

REVERSE MORTGAGES VOCAB CHEAT SHEET



Terms

Explanations

Application

The "application" is the initial set of documents that allows the loan officer to continue working on your loan. The documents are preliminary, but they will explain the proposed loan's interest rates, fees and terms. These documents can be sent via Fed-Ex or through our secure E-Sign service.

Counseling/HUD-Approved Counselor

"Counseling" is a required part of the HECM process to ensure borrowers understand the obligations and expectations with a reverse mortgage. The counselor is a non-biased, HUD-approved third party who can answer any questions you have about the reverse mortgage. Counseling can be done in person or by phone.

Underwriting Preparation

"Underwriting preparation" consists of obtaining all the documents 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 about your credit history and income to begin preparing any supplemental documentation to complete your reverse mortgage.

Underwriting

The loan is submitted to an FHA-approved underwriter to review the documents. After the review, the underwriter will issue a conditional approval and request any supporting documentation that's still needed.

Clear to Close

After all conditions have been met, the loan will be issued the "clear to close" and be 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

After signing and closing the loan, the borrower has a three-day period to decide to cancel the loan, which is called "the right of rescission."

Funding

After closing and the three-day right of rescission, your loan will fund on the fourth business day. Any funds that will be used to pay off your existing mortgage and other third parties will be disbursed, and you will receive your funds via check or wire if applicable.

HECM (Home Equity Conversion Mortgage)

A HECM is a type of reverse mortgage that is insured by the Federal Housing Administration (FHA) under the U.S. Department of Housing and Urban Development (HUD).

MIP (Mortgage Insurance Premium)

Because a HECM is FHA-insured, borrowers pay "mortgage insurance premiums" on the loan. The insurance is required to protect the lender in case of borrower default and to ensure the borrower continues to receive payments for the duration of the loan no matter what happens to the lender. The up-front MIP is 2 percent. The annual MIP rate is now 0.5% (for all case numbers assigned after 10/2/17).

Maturity event

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

Estate settlement

Following a maturity event, such as the borrower's death, the estate has three options to settle the loan:

1. Sell the home and use the proceeds from the sale of the home to repay the reverse mortgage.
2. Purchase the home for the lesser of the reverse mortgage balance or 95 percent of its current appraised value.
3. Relinquish the home to the bank so the bank can settle the reverse mortgage. The heirs' credit will not be affected by a decision to relinquish the home.

Repair Set-Aside

After you apply for a reverse mortgage, your home will be appraised. The appraiser will note any deficiencies in the condition of your home that require repair. Most repairs will need to be completed prior to closing, but in some instances, the lender can allow a "repair set-aside" to help pay for the cost of repairs. With a set-aside, a portion of your loan proceeds will be held to cover these costs so the repairs can be made after closing.

LESA (Life Expectancy Set-Aside)

During financial assessment, if 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." The LESA will take some of the funds from your loan and designate them toward future homeowner's insurance and property tax payments.

