

## Home Equity Conversions: Reverse Mortgages

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Many senior adults are finding it hard to live on their fixed retirement incomes and are looking for ways to supplement those incomes. For some, the largest asset they own is their home, but they do not want to sell their home and move. For these individuals, there is an option called Home Equity Conversion (HEC).

One type of home equity conversion is a reverse mortgage. The equity or cash value of the house is used to provide income to repay the loan. All reverse mortgage options are not the same. They have different eligibility requirements, income amounts, timing of payments, interest rates, and/or initial costs. Homeowners should compare the different options, keeping in mind their goals and needs.

### Advantages

- The value of your house, not your income, is used to determine eligibility.
- You can receive a lump sum, a line of credit, or a monthly amount, without having to make a monthly repayment.
- You do not have to sell your home and move, and can continue to live in the same familiar surroundings.
- You do not have to worry about losing your home to foreclosure since the payments are made out of your equity in the home, not from your income.
- The loan must be repaid when the house is no longer used as your personal residence. However, the lender can only look to the proceeds from the sale of the house for repayment. They cannot go to your heirs if the house sells for less than what was borrowed.

- Money can be used for any purpose.
- You must attend a free HECM/HUD approved counseling session to see if this type of mortgage is right for you.

### Disadvantages

- Interest for a reverse mortgage is compounded, and cannot be deducted on income taxes until you repay it.
- The income you receive decreases the equity in your home, and the equity may not be adequate for your future needs or for your estate.
- Interest rates and initial costs (application fees, points and closing costs) are usually higher for a reverse mortgage than for other equity loans.
- Income ends when you sell your home or no longer use it as a principal residence.
- Payments may affect Supplemental Security Income and Medicaid payments.
- You must attend a free HECM/HUD approved counseling session. This may add time to the process of obtaining a loan.
- You may need to pay off your existing mortgage out of the proceeds of your reverse mortgage.
- You will be required to maintain the house, pay the taxes, and carry property insurance.

[www.ext.vt.edu](http://www.ext.vt.edu)

## Eligibility

You could be eligible if you own your own home, use the home as your principal residence, and are at least 62 years of age. You must also have adequate equity in the home.

A lender looks at the equity in the home plus any expected appreciation or depreciation in the value of the home to calculate a base amount. The costs associated with any reverse mortgage loan (application fees, interest rates, closing costs, initial charges, sales commissions, and homeowner's insurance) also must be considered. All reverse mortgages currently available in Virginia require homeowner's insurance.

The lender and the homeowner must work together to determine the type of payment, the payment amount, and the time period. This is determined not only by the calculations of the base amount by the lender, but also by keeping your goals and financial needs in mind.

## Income

Income from a reverse mortgage is not taxable, and will not affect Medicare eligibility or benefits. But the added income can affect both Supplemental Security Income and Medicaid eligibility and benefits for Virginia residents.

## Confused?

A home equity conversion is **not** a home equity loan! Home-equity loans require that a homeowner has enough income to pay back the loan, and the payments are made in monthly amounts. A home-equity loan would not work for the majority of senior adults who are living on limited fixed incomes and who could not afford a loan payment.

## Example

A wide variety of loan options are available depending upon your age, the amount of equity available, the time period of the loan, and the way payments are disbursed.

For example, Mary Jones, a 75-year-old widow whose home is her principal residence, is looking at a ten-year reverse mortgage that will provide her with additional monthly income of approximately \$450. At the end of the ten years the monthly income payment will stop. But because her loan is through an insured lender

(loans offered by HUD approved lenders have government guarantees), the loan will not have to be repaid until she sells the home, moves, or dies.

## Home Equity Conversion Checklist

These questions can help you determine if you are eligible for a home equity conversion (HEC).

- |  | YES   | NO    |
|--|-------|-------|
| 1. Are you 62 years of age or older?               | _____ | _____ |
| 2. Is your mortgage paid off in full or nearly so? | _____ | _____ |
| 3. Do you use your home as your primary residence? | _____ | _____ |

If you have answered yes to questions 1 through 3, you might want to consult with an HEC lender for specific information.

The following questions will help to determine if you are eligible for a Housing and Urban Development (HUD) home equity conversion. A HUD-HEC is similar to other HECs but with additional requirements for the property and residents.

- |   |       |       |
|---|-------|-------|
| 4. Is your home a single-family dwelling?                       | _____ | _____ |
| 5. Will your home probably meet HUD minimum property standards? | _____ | _____ |
| 6. Is your family income less than 80% of area median?          | _____ | _____ |

If you have answered yes to questions 1 through 6; you might want to consult with a HUD-HEC lender for specific information.

The following is a list of HEC/Reverse mortgage programs.

FHA - HECM (Home Equity Conversion Mortgage)  
Guaranteed by FHA/HUD  
Flexible Income Payment Option  
Growing Line of Credit  
Maximum Lending Limit - \$ 280,749

Cash Account  
Flexible Income Payment Options  
Growing Line of Credit  
Higher Equity Release Options  
No Maximum Lending Limit

HomeKeeper by Fannie Mae  
 Guaranteed by Fannie Mae  
 Line of Credit Options  
 Maximum Lending Limit - \$ 322,700

Zero Point Cash Account  
 Closing Costs Limited  
 Minimum Draw at Closing Required  
 Interest Rate Cap  
 No Maximum Lending Limit

The following lenders offered HEC/Reverse mortgages as of March 2004:

Mortgage Capital Investors  
 Equity Division  
 6571 Edsall Road  
 Springfield, VA 22151  
 (703) 941-0711

East West Mortgage - HECM, HK, CA  
 4321 Northview Drive  
 Bowie, MD 20716  
 (866) 9REVERSE [(866) 973-8377]  
 (301) 809-1568, ext. 225

Financial Freedom Senior Funding Corp.  
 (Subsidiary of Lehman Brothers, FSB) - HECM, HK, CA  
 (800) 368-3254

Reverse Mortgages of the Mid-Atlantic - HECM, HK, CA  
 (800) 745-0102

Suntrust  
 564 Lynnhaven Parkway  
 Virginia Beach, VA 23452  
 (757) 431-4876

Fidelity & Trust Mortgage, Inc. - HECM, HK, CA  
 7229 Hanover Parkway Suite C  
 Greenbelt MD 20770  
 (703) 273-3797  
 (800) 458-4624

People's Choice Mortgage - HECM, HK, CA  
 (757) 564-8596

Wells Fargo Home Mortgage - HECM, HK  
 (888) 292-1180

Inclusion on this list of lenders does not imply endorsement by Virginia Cooperative Extension, nor does omission from this list imply a lack of endorsement.

## Home Equity Conversion Comparison Worksheet

### Name of Lender

Features			
Payment Option:	-----	-----	-----
Lump Sum Option			
Line of Credit Option			
Monthly Benefit Option			
APR (Annual Percentage Rate)			
Time Period			
Application Costs			
Closing Costs			
Sales Commissions			
Insurance Costs			
Other Initial Charges			

## **For More Information**

AARP Home Equity Information Center

601 E. Street NW

Washington D.C. 20004

(202) 638-2863

*<http://www.aarp.org/revmort/>*

Reverse Mortgage Money

(866) 363-1914

[requestinfo@reversemortgagemoney.com](mailto:requestinfo@reversemortgagemoney.com)

American Credit Counselors

Tudor Square, Ste. 10

211 Roanoke St.

Christiansburg, VA 24073

(800) 926-0042

*[virginia@cccswva.org](mailto:virginia@cccswva.org)*

*<http://www.americancredit.org>*

HECM Counseling

National Center for Home Equity Conversion

360 Robert Street North Suite 403

St. Paul, MN 55101

(651) 222-6775

People Incorporated

1173 W Main St

Abingdon, VA 24210-2428

(540) 623-9000

HECM Counseling