Home Equity Conversion Mortgage

The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program which enables you to withdraw some of the equity in your home. The HECM is a safe plan that can give older Americans greater financial security. Many seniors use it to supplement social security, meet unexpected medical expenses, make home improvements and more. You can receive additional free information about reverse mortgages in general by contacting the National Council on Aging at (800) 510-0301 or downloading their free booklet, "**Use Your Home to Stay at Home**," a guide for older homeowners who need help now. It's smart to know more about reverse mortgages, and decide if one is right for you!

1. What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The equity that built up over years of home mortgage payments can be paid to you. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence or fail to meet the obligations of the mortgage. 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.

2. Can I qualify for FHA's HECM reverse mortgage?

To be eligible for a FHA HECM, the FHA requires that you be a homeowner 62 years of age or older, own your home outright, or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan, and you must live in the home. You are also required to receive consumer information free or at very low cost from a HECM counselor prior to obtaining the loan.

3. Can I apply if I didn't buy my present house with FHA mortgage insurance?

Yes. It doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new FHA HECM will be FHA-insured.

4. What types of homes are eligible?

To be eligible for the FHA HECM, your home must be a single family home or a 1-4 unit home with one unit occupied by the borrower. HUD-approved condominiums and manufactured homes that meet FHA requirements are also eligible.

5. What's the difference between a reverse mortgage and a bank home equity loan?

With a traditional second mortgage, or a home equity line of credit, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The reverse mortgage is different in that it pays you, and is available regardless of your current income. The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home, sales price or FHA's mortgage limits, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you may borrow.

With a HECM, you don't make monthly principal and interest payments, the lender pays you according to the payment plan you select. Like all homeowners, you still are required to pay your real estate taxes, insurance and other conventional payments like utilities. With an FHA HECM you cannot be foreclosed or forced to vacate your house because you "missed your mortgage payment."

6. When does my loan become due and payable?

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.

7. Will I still have an estate that I can leave to my heirs?

When you sell your home, you or your estate will repay the cash you received from the reverse mortgage plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs.

8. How much money can I get from my home?

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, select an online calculator from the **HECM Home Page**. You can use an like the one on the AARP website to get an idea of what you may be able to borrow.

9. Should I use an estate planning service to find a reverse mortgage?

FHA does NOT recommend using any service that charges a fee for referring a borrower to an FHA lender. FHA provides this information free, and HECM housing counselors are available for free or at very low cost, to provide information, counseling, and a free referral to a list of FHA-approved lenders. **Search online** or call (800) 569-4287 toll-free, for the name and location of a HUD-approved housing counseling agency near you.

10. How do I receive my payments?

You have five options:

- 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 installments, at times and in amounts of your choosing until the line of credit is exhausted.
- Modified Tenure - combination of line of credit with 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.