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Frequently Asked Questions about HUD's Reverse Mortgages

How the HECM Program Works

There are many factors to consider before deciding whether a HECM is right for you. To aid in this process, you must meet with a HECM counselor to discuss program eligibility requirements, financial implications and alternatives to obtaining a HECM and repaying the loan. Counselors will also discuss provisions for the mortgage becoming due and payable. Upon the completion of HECM counseling, you should be able to make an independent, informed decision of whether this product will meet your specific needs. You can search online for a HECM counselor or call (800) 569-4287 toll-free.

There are borrower and property eligibility requirements that must be met. You can use the listing below to see if you qualify. If you meet the eligibility criteria, you can complete a reverse mortgage application by contacting an FHA-approved lender. You can search online for an FHA-approved lender or you can ask the HECM counselor to provide you with a listing. The lender will discuss other requirements of the HECM program, such as first year payment limitations, available payment options, the loan approval process, and repayment terms.

Borrower Requirements

You must:

- Be 62 years of age or older
- Own the property outright or paid-down a considerable amount
- Occupy the property as your principal residence
- Not be delinquent on any federal debt
- Have financial resources to continue to make timely payment of ongoing property charges such as property taxes, insurance and Homeowner

Association fees, etc.
- Participate in a consumer information session given by a HUD-approved HECM counselor

Property Requirements

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

- Single-family home or 2-4 unit home with one unit occupied by the borrower
- HUD-approved condominium project
- Individual Condominium Units that meet FHA Single Unit Approved requirements
- Manufactured home that meets FHA requirements

Financial Requirements

- Income, assets, monthly living expenses, and credit history will be verified.
- Timely payment of real estate taxes, hazard and flood insurance premiums will be verified

For adjustable interest rate mortgages, you can select one of the following 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 and 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.

For fixed interest rate mortgages, you will receive the Single Disbursement Lump Sum payment plan.

Mortgage Amount Based On

The amount you may borrow will depend on:

- Age of the youngest borrower or eligible non-borrowing spouse
- Current interest rate; and
- Lesser of:
    - appraised value;
    - the HECM FHA mortgage limit of $765,600; or
    - the sales price (only applicable to HECM for Purchase)

If there is more than one borrower and no eligible non-borrowing spouse, the age of the youngest borrower is used to determine the amount you can borrow.

HECM Costs

You can pay for most of the costs of a HECM by financing them and having them paid from the proceeds of the loan. Financing the costs means that you do not have to pay for them out of your pocket. On the other hand, financing the costs reduces the net loan amount available to you.

The HECM loan includes several fees and charges, which includes: 1) mortgage insurance premiums (initial and annual) 2) third party charges 3) origination fee 4) interest and 5) servicing fees. The lender will discuss which fees and charges are mandatory.

You will be charged an initial mortgage insurance premium (MIP) at closing. The initial MIP will be 2%. Over the life of the loan, you will be charged an annual MIP that equals 0.5% of the outstanding mortgage balance.

1. **Mortgage Insurance Premium**
   You will incur a cost for FHA mortgage insurance. The mortgage insurance guarantees that you will receive expected loan advances. You can finance the mortgage insurance premium (MIP) as part of your loan.

2. **Third Party Charges**
   Closing costs from third parties can include an appraisal, title search and

insurance, surveys, inspections, recording fees, mortgage taxes, credit checks, and other fees.

3. **Origination Fee**
   You will pay an origination fee to compensate the lender for processing your HECM loan. A lender can charge the greater of $2,500 or 2% of the first $200,000 of your home's value plus 1% of the amount over $200,000. HECM origination fees are capped at $6,000.
4. **Servicing Fee**
   Lenders or their agents provide servicing throughout the life of the HECM. Servicing includes sending you account statements, disbursing loan proceeds and making certain that you keep up with loan requirements such as paying real estate taxes and hazard insurance premium. Lenders may charge a monthly servicing fee of no more than $30 if the loan has an annually adjusting interest rate or has a fixed interest rate. The lender may charge a monthly servicing fee of no more than $35 if the interest rate adjusts monthly. At loan closing, the lender sets aside the servicing fee and deducts the fee from your available funds. Each month the monthly servicing fee is added to your loan balance. Lenders may also choose to include the servicing fee in the mortgage interest rate.

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