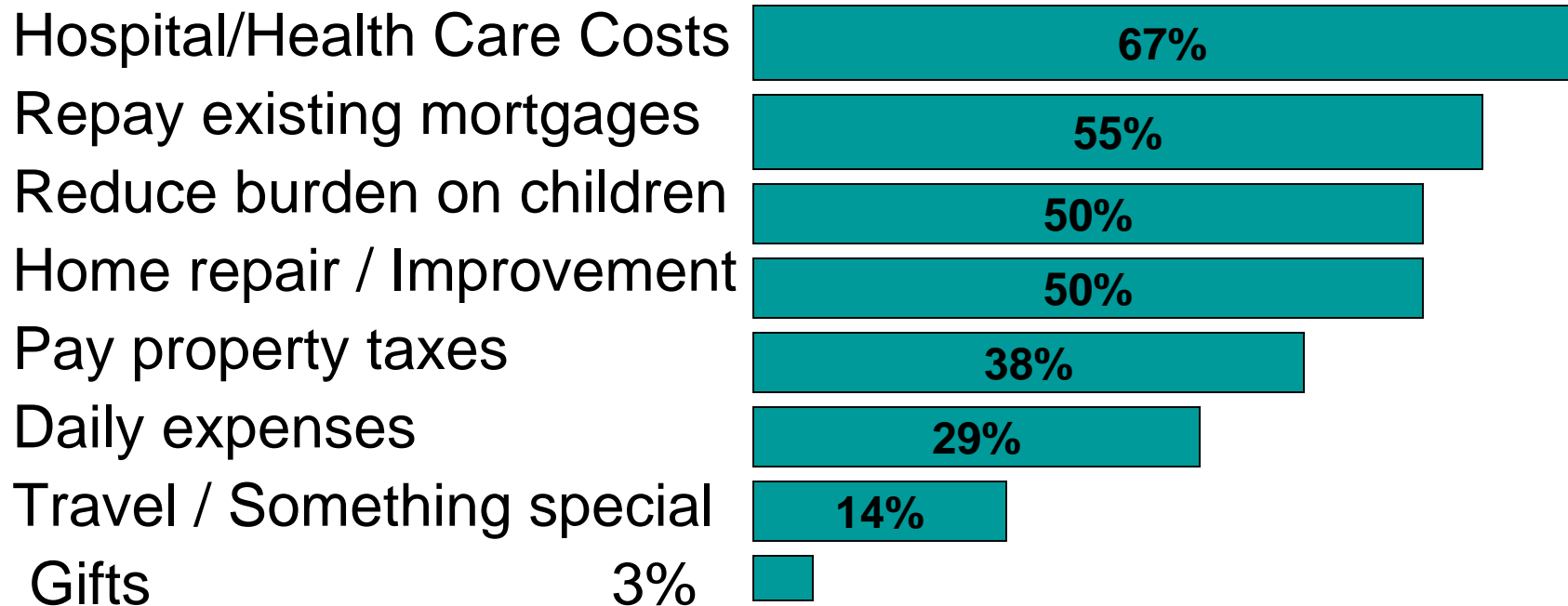
# False Beliefs (cont'd)

- “I can’t take a reverse mortgage, I already have a conventional mortgage on my home”
  - Proceeds from the Reverse Mortgage can pay off existing mortgage/liens thus saving the amount of your monthly payment
- “I can’t take a reverse mortgage, the title is not in my name”
  - Life Use provisions are acceptable

# How Is A Reverse Mortgage Different From A Conventional Loan?

- **No** income or credit qualifications
- **No** monthly mortgage payments
- **No** repayment required until:
  - Borrower(s) move out
  - Borrower(s) sell the property
  - Borrower(s) pass away

# Uses For (HECM) Home Equity Conversion Mortgages



# **Up-Front & Financed Costs:**

- With the exception of an appraisal fee (\$350.00), all closing costs are financed as part of the transaction.
- HUD insurance – 2% of appraised value or county's lending limit, whichever is lower.
- Lender origination fee

## **Costs** (cont'd)

- Inspection fees, such as termite (required in all cases), and water tests, when applicable.
- Legal fees: representation, title insurance and title search
- Document preparation fee, courier fee, credit report, flood determination and recording fees.

# How safe is the FHA Reverse Mortgage?

- FHA administers the HECM program and guarantees that borrowers receive their requested loan advances if the lender defaults
- You or your heirs will never owe more than your house is worth

# How a Reverse Mortgage Works

- Proceed amounts are calculated by:
  - Appraised value of home or county's lending limit, whichever is less
  - The age of the youngest borrower
  - Current interest rate
- **NO** restrictions on how you use the funds
- Proceeds from a Reverse Mortgage are non-taxable

# Payment Plan

- **Lump Sum or Initial Draw** – often used for debt repayment, tax liens or home repairs
- **Monthly Payments** – can be set up for a specific term or for life (which is referred to as tenure)
- **Line of Credit** – Most popular option. Borrowers draw down on funds as they need them. Line grows at the note rate + .50%

# Homeowner's Responsibility

- Keep property taxes current. Tax deferrals are not permitted
- Maintain homeowners insurance
- Maintain property in good condition

# Miscellaneous Information

- Borrowers and/or Powers of Attorney MUST attend one free counseling session by a HUD-approved housing counselor. (attend in person or over the phone)
- Repairs:
  - Any repair less than \$500.00 must be completed prior to closing. Re-inspection required
  - Repairs in excess of \$500.00 require estimates from licensed contractors prior to loan approval (escrow set up for 150% of repair estimate)

# Reverse Mortgage vs. Home Equity Loan

## Reverse Mortgage

1. No income criteria to qualify
2. No monthly payments
3. Reduces monthly debt
4. Credit history is not reviewed
5. No balloon payment
6. No risk of foreclosure
7. Substantial closing costs, financed into loan

## Home Equity Loan

1. Income criteria to qualify
2. Monthly payments
3. Increases monthly debt
4. Credit history is reviewed
5. Balloon payment is typical
6. Potential for foreclosure
7. Little or no closing costs

# Home Equity Conversion Mortgage (HECM) Consumer Fact Sheet

To provide additional housing finance options for homeowners age 62 or older, the US Department of Housing and Urban Development (HUD) provides reverse mortgages under the Home Equity Conversion Mortgage (HECM) program. These mortgages are available from HUD-approved lending institutions and are insured under the government's Federal Housing Administration (FHA) insurance program. Fannie Mae strongly supports the HECM program and provides funding for reverse mortgages. To help you learn more, we have provided the following answers to some of the most commonly asked questions about the program and Fannie Mae's participation in it.

## **Q: What is a HECM?**

**A:** A HECM is a special type of mortgage that enables homeowners age 62 or older to tap the equity in their homes. It can provide the maximum amount of flexibility to address your particular financial needs — whether it is a lump sum to pay an unexpected hospital bill or a stream of regular payments to supplement your monthly income. Unlike traditional home equity loans, no repayment of the HECM loan is required until you no longer occupy the home as your principal residence. At that time, the lender, with HUD's permission, will declare the mortgage due and payable. With a HECM, you borrow against the value of your home, and receive loan proceeds according to the payment plan that you select. These plans are described on the following pages. As a borrower, you are permitted to change payment plans at any time after origination. You may change payment plans as many times as you wish. When you sell your home or vacate it for other reasons, the loan balance, which includes the total amount you borrowed plus accrued interest and mortgage insurance premiums, is due and payable, usually from the proceeds from the sale of your home. Any proceeds in excess of the amount owed the lender belong to you or to your estate.

## **Q: Who is eligible for a HECM?**

**A:** You, and any co-borrowers, must be at least 62 years old and either own your home free and clear or have a outstanding mortgage balance that can be paid off at loan closing. The home must be your principal residence. Your home must be a single-family or two- to four-unit dwelling. Units in condominiums or Planned Unit Developments (PUDs) may be eligible if they are in FHA-approved developments. You also must agree to accept mortgage counseling from a HUD-approved counseling agency. Family members also are strongly encouraged to attend these counseling sessions.

## **Q: What are the minimum and maximum amounts that I can borrow?**

**A:** The maximum amount you can borrow is based on a HUD formula that factors in the age of the youngest borrower, the interest rate, and the Maximum Claim Amount. The Maximum Claim Amount is the lesser of the appraised value of your house or the maximum principal amount for a one-family residence that can be insured by FHA in your area. The maximum mortgage amount insured by FHA varies by geographic area and changes frequently. Please check with your lender for the FHA maximum mortgage amount for your area, or visit HUD's website at [www.hud.gov](http://www.hud.gov).

**Q: What types of payment plans are available with the HECM loan?**

**A:** In most states, a borrower with a HECM may choose among five payment plans: term, tenure, modified term, modified tenure, and a line of credit. You may change payment plans at any time and as often as you like for a small fee.

- 1) *Term option:* You will receive equal monthly payments for a fixed period of time selected by you.
- 2) *Tenure option:* You will receive equal monthly payments for as long as you occupy your home as a principal residence.
- 3) *Line of Credit option:* You may draw up to a maximum amount of cash at times and in amounts of your choosing, as long as you occupy your home as a principal residence. (Option not available in Texas.)
- 4) *Modified Tenure Plan:* Allows you to set aside a portion of loan proceeds as a line of credit and receive the rest in the form of equal monthly payments as long as you occupy your home as a principal residence.
- 5) *Modified Term Plan:* Allows you to set aside a portion of loan proceeds as a line of credit and receive the balance as equal monthly payments for a fixed time period as specified by you.

If you select either of the term plans, you can remain in your home after the end of the loan term without starting repayment. The same is true if you have withdrawn the maximum amount under a line of credit. Under the tenure payment plan, you will continue to receive monthly payments and need not repay your loan as long as you continue to use your home as your principal residence. Remember that repayment of a HECM does not begin until you no longer occupy your home as your principal residence.

**Q: Will HECM payments affect my Social Security, Medicare, Supplemental Security Income (SSI), or Medicaid benefits?**

**A:** HECM payments do not affect your Social Security or Medicare benefits because those benefits are not based on the assets of the recipient. However, in the federal Supplemental Security Income program, beneficiaries must keep their liquid resources under certain limits. If you do not spend HECM advances in the month received, then such funds are considered part of your liquid resources and may adversely affect your eligibility for SSI. Regulations vary for state-administered programs such as Medicaid, Aid for Dependent Children (AFDC), and food stamps. Therefore, 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.

**Q: Will I have to pay any fees to obtain a HECM?**

**A:** Yes, you will have to pay an origination fee, other closing costs, and a mortgage insurance premium, which is divided into two parts: an up front premium of 2 percent of the Maximum Claim Amount, and an annual, ongoing fee of 1/2 percent on your mortgage balance. You may be able to finance the origination fee, other closing costs, and the up front 2 percent mortgage insurance premium - that is, these items may be included in your loan balance so that you do not have to pay for them in cash. In addition to the yearly insurance premium, a servicing fee is charged to your loan balance each month. The lender charges this fee to administer your loan. HECMs are different from many loans in that some of the fees are charged up front rather than added to the interest rate.

**Q: Can I be forced to sell or vacate my home if the money I owe on the loan exceeds the value of my home?**

**A:** No, not as long as you continue to occupy the property as a principal residence and continue to make timely homeowner's insurance and property tax payments. You cannot be forced to sell or vacate the property, even if your loan balance, the total of the mortgage payments to you plus interest and mortgage insurance premiums over the life of the loan, exceeds the value of the property. FHA insurance covers any further financial obligation to the lender.

**Q: Will my heirs owe anything to the mortgage lender if I die?**

**A:** Upon your death, the loan balance, consisting of payments made to you or on your behalf plus accrued interest, becomes due and payable. Your heirs may repay the loan balance by selling the home or by paying off the HECM loan so that they may keep the home. If the loan balance exceeds the value of your property, your heirs will owe no more than the value of the property. FHA insurance will cover any balance due the lender. No additional financial claims may be made against your heirs or estate.

**Q: If my home appreciates in value during the mortgage term, who will be entitled to that money?**

**A:** With a HECM you are legally required to pay back to the lender only the outstanding balance. Any money remaining after the mortgage is paid goes to you or, upon your death, to your heirs.

**Q: What if I decide to sell my home?**

**A:** If you choose to sell your home, the outstanding loan balance becomes due and payable to the mortgage lender. You can pay the loan balance with proceeds from the sale of your home, and you or your estate will receive any proceeds exceeding the loan balance.

**Q: Can I sell my home to my children and continue to live in it?**

**A:** If you sell your home to your children or any other individual, the HECM will be due and payable at settlement. After the loan is repaid, any arrangement for your continued occupancy of the property must be made with the new owners.

**Q: What are some of my responsibilities as a homeowner with a reverse mortgage?**

**A:** To keep your real estate taxes and homeowners insurance current. And to properly maintain your home so that it's value does not diminish.

**Q: Where can I apply for a HECM?**

**A:** Any HUD-approved lender can participate in the HECM program. A list of HECM lenders in your area is available by calling Fannie Mae at 1-800-7FANNIE.

**About Fannie Mae:**

Fannie Mae provides this information so you can learn more about your home finance options. Fannie Mae is a privately managed, stockholder-owned company. It has been chartered by Congress to fulfill the public mission of providing low-cost mortgage funds to Americans with low, moderate, or middle incomes. Fannie Mae does not lend money to consumers, but buys mortgages from a national network of about 3,000 approved lenders who do originate mortgage loans. By selling their loans to Fannie Mae, or pooling them to issue Mortgage-Backed Securities, lenders replenish their supply of capital so they can make more mortgage loans to American home buyers. 3900 Wisconsin Avenue NW, Washington, DC 20016-2892.

**For More information contact: Flynt Lincoln, CAPS, CSA Webster Bank (413) 237-4653 or (860) 749-1390**

October 20, 2008

**MORTGAGEE LETTER 2008-33**

**TO: ALL APPROVED MORTGAGEES  
ALL HUD-APPROVED HOUSING COUNSELING AGENCIES**

**SUBJECT: Home Equity Conversion Mortgage (HECM) for Purchase Program**

The Housing and Economic Recovery Act of 2008 (HERA) provides HECM mortgagors with the opportunity to purchase a new principal residence with HECM loan proceeds. Section 2122(a)(9) of HERA amends section 255 of the National Housing Act to authorize the Department of Housing and Urban Development (HUD) to insure HECMs used for the purchase of a 1- to 4-family dwelling unit. Accordingly, eligible mortgagors now have the opportunity to purchase a principal residence with HECM loan proceeds. HECM for purchase transactions, for which the FHA case number is assigned on or after January 1, 2009, must satisfy existing program requirements and the provisions of this Mortgagee Letter.

The Federal Housing Administration (FHA) defines “HECM for Purchase” as a real estate purchase where title to the property is transferred to the HECM mortgagor, which the mortgagor will occupy as a principal residence, and, at the time of closing, the HECM first and second liens will be the only liens against the property. HECM mortgagors must occupy the property within 60 days from the date of closing. Lenders are required to ensure all outstanding or unpaid obligations incurred by the prospective mortgagor, in connection with the HECM transaction, are satisfied at closing.

Eligible Property Types

Only properties where construction is completed, as defined in Mortgagee Letter 2007-06, are eligible for FHA insurance under the HECM for Purchase program. Loan proceeds may be used to satisfy outstanding payment obligations associated with a land contract, contract for deed or other similar purchasing arrangements that will ensure the property, which will be used as collateral for the HECM, meets FHA’s title requirements. Those requirements, as provided in section 255(b)(4) of the National Housing Act and implemented in the HECM regulations at 24 CFR 206.45, provide, in part, that the HECM must be on real estate held in fee simple, or on a leasehold under a lease for not less than 99 years which is renewable, or under a lease having a remaining period of not less than 50 years beyond the date of the 100<sup>th</sup> birthday of the youngest mortgagor.

## Ineligible Property Types

The following property types are ineligible for FHA insurance under the HECM for Purchase program:

- Cooperative units;
- Newly constructed principal residence where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority;
- Boarding houses;
- Bed and breakfast establishments;
- Existing manufactured homes built before June 15, 1976; and
- Existing manufactured homes built after June 15, 1976 that fail to conform to the Manufactured Home Construction Safety Standards, as evidenced by affixed certification labels (e.g. data plate and HUD certification label) and/or lack a permanent foundation as required in HUD's Permanent Foundations for Manufactured Housing Guide.

## Property Flipping

Prospective mortgagors should be alert to efforts to coerce them into obtaining a reverse mortgage as part of a purchase contractual obligation, or purchasing a distressed home in need of substantial repairs but being sold at or above market rate.

As such, HECM lenders must take steps to ensure that: a) only current owners of record may sell properties that will be financed using FHA-insured mortgages; b) any resale of a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing; and c) for resales that occur between 91 and 180 days where the new sales price exceeds 100% of the previous sales price, FHA will require additional documentation validating the property's value. Lenders providing HECM financing for purchase transactions must comply with guidance provided in [Mortgagee Letter 2006-14](#).

## Refinancing and Existing Upfront Mortgage Insurance Premium (MIP)

The HECM refinance authority is only applicable when the property that serves as collateral for FHA-insurance remains the same. Therefore, existing HECM mortgagors who participate in a HECM for Purchase transaction are ineligible for a reduction of the upfront MIP and lenders must enter the transaction into FHA Connection as a new HECM.

## Monetary Investment

Consistent with existing policy, the maximum claim amount and principal limit will continue to be calculated in accordance HECM regulations at 24 CFR 206.3, HUD Handbook 4235.1 REV-1, and applicable MLs. At closing, HECM mortgagors must provide a monetary investment which will be applied to satisfy the difference between the HECM principal limit and the sales price for the property, plus any HECM loan related fees that are not financed or offset by other allowable FHA funding sources.

HECM mortgagors may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws.

### *Required Investment Examples*

<b>Example #1</b>	<b>Example #2</b>	<b>Example #3</b>
Appraised Value/MCA*\$300,000	Appraised Value/MCA*\$300,000	Appraised Value/MCA*\$300,000
Sales price \$300,000	Sales price \$325,000	Sales price \$280,000
Principal Limit** \$199,500	Principal Limit** \$199,500	Principal Limit** \$199,500
Minus Loan Fees \$ 15,500	Minus Loan Fees \$ 15,500	Minus Loan Fees \$ 15,500
Avail. HECM proceeds \$184,000	Avail. HECM proceeds \$184,000	Avail. HECM proceeds \$184,000
Req. Investment \$116,000	Req. Investment \$141,000	Req. Investment \$ 96,000

\* Appraised Value/MCA is defined as the maximum claim amount and is used to determine the principal limit which is the lesser of the appraised value or the FHA national mortgage limit. The principal limit is the maximum amount available to the HECM mortgagor.

\*\* Assumes the age of the youngest HECM mortgagor is 67 and a principal limit factor of .665 for a 5% expected average mortgage interest rate.

In each example above, loan fees are deducted from the principal limit of the HECM. However, it is not required that loan fees be deducted from HECM proceeds. The mortgagor may pay loan fees as part of the required monetary investment and use all HECM proceeds toward the purchase transaction.

### Funding Sources

HECM mortgagors must use cash on hand or cash from the sale or liquidation of the mortgagor's assets for the required monetary investment.

### Verification of Funding Sources

Lenders will be required to verify the source of all funds prior to closing. A verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in an account, or the account was opened recently, the lender must obtain a credible explanation of the source of those funds. Such documentation must be provided in the FHA case binder. Failure to provide the necessary documentation may result in a notice of rejection and delay of endorsement.

### Gap Financing

Consistent with existing regulatory requirements at 24 CFR 206.32(a), HECM mortgagors may not obtain a bridge loan (also known as "gap financing") or engage in other interim financing methods to meet the monetary investment requirement or payment of closing costs needed to complete the purchase transaction. This restriction includes subordinate liens, personal loans, cash withdrawals from credit cards, seller financing and any other lending commitment that cannot be satisfied at closing.

### *Gap Financing Example*

A prospective HECM mortgagor completes the required reverse mortgage counseling and receives an estimate stating the required monetary investment could be \$25,000. The prospective HECM mortgagor has \$20,000 in liquid assets but is short the remaining \$5,000. The prospective HECM mortgagor cannot take \$5,000 from a credit card or obtain interim financing in order to deposit the money into their banking account in anticipation of being required to bring this amount to closing. However, the prospective HECM mortgagor may obtain the \$5,000 from an allowable FHA funding source.

### Enhanced Counseling

HUD-approved housing counseling agencies that have been approved to provide reverse mortgage counseling, must counsel those who anticipate using the HECM for Purchase option on all topics covered in this Mortgagee Letter and other HUD requirements and issuances.

### Right of Rescission

The three-day right of rescission period is not applicable to HECM for Purchase transactions. Therefore, all initial advances may be disbursed on the day of closing by the settlement agent. However, FHA encourages lenders to seek their counsel's opinion to assure compliance with Federal or State laws.

### Closing Guidance

Lenders are required to ensure the property, when used as collateral for the HECM, meets the following property requirements:

- Will serve as the principal residence of the HECM mortgagor.
- Construction is complete and a certificate of occupancy or its equivalent has been issued.
- Any construction loan financing for the property, which will serve as the collateral for the HECM loan, is satisfied and the HECM liens will be in a first and second lien position and, at the time of closing, no other liens against the property exist.

Consistent with existing lending practices, lenders are responsible for determining whether a particular HECM loan is open or closed-end credit. In accordance with 24 CFR 206.43, lenders must comply with the regulatory disclosure requirements.

### Data Entry

Instructions on how to enter HECM for Purchase transactions into FHA Connection

and Insurance Accounting Collection System will be provided in a separate instruction.

## Information Collection Requirements

The information collection requirements contained in this Mortgagee Letter were approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520). Approval of HECM Program is covered by OMB control number 2502-0524, with disclosures requirements being covered by OMB control numbers 2502-0265 and 2502-0059. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

If you have questions regarding this Mortgagee Letter, please call FHA's Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Brian D. Montgomery  
Assistant Secretary for Housing-  
Federal Housing Commissioner