

HECM Reverse Mortgage Rules and Regulations

Because HECM reverse mortgages are insured and regulated by the Federal Housing Association under the U.S. Department of Housing and Urban Development, a number of unique rules, regulations and obligations apply. Many of these rules and regulations exist to protect the borrower.

A HECM reverse mortgage is a loan, and because the borrower is still the homeowner under a HECM reverse mortgage, it's important to understand the expectations up front.

BORROWER QUALIFICATIONS

- Be at least age 62
 - Under a HECM, all borrowers on the home's title must be age 62 or older.
- Live in the home as the principal residence
 - The borrower must live in the property more than six months of each year.
- Have the current mortgage paid off or mostly paid off
 - The home must have sufficient equity to qualify. All other existing mortgages must be paid off with reverse mortgage proceeds.

BORROWER OBLIGATIONS

- Maintain the home in good condition by making needed home repairs
 - The home is collateral for the HECM loan, so maintaining the home is necessary to ensure it retains its value. It will be appraised both before the loan is approved and when the loan ends.
- Pay property taxes
 - As homeowner, the borrower is responsible for paying the property taxes even with a HECM reverse mortgage.
- Pay homeowner's insurance
 - The home must continue to be insured against fire, theft and other hazards.
- Pay other fees associated with home ownership
 - Condo or homeowner association fees are an example of such fees.
- Abide by the loan terms
 - Following all the expectations set out in your HECM mortgage contract.



HECM RULES AND REGULATIONS

- Pre-loan counseling
 - An FHA-approved counselor will meet with you to discuss the reverse mortgage loan to ensure you understand the details and expectations.
- Limited disbursement in the first year
 - Borrowers may access only 60 percent of the approved loan amount in the first year. The remainder may be disbursed after the first year.
- Financial assessment
 - This analysis of income and expenses helps to determine whether the borrower can afford to maintain the financial obligations under the loan, such as property tax and homeowner's insurance payments. In some instances, the lender can create a set-aside to hold some of the loan proceeds for future tax and insurance payments.
- Right of Rescission
 - A 10-day period after the loan closes during which borrowers can change their minds and rescind the HECM reverse mortgage.
- Non-Borrowing Spouse
 - A spouse who is not included in the reverse mortgage loan can continue living in the home as a principal residence after the borrower's death. The non-borrowing spouse is responsible for abiding by the loan obligations and for assuming legal home ownership.



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