

# REVERSE MORTGAGES VOCAB CHEAT SHEET



## Terms

## Explanations

### Application

This is the initial set of documents that allow the loan officer to continue working on your loan. Though they are preliminary, they will explain all of the proposed loan's rates and terms. These documents can be sent via Fed-Ex or through our secure E-Sign service.

### Counseling/HUD-Approved Counselor

This in-person or over-the-phone counseling can be completed either before the application is sent or in tandem with the application, depending on the state. The counselor is a non-biased, HUD-approved third party who should be able to answer all questions that have not been previously answered by your loan officer.

### Underwriting Preparation

This process consists of obtaining everything needed to submit to underwriting. The main components are a preliminary copy of your home's title and an appraisal. Your loan officer may request documents related to your credit history and income to begin preparing any supplemental documentation needed to complete your reverse mortgage.

### Underwriting

At this point, the loan is submitted to an FHA-approved underwriter to review the documents. After their review, they will issue a conditional approval in which they ask for any supporting documentation they need.

### Clear to Close

After all conditions have been met, the loan will be issued the clear to close and sent to the closings department. This means that your loan is approved and will be scheduled to close in the next three to five business days.

### Closing

We will schedule a time that is convenient for you to sign closing documents for your reverse mortgage. We will send a local notary to a location of your choice, generally your home, to assist with signing the loan documents.

### Right of Rescission

Following signing the loan, the borrower has a three day period to decide to cancel the loan.

### Funding

After closing, you will have a mandatory three day right of rescission. On the fourth business day, your loan will fund. Any money that is going to pay off your mortgage and other third parties will be disbursed, and you will receive your money via check or wire if applicable.

### HECM (Home Equity Conversion Mortgage)

This term is a type of reverse mortgage that is insured by the Federal Housing Administration (FHA).

### MIP (Mortgage Insurance Premium)

As an FHA loan, there is insurance required for two reasons: to protect the lender in case of borrower default and to ensure that the borrower continues to receive payments for the duration of the loan no matter what happens to the lender. The up front premium is either .5% or 2.5% of the maximum claim amount depending on what percentage of the loan is being utilized. There is also an annual charge for the duration of the loan of 1.25%.

### Maturity event

There are a variety of scenarios that can happen that will cause a reverse mortgage loan to become due. These scenarios are called the maturity event. Maturity events include the borrower moving out of the home, the borrower passing away, the borrower failing to pay the proper taxes and insurance on the home, or the borrower failing to stay in the property as his/her principal residence for a period exceeding 12 months.

### Estate settlement

Following a maturity event, there are three options to settle the loan:

1. The heirs can sell the home using the proceeds from the sale of the home to extinguish the reverse mortgage.
2. The heirs can purchase the home for the lesser of the reverse mortgage balance or 95% of its current appraised value.
3. Relinquish the home to the bank for the bank to settle the reverse mortgage. If this option is chosen, it is important to note that this will not affect the heirs' credit.

### Repair Set Aside

Home repairs or improvements may be needed to obtain a reverse mortgage loan. Because the home is the collateral for the loan, a home's lack of durability can increase the government's financial risk in giving the loan. If home repairs are required for a reverse mortgage, they can sometimes be completed after closing, using funds from the reverse mortgage. This would be done by creating a "repair set aside", which is typically 150% of the repair estimate plus a repair administrative fee.

### LESA

Life expectancy set aside. In the event that your credit history or income is found to be deficient, the underwriter will require either a fully-funded or partially-funded life expectancy set aside. This will take some of the funds from your loan and will designate them towards your homeowner's insurance and real estate taxes