



The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program which enables borrowers to withdraw some of the equity in their home. They choose how to withdraw the funds, whether in a fixed monthly amount or a line of credit or a combination of both.

Clients can also use a HECM to purchase a primary residence if they are able to use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property they are purchasing.

Borrowers can use a reverse mortgage calculator to help determine if your client qualifies. If you would like detailed financials you can request a reverse mortgage "Proposal" by contacting John Dale at 571.366.7744 or jdale@spiriter.com.

Borrower Requirements

The borrower must:

- Be 62 years of age or older
- Own the property outright or have a small mortgage balance
- Occupy the property as your principal residence
- Not be delinquent on any federal debt
- Participate 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 HECM FHA mortgage limit (currently 625,500)

Financial Requirements

- No income or credit qualifications are required of the borrower
- No repayment as long as the property is your principal residence
- Closing costs may be financed in the mortgage

Property Requirements

The following eligible property types must meet all FHA property standards and flood requirements:

- Single family home or 1-4 unit home with one unit occupied by the borrower
- HUD-approved condominium
- Manufactured home that meets FHA requirements

How the Program Works

If a homeowner is age 62 or older and has either paid off their mortgage or have only a small mortgage balance remaining, and are currently living in the home, they are eligible to participate in FHA's reverse mortgage program. The program allows them to borrow against the equity in the home. Clients 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 an amount of your choosing until the line of credit is exhausted.
- **Modified Tenure** - combination of line of credit plus scheduled monthly payments for as long as you remain in the home.
- **Modified Term** - combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

Borrowers can change your payment options for a fee of \$20.

Unlike ordinary home equity loans, a FHA reverse mortgage HECM does not require repayment as long as the home is their principal residence. Lenders recover their principal, plus interest, when the home is sold. The remaining value of the home goes to your clients or their heirs. They can never owe more than the home's value.

If the sales proceeds are insufficient to pay the amount owed, FHA will pay the lender the amount of the shortfall. FHA collects an insurance premium from all borrowers to provide this coverage.

The amount one can borrow depends on age, the current interest rate, other loan fees, and the appraised value of the home or FHA's HECM mortgage limit for the area, whichever is less. Generally, the more valuable a home is, the older your clients are, and the lower the interest, the more that can be borrowed. If there is more than one owner, the age of the youngest owner is used to determine the amount which can be borrowed.

There are no asset or income limitations in order to be eligible for a HECM. In addition, there is no limit on the value of homes qualifying for a HECM. The value of the home will be determined by an appraisal. However, the amount that a client may borrow is derived from the lower of the appraised value or the FHA HECM mortgage limit of \$625,500. Borrowers are charged an upfront insurance premium of 2 percent of the maximum claim amount that may be borrowed plus a 0.5 percent annual premium. This insurance is to cover any gap which may occur between the house value and monies due when the loan comes due.

HECM Costs

Most of the costs of a HECM are financed and are paid from the proceeds of the loan. Financing the costs means that your clients do not have to pay for them out of their pocket. On the other hand, financing the costs reduces the net loan amount available.

The HECM loan includes several fees, including an origination fee, closing costs, mortgage insurance premium, interest and servicing fees.

Origination Fee

There is an origination fee to compensate the lender for processing a HECM loan. A lender can charge a HECM origination fee up to \$2,500 if the home is valued at less than \$125,000. If the home is valued at more than \$125,000 lenders can charge 2% of the first \$200,000 of the home's value plus 1% of the amount over \$200,000. HECM origination fees are capped at \$6,000.

Closing Costs

Closing costs from third parties can include an appraisal, title search and insurance, surveys, inspections, recording fees, mortgage taxes, credit checks and other fees.

Mortgage Insurance Premium (MIP)

Borrowers will incur a cost for HECM insurance. Borrowers can finance the mortgage insurance premium (MIP) as part of the loan. They will be charged an upfront MIP at closing which will be 2% of the lesser of the home's value or the FHA HECM mortgage limit for the area. There is also a monthly MIP that equals 1.25% of the mortgage balance.

The HECM insurance guarantees that your borrowers will receive expected loan advances and that they will not have to repay the loan for as long as they live in the home. The insurance also guarantees that, if they or their heirs sell the home to repay the loan, the total debt can never be greater than the value of the home.

Servicing Fee

Lenders or their agents provide servicing throughout the life of the HECM. Servicing includes sending account statements, disbursing loan proceeds and making certain that borrowers keep up with loan requirements such as paying taxes and insurance. HECM lenders may charge a monthly servicing fee of no more than \$30 if the loan has an annually adjusting interest rate and \$35 if the interest rate adjusts monthly. At loan origination, HECM lenders set aside the servicing fee and deduct the fee from the available funds. Each month the monthly servicing fee is added to the loan balance.

Interest Rate

HECM borrowers can choose an adjustable interest rate or a fixed rate.

Repaying a HECM

A HECM loan must be repaid in full when you die or sell the home. The loan also becomes due and payable if:

- Borrowers do not pay property taxes or hazard insurance or violate other obligations.
- Borrowers permanently move to a new principal residence.
- Borrowers, or the last borrower, fail to live in the home for 12 months in a row. An example of this situation would be if you (or the last borrower) were to have a 12-month or longer stay in a nursing home.
- Borrowers allow the property to deteriorate and do not make necessary repairs.