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Reverse Mortgages: A Twist on Equity Credit

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Most of us understand the concept of borrowing against our home either through mortgage or an equity credit line. For individuals who are 62 years of age or older, own their own home and want to convert part of their home's equity into cash, reverse mortgages offer a twist on the familiar equity credit line.

Technically known as home equity conversion mortgages (HECM), these mortgages are available through the FHA, part of the US Department of Housing and Urban Development (HUD). Payments are made based upon one of the following five available payment plans:

- 1. Tenure.** Equal monthly payments are made as long as at least one borrower is alive and occupies the property as a principal residence.
- 2. Modified Tenure.** Monthly payments are combined with a line of credit while the borrower remains in the home.
- 3. Term.** Equal monthly payments are made for a fixed period of months based on the borrower's choosing.
- 4. Modified Term.** Monthly payments are combined with a line of credit for a fixed period of months selected by the borrower.
- 5. Line of Credit.** Payments are made in installments, in such amounts and at such time as the borrower chooses, until the line of credit is used up.

The amounts borrowed depend on a person's age, current interest rates, other loan fees and the appraised value of a home or the FHA's mortgage limits for an area, whichever is less. According to HUD, "the more valuable your



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home is, the older you are, the lower the interest, the more you can borrow."

HECM loans are not required to be repaid if at least one borrower lives in the house, keeps taxes and insurance current and, the house in reasonable repair. Loans are repaid when a home is sold and any remaining equity belongs to the borrower or the borrower's heirs. It is important to note that HUD states "You can never owe more than your home's value."

To qualify for an HECM loan, borrowers must be 62 years or older, own their home outright or have a mortgage balance that can be paid off at closing from the HECM loan and, must live in the home. There may be fees associated with the HECM loan and there is an FHA mortgage insurance premium. This premium is 2% of the appraised value or of the FHA mortgage limits for a given area, whichever is less, plus one half percent annually on the current balance of the HECM loan.

An HECM loan is a very specialized mortgage product and individuals considering applying for one need to understand whether payments from an HECM loan will affect Medicaid or other public benefits. One may contact the Social Security Administration, legal services or related agencies for questions related to eligibility.that Counseling is required prior to applying for a loan. For information related to HECM loans, you may call the Housing Counseling Clearinghouse at 1-888-466-3487 or visit HUD's website at <http://www.hud.gov/rvrsmort.html>

(Source: HUD Brochure on Home Equity Conversion Mortgages)