FHA Reverse Mortgages (HECMs) for Seniors

If you are a homeowner age 62 or older and have paid off your mortgage or paid down a considerable amount, and are currently living in the home, and are eligible, you may participate in FHA's Home Equity Conversion Mortgage (HECM) program. The HECM is FHA's reverse mortgage program that enables you to withdraw some of the equity in your home with limitations or a single disbursement lump-sum payment at the time of mortgage closing.

You can also use a HECM to purchase a primary residence if you 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 you are purchasing.

How the 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 a FHA-approved lender. You can search online for a **FHA–approved lender** or you can ask the HECM counselor to provide you with a listing. The lender will to discuss other requirements of the HECM program, 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
- 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

You may be eligible for 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.
- **Single Disbursement Lump Sum** - a single payment at loan closing.

If eligible, you can change your payment plan option for a fee of $20.

Mortgage Amount Based On

The amount you may borrower will depend on:

- Age of the youngest borrower
- Current interest rate
- Lesser of appraised value or the HECM FHA mortgage limit of $625,500 or the sales price; and
- Initial Mortgage Insurance Premium

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 .5 percent or 2.5 percent, depending on your disbursements. Over the life of the loan, you will be charged an annual MIP that equals 1.25% of the 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 a HECM origination fee up to $2,500 if your home is valued at less than $125,000. If your home is valued at more than $125,000 lenders can charge 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 and $35 if the interest rate adjusts monthly. At loan origination, 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.

Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou
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