

# Understanding Home Equity Conversion Mortgages

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Reverse mortgages are increasing in popularity with seniors who have equity in their homes and want to supplement their income. The only reverse mortgage insured by the U.S. Federal Government is called a Home Equity Conversion Mortgage or HECM, and is only available through an FHA approved lender. Important things to know:

- Selling the home is always an option
- Every person named on the house deed must receive reverse mortgage counseling. Only those who received counseling will be listed on the HECM certificate
- No monthly payment is required on a reverse mortgage loan
- Home owners must continue to pay property taxes, home insurance, and property repairs—and reverse mortgage proceeds can be used for these or any other costs and expenses
- A home must meet the FHA minimum property standards and this is determined by an approved FHA appraiser. The lender requests the appraisal once the HECM counseling has been completed and the certificate has been issued by the counselor
- It is recommended to obtain cost estimates on home repairs from at least two contractors. Note: FHA minimum property standards do not include/require cosmetic repairs
- Newly constructed homes must have a certificate of occupancy before they are eligible for a HECM loan
- A HECM loan must be repaid in full when you die or sell the home. The loan also becomes due and payable if:
  - You do not pay property taxes or hazard insurance or violate other obligations
  - You permanently move to a new principal residence
  - You, or the last borrower, fail to live in the home for 12 months in a row
  - You allow the property to deteriorate and do not make necessary repairs
- HECM lenders in a given area are likely to charge the same interest rates, mortgage insurance premiums, and similar third party closing costs. HUD recommends that borrowers get quotes from more than one lender
- HECM origination fees and servicing fees can vary from lender to lender and may be negotiable between a lender and a consumer. Third party closing costs are limited by HUD to what is “usual and customary” in any given area, but may vary
- Reverse mortgage loans are offered with fixed or adjustable interest rates
  - Monthly adjustable interest rates have no annual cap and a current lifetime cap of a 10% change
  - There are pros and cons to fixed and adjustable rates
- If you choose to have a credit line, the credit line will grow by your current interest rate plus 1.25% each month, as long as the credit line has not been exhausted