About Home Equity Conversion Mortgages

The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program which enables you to withdraw some of the equity in your home. You choose how you want to withdraw your funds, whether in a fixed monthly amount or a line of credit or a combination of both.

You can also use a HECM to purchase a primary residence if you are able to use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

HECM counselors will discuss program eligibility requirements, financial implications and alternatives to obtaining a HECM. They will also discuss provisions for the mortgage becoming due and payable. Upon the completion of HECM counseling, you should be able to make an independent, informed decision of whether this product will meet your needs. You can search online for a **HECM counselor**.

You can use a reverse **mortgage calculator** to help you see if you qualify. If you meet the eligibility criteria, you can complete a reverse mortgage application by contacting a **FHA-approved lender**.

Borrower Requirements

You must:

- Be 62 years of age or older
- Own the property outright or have a small mortgage balance
- Occupy the property as your principal residence
- Not be delinquent on any federal debt
- Participate in a consumer information session given by an approved HECM counselor

Mortgage Amount Based On

- Age of the youngest borrower
- Current interest rate
- Lesser of appraised value or the HECM FHA mortgage limit or the sales price
- Initial Mortgage Insurance Premium (MIP)--your choices are HECM Standard or HECM SAVER initial MIP

Financial Requirements

- No income or employment qualifications are required of the borrower
- No repayment as long as the property is your principal residence and the obligations of the mortgage are met
- Closing costs may be financed in the mortgage

Property Requirements

The following eligible property types must meet all FHA property standards and flood requirements:

- Single family home or 1-4 unit home with one unit occupied by the borrower
- HUD-approved condominium
- Manufactured home that meets FHA requirements

How the Program Works

If you are a homeowner age 62 or older and have paid off your mortgage or have only a small mortgage balance remaining, and are currently living in the home, you are eligible to participate in FHA's reverse mortgage program. The program allows you to borrow against the equity in your home. You can select from five payment plans:

- **Tenure** - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- **Term** - equal monthly payments for a fixed period of months selected.
- **Line of Credit** - unscheduled payments or in installments, at times and in an amount of your choosing until the line of credit is exhausted.
- **Modified Tenure** - combination of line of credit plus scheduled monthly payments for as long as you remain in the home.
- **Modified Term** - combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

You can change your payment options for a fee of $20.

Unlike ordinary home equity loans, a FHA reverse mortgage HECM does not require repayment as long as the home is your principal residence and the obligations of the mortgage are met. Lenders recover their principal, plus interest, when the home is sold. The remaining value of the home goes to you or your heirs.

If the sales proceeds are insufficient to pay the amount owed, FHA will pay the lender the amount of the shortfall. FHA collects an insurance premium from all borrowers to provide this coverage.

The amount you can borrow depends on:

- Age of the youngest borrower
- Current interest rate
- Lesser of the appraised value of your home, the HECM FHA mortgage limit for your area or the sales price
- The initial Mortgage Insurance Premium (MIP) option you choose (2% HECM Standard option or .01% HECM Saver option).

You can borrow more with the HECM Standard option. Also, the more valuable your home is, the older you are, and the lower the interest rate, the more you can borrow. If there is more than one borrower, the age of the youngest borrower is used to determine the amount you can borrow. For an estimate of HECM cash benefits, go to **HECM Home Page** and select an online calculator.

There is no limit on the value of homes qualifying for a HECM. The value of your home will be determined by an appraisal. However, the amount that you may borrow is derived from the lower of the appraised value, sales price or the FHA HECM mortgage limit of $625,500. You are charged an upfront insurance premium of 2 percent of the maximum claim amount for HECM Standard and .01 percent for the HECM Saver. In addition, you will have an annual mortgage insurance premium of 1.25%.

HECM Costs

You can pay for most of the costs of a HECM by financing them and having them paid from the proceeds of the loan. Financing the costs means that you do not have to pay for them out of your pocket. On the other hand, financing the costs reduces the net loan amount available to you.

The HECM loan includes several fees, including an origination fee, closing costs, mortgage insurance premium, interest and servicing fees.

Origination Fee

You will pay an origination fee to compensate the lender for processing your HECM loan. A lender can charge a HECM origination fee up to $2,500 if your home is valued at less than $125,000. If your home is valued at more than $125,000 lenders can charge 2% of the first $200,000 of your home's value plus 1% of the amount over $200,000. HECM origination fees are capped at $6,000.

Closing Costs

Closing costs from third parties can include an appraisal, title search and insurance, surveys, inspections, recording fees, mortgage taxes, credit checks and other fees.

Mortgage Insurance Premium (MIP)

You will incur a cost for FHA HECM insurance. You can finance the mortgage insurance premium (MIP) as part of your loan. You will be charged an initial MIP at closing, which is either 2% (HECM Standard) or .01% (HECM Saver) of the lesser of the appraised value of your home, the FHA HECM mortgage limit for your area or the sales price. Over the life of the loan, you will also be charged an annual MIP that equals 1.25% of the mortgage balance.

The HECM insurance guarantees that you will receive expected loan advances. The insurance also guarantees that, if you or your heirs sell your home to repay the loan, your total debt can never be greater than the value of your home.

Servicing Fee

Lenders or their agents provide servicing throughout the life of the HECM. Servicing includes sending you account statements, disbursing loan proceeds and making certain that you keep up with loan requirements such as paying taxes and insurance. HECM lenders may charge a monthly servicing fee of no more than $30 if the loan has an annually adjusting interest rate and $35 if the interest rate adjusts monthly. At loan origination, HECM lenders set aside the servicing fee and deduct the fee from your available funds. Each month the monthly servicing fee is added to your loan balance.

Interest Rate

HECM borrowers can choose an adjustable interest rate or a fixed rate. If you choose an adjustable interest rate, you may choose to have the interest rate adjust monthly or annually. Lenders may not adjust annually adjusted HECMs by more than 2 percentage points per year and not by more than 5 total percentage points over the life of the loan. FHA does not require interest rate caps on monthly adjusted HECMs.

Repaying a HECM

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. An example of this situation would be if you (or the last borrower) were to have a 12-month or longer stay in a nursing home.
- You allow the property to deteriorate and do not make necessary repairs.