

What Is a Reverse Mortgage?

A reverse mortgage is a loan available to homeowners who are 62 years or older that enables them to convert part of the equity in their home into cash! FHA, who insures a reverse mortgage for the benefit of the borrower terms this a "Home Equity Conversion Mortgage" (HECM).

The product was conceived as a means to help retirees improve their quality of life with the accumulated wealth in their homes. Many of these items are to cover living expenses, pay for long term health care, pay off their existing mortgage and even to take that long awaited vacation. The attractive part of the HECM is that there are no restrictions on how the proceeds can be used; it is your to do whatever you want with.

The loan is called a reverse mortgage because the traditional mortgage everyone is used to has a payback stream that is in reverse. Instead of making monthly payments to a lender, as with a traditional mortgage, the borrower makes no payments, with a HECM and the lender makes payments to the borrower. The HECM also has many varied options the borrower can take advantage of.

How is a Reverse Mortgage Repaid?

Borrowers want to sell

- Property is sold
- HECM loan balance (principal plus accumulated interest and MIP) is repaid
- Remaining equity goes to the existing borrower(s) or their heirs.

Borrowers want to sell and purchase a new home using a HECM for home purchase

- Combine a new reverse mortgage with the proceeds from the sale above to purchase a new home

One borrower passes away

- Nothing changes -- the loan is not due and payable until the surviving borrower moves or passes away

Both borrowers pass away

- HECM loan balance (principal plus accumulated interest and MIP) is repaid
- Remaining equity goes to their heirs

The heirs may either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, any remaining equity after the reverse mortgage is repaid is theirs to keep.

Qualifications

The qualifications are simple:

1. The youngest homeowner must be 62 years of age or older.
2. Minimal income or credit qualifications.
3. You must own the home or be purchasing a home that you will occupy as your primary residence.
4. The home must meet standard FHA appraisal guidelines.



Is It Safe?

In the Best Interest of the senior homeowner, FHA and HUD regulate:

- Loan Amounts
- Loan Terms
- Loan Fees
- The Maximum and Minimum Origination Fee



HUD mortgage insurance guarantees:

Federal regulations mandate that your HECM is a non-recourse loan. This simply means that under no circumstances can you or any member of your family be held personally responsible for repayment of any part of the debt. When the home is sold by you or your heirs, if the sale proceeds are insufficient to repay the debt in full, the remaining balance due is forgiven.

A borrower's loan proceeds are secure. HUD guarantees that the seniors' funds are not at risk. HUD also guarantees that there will be no interruptions in the loan servicing process.

Counseling

Once you have received basic HECM information, you must receive independent third party counseling from a HUD approved HECM counselor in order to obtain a reverse mortgage.

According to the IRS, Reverse Mortgage proceeds are not income and as a result...

- Proceeds are not subject to income tax (consult a local tax advisor)
- No effect on Social Security
- No effect on Medicare

Three Day Right of Rescission

The rescission period is three business days after signing the loan documents, allowing the borrower(s) the opportunity to review their copy of the closing documents, ask questions and, if they choose, they may even cancel the transaction. The only exception where the three day right of rescission would not apply is if the loan were a HECM for purchase loan. Yes, there is a HECM loan available for those that are 62 years of age or older that are looking to purchase a home. Don't hesitate to contact us for information on this program.

Contact us today to find out more about reverse mortgages, and what the right option is for you and your family.

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