

Reverse Mortgages: Home Equity Conversion Mortgage

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Reverse mortgages offer seniors the ability to retain their personal and financial independence. Unlike a traditional mortgage that you make payments on each month, reverse mortgages provide payments to you—in effect “reversing” the direction of the mortgage payments.

Reverse mortgages enable senior homeowners to access the money they have built up as equity in their homes. The loan is repaid when you move, transfer ownership in your property, or upon your death. You still must pay your real estate taxes and homeowners insurance in a timely manner and maintain your home in good condition.

The Home Equity Conversion Mortgage (HECM), created by the U.S. Department of Housing and Urban Development (HUD), is a federally-insured loan that can be used by senior homeowners age 62 and older to convert a portion of the equity in their homes into cash proceeds, which you can choose to have distributed to you in a number of ways:

- Tenure (monthly payments as long as you occupy the property);
- Term (monthly payments for a specified time period);
- Line of credit (to draw on as you wish);
- Modified term (a term plan combined with a line of credit); or
- Modified tenure (a tenure plan combined with a line of credit)

When your home is no longer your principal residence—when you sell the property, convey title, do not occupy the property for 12 months, or die—you or your estate will owe the loan balance or the market value of your property, whichever is less. The loan generally is repaid through the sale of the property, although that is not required. Any sales proceeds in excess of the amount owed the lender belong to you or your estate.

Loan Features

- You, and any of your co-borrowers, must be at least 62 years old and either own your home free and clear, or have a relatively low remaining mortgage balance and occupy the property as your principal residence. You must pay off any remaining mortgage balance at closing (the amount can be financed as part of your HECM).
- Counseling, by a HUD-approved housing counseling agency, is required before your HECM application can be processed.
- The maximum amount you can borrow (“principal limit”) is based on a formula that considers the age of the youngest borrower, the maximum claim amount, and the expected average mortgage interest rate. The maximum claim amount is the lesser of the appraised value of your house or the maximum loan amount that can be insured by the FHA for residences in the area in which you live.

Considerations

- With a HECM, you can tap your home equity and receive your loan proceeds according to a payment plan that you select.
- No repayment is required until your home is no longer your principal residence.