Reverse Mortgage FAQs

ReverseMortgages.com, Inc.

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Frequently Asked Questions about Reverse Mortgages

At Reverse Mortgages.com, Inc., we get a lot of questions from our clients about reverse mortgages, the process of getting a reverse mortgage and how they work. We thought it might be helpful to share the answers to these common questions.

Reverse Mortgage Basics

Q: What is a reverse mortgage?

A: A reverse mortgage is a loan against your home equity that you don't have to pay back as long as you live in your home as your primary residence and abide by all loan terms, including remaining current on your taxes and insurance. With a reverse mortgage, you don't make monthly mortgage payments like a regular mortgage. Instead, you'll receive a distribution of funds based on the amount of equity that is available in your home, your age, your home's location and appraised value as well as the cost of the loan. HECM reverse mortgages are backed by the Federal Housing Administration (FHA) under the Department of Housing and Urban Development (HUD).

Q: What can I do with a reverse mortgage?

A: You can use the reverse mortgage funds in any way you choose. Some borrowers use the funds to pay bills, reduce credit card debt, or to help with regular expenses. Others use the funds to pay for help at home or for modifications that may be needed in their homes. Some use the funds to travel, purchase a vehicle or for other items that will enhance their lifestyle.

Q: Will I be able to access all of my home equity?

A: No. The FHA calculates the maximum mortgage amount based on a few different factors. These factors include the age of the youngest borrower, current interest rates and your home's appraised value. In addition, fees are associated with obtaining a reverse mortgage, but they can be worked into the loan to reduce your up-front costs and make the process affordable.

Q: When is a reverse mortgage repaid?

A: The borrower is not responsible for making any monthly mortgage payments on the loan as long as they remain current on real estate taxes, homeowner's insurance and home repairs. The loan balance is due and payable when you pass away, sell your home, permanently move out of your home or if you fail to abide by the loan terms.

Reverse Mortgage Eligibility

Q: How is a person eligible for a reverse mortgage?

A: Generally, a borrower must be age 62 or older, the reverse mortgage must be on the borrower's primary residence, and you must have accrued equity in your home. Three other criteria apply to eligibility for reverse mortgages:

1. The home maintenance must be up-to-date.
2. You must be financially capable of maintaining your home and paying your property taxes and homeowner's insurance.
3. The type of home you own must be eligible.

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Q: Can I use my vacation home for a reverse mortgage?

A: No. A reverse mortgage can only be used for your primary residence.

Q: My spouse isn't age 62 yet. Do we still qualify?

A: If one spouse is age 62, he or she may qualify separately as the borrower. The spouse who is younger than age 62 becomes a "non-borrowing spouse." The age of the non-borrowing spouse can affect the amount of reverse mortgage funds that are available.

Q: Are all homes eligible for a reverse mortgage?

A: Single family homes and two-to-four unit homes (e.g., duplexes, fourplexes) qualify as long as one unit is occupied by the borrower. Condominiums that meet the U.S. Department of Housing and Urban Development's FHA approval requirements also are eligible.

Reverse Mortgage Process

Q: How do I apply for a reverse mortgage?

A: A number of steps are involved in the process of applying for a reverse mortgage:

1. Contact a reverse mortgage professional: a licensed loan officer. A top-notch loan officer will discuss the range of reverse mortgage options available, the costs and benefits of each option, his or her role as a loan officer, your responsibilities as a potential borrower, your financial situation so you'll know whether you're making the best choice, and answer any questions you have about the process.
2. Participate in official counseling with a HUD-approved counselor. The federal government requires all potential Home Equity Conversion Mortgage (HECM) borrowers to participate in counseling to ensure you're making an informed decision about the benefits and risks of a reverse mortgage.
3. Select a loan originator. After counseling, if you decide a reverse mortgage is right for you, you can choose a loan originator. The loan originator will verify your eligibility and complete a preliminary financial assessment to make sure you have the financial capability to continue the responsibilities of maintaining your home. Once your eligibility and financial assessment are complete, preliminary paperwork will be completed so the loan officer can continue processing your file.

Q: What is financial assessment?

A: Borrowers must continue to pay their homeowner's insurance and property taxes as well as maintain their homes. **The Federal Housing Administration (FHA) requires a financial assessment to determine homeowners' willingness and capability to remain current on their obligations and ensure they qualify for a reverse mortgage. During financial assessment, your lender will review your credit history, analyze your income and compare it with your expenses. Potential borrowers who don't have the financial resources to meet these obligations may be able to set money aside from their reverse mortgage to cover them in the future.**

Q: What fees will I have to pay?

A: The loan originator will discuss with you any costs or fees associated with the reverse mortgage. These fees may include:

- Origination fee: to pay the lender's expenses in completing the reverse mortgage
- Mortgage insurance premiums: to pay the Federal Housing Administration to protect both the lender and the borrower
- Appraisal fee: to pay for the cost of a home appraisal
- Closing costs: generally the same as with a traditional mortgage, such as credit reports, escrow, document preparation, recording, and other fees.
- Servicing fee and set-aside: to pay the lender for administering the loan. Set-asides for servicing generally are unusual these days but may be used to reserve funds for future costs of administering the loan.
- Interest: paid at the end of the loan when repayment occurs. Interest accrues over time based on the amount of funds you receive. If you have a line of credit, interest will accrue only on the amount of credit you have used.

Q: What happens after my application is received?

A: The lender will order an appraisal of your home. After your home has been appraised and when all required information and other items are completed and returned, the file will be sent to a loan underwriter for approval. Underwriting could take up to five days. During this process, the underwriter will double check the information in the file to make sure it complies with all government rules and guidelines.

Q: What is the purpose of an appraisal?

A: The appraisal is used to determine your home's value. During the appraisal process, an appraiser will visit your home and make note of any deficiencies in the condition of your home that require repair. Most of the time, these repairs must be made before the loan can close. Typical deficiencies identified in an appraisal include: peeling paint, roofing problems, inoperable heating/air-conditioning systems, broken windows, missing handrails and inadequate electrical systems.

Q: What happens at closing?

A: You'll meet with a notary or attorney to sign the reverse mortgage documents and close the reverse mortgage. As part of closing, the lender will confirm the terms of the agreement with you. You may have the closing costs included in the loan or pay them separately at closing. As the borrower, you have the "Right of Rescission:" a three-day period during which you can change your mind. After this three-day period, the loan proceeds will be disbursed to you.

Q: What happens after the loan is closed?

A: During the life of the loan, a loan servicer is responsible for managing your account, disbursing payments and sending periodic loan statements to you. The loan servicer also will make sure you are staying current with your obligations as a borrower: paying real estate taxes, homeowner's insurance and home maintenance. You can pay these costs on your own or ask your servicer to create a set-aside account to pay the costs for you.

Reverse Mortgage Disbursement

Q: How will I receive the funds from my reverse mortgage?

A: Borrowers have several options for the disbursement of reverse mortgage funds:

- Monthly payments that run as long as one borrower remains alive and living in the home.
- Fixed term of payments, after which you will no longer receive money even if you still live in the home.
- Flexible line of credit that allows you to choose how much and when to use the loan funds.
- Combination line of credit with a monthly-payment option.

Q: What if I want to change the type of disbursement I receive?

A: Payout options may be changed after the closing date for an additional fee as long as funds are still available to be drawn.

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After the Reverse Mortgage: Settling the Loan

Q: How does a reverse mortgage end?

A: When the last borrower on the reverse mortgage dies, sells or otherwise conveys the property title to someone else or doesn't reside in the property for 12 months, the reverse mortgage becomes due and payable. In the event of the borrower's death, the home is transferred to heirs of the estate, who are responsible for settling the reverse mortgage. It's important to communicate regularly with the servicer after the loan becomes due and payable so the servicer knows your intent.

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Q: What if I change my mind about having the reverse mortgage?

A: If you change your mind about continuing the reverse mortgage, you can repay the loan and keep the home.

Q: What if I decide I don't want to stay in my home?

A: If you decide not to keep the home as your primary residence, you can sell the home and repay the lender for the reverse mortgage loan. You can keep any proceeds of the sale that exceed the loan amount.

Q: What happens to my non-borrowing spouse if I die?

A: Your spouse may remain in the home indefinitely as long as it's the primary residence, the homeowner's insurance and property taxes are paid, and the house is properly maintained.

Q: How will a reverse mortgage affect my heirs or estate?

A: The answer depends on what your heirs prefer to do with the home and the amount of equity the home has.

The home has a lot of equity:

- If the heirs want to keep the home, they will repay the reverse mortgage. They must notify the servicer that they want to keep the home and repay the loan. It will be important for your heirs to stay in touch with the servicer during repayment. They may have up to one year to repay the loan amount.
- If the heirs don't want to keep the home, they can sell the home and use the proceeds to repay the reverse mortgage. They can keep any proceeds that exceed the loan amount.

The home has a lot of reverse mortgage debt:

- The heirs can keep the home if they repay the loan at 95 percent of the HUD-appraised value.
- If the heirs don't want the home, they can let it go into foreclosure. The heirs and the estate will owe nothing on the reverse mortgage debt.

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