Reverse Mortgages

A reverse mortgage is a loan against your home’s equity that allows you to convert the equity in your home into cash without having to repay the loan while you’re living in the home.

A Home Equity Conversion Mortgage (HECM) is a reverse mortgage that is insured by the Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD). With a HECM, you have multiple options for receiving payments, with no limitations on how you use the money. You can use a HECM to pay for medical expenses, house repairs, travel, or any other living expenses.

HECM Eligibility

To get a HECM loan, you must:
- Be 62 years old or older.
- Own your home outright or have a low mortgage balance that can be paid off at closing with proceeds from the HECM loan.
- Live in the home as the primary residence.
- Complete a HECM counseling session with a HUD-approved HECM counselor.

Eligible Properties: Your property must meet the highest state/local code or HUD’s minimum property standards. Eligible types of homes include:
- Single family detached homes.
- Townhouses.
- Two- to four-unit single family homes with one unit occupied by the borrower.
- Manufactured homes and condominiums that meet HUD/FHA guidelines.

How HECM Loans Work

A HECM loan allows you to convert a portion of your home’s equity into cash, paid to you according to a payment plan that you choose. You do not have to repay the loan for as long as you live in your home. You will still own your home. However, a lien will be placed on your property, which will be security for the HECM loan. As the homeowner, you must continue to live in the house, and you must continue to pay property taxes and insurance.

Loan Amount: You will work with a lending institution, such as a mortgage lender, bank, credit union, or savings and loan association, to obtain the HECM loan. The amount you can borrow depends on your age or the co-owner’s age (whichever is less), the current interest rate, other loan fees, and the appraised value of your home or FHA’s mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, and the lower the interest rate, the more you can borrow.

To determine how much you qualify to borrow, contact a HUD-approved HECM counseling agency. To find one near you, call toll-free 1-800-569-4287 or search online at www.hud.gov.

Receiving HECM Payments

You have several options for receiving HECM payments:
- A regular monthly cash advance for a specific number of years that you select (a Term plan).
- A regular monthly cash advance for as long as you live in your home (a Tenure plan).
- A creditline of a specific dollar amount, withdrawn at unscheduled times or in a lump sum payment in amounts of your choosing until the line of credit is exhausted.
- A combination of these payment methods.

HECM Loan Fees

Standard closing costs associated with all mortgages are usually financed with proceeds from the HECM loan, such as an origination fee, third-party closing costs, a loan servicing fee, and interest, which is the amount paid for the privilege of borrowing the money.

In addition, a mortgage insurance premium is financed as part of the loan costs. Since the HECM program is self-supported by FHA, the mortgage insurance premium is assessed on all borrowers to provide loss protection for lenders. This protection makes lenders more willing to offer HECM loans to you. Also, FHA will pay you what you are owed if your lender is unable.

The total cost of getting a HECM loan may vary depending on the payment option you choose and the number of years you intend to remain in the house. Since HECM loans are made by commercial lenders, you should compare costs from two or more lenders.