

Frequently Asked Questions about Reverse Mortgages

1. How do I qualify for a reverse mortgage?

To become eligible for a reverse mortgage, you must be at least 62 years old and own your home. You must have equity in the house to pay off any outstanding balances, and your home must be occupied as your principal residence.

2. How much money can I get?

The amount of money that a lender will loan depends upon how old you are at the time of closing, how much your house is worth, the total amount of liens, and interest rates. The type of reverse mortgage product and the payment options can also affect the amount of money you will receive.

3. How do I receive my money?

There are several different options to choose from. You can take the money in a lump sum, set up a line of credit, monthly payment, or a combination of all three.

4. What costs are associated with a reverse mortgage?

The costs of a “forward” loan are very similar to a reverse loan. For example, an origination fee is paid to the broker/lender, a MIP (mortgage insurance premium) is paid to HUD on the Home Equity Conversion Mortgage (HECM), an appraisal fee, a flood certification fee, a doc prep fee, title and settlement fees, and other standard closing costs.

5. Is it required that I receive counseling before getting a reverse mortgage?

Yes. Counseling is required to protect borrowers from receiving incorrect information about reverse mortgages. The lender must be in receipt of the counseling certificate before they can close the loan. To locate a reverse mortgage counselor near you, contact your loan officer or your local HUD office.

6. Do I get taxed on the money I receive from my reverse mortgage?

The equity in your home is considered your money and not additional income. All the funds from a reverse mortgage are tax free.

7. Do I have to pay any fees to the reverse mortgage lender during the course of my loan?

A reverse mortgage was created so borrowers don't have to pay fees during the course of the loan. However, there is a monthly servicing fee, which is deducted from the service set aside account for every month during the life of the loan.

8. Am I responsible for paying my homeowner's insurance and property taxes?

Property taxes and homeowner's insurance must be paid current at all times. If you choose, and if loan proceeds are available, the lender can impound your taxes and insurance and pay them for you when they become due.

9. Does my house have to be in prime condition in order for me to receive a reverse mortgage?

An appraiser will appraise the house following FHA guidelines or the lender's guidelines depending upon the reverse mortgage program. If the house needs to be repaired, the lender may require you to fix it prior to closing. A repair set-aside may be issued if they allow you to repair the home after closing.

10. What is a repair set aside?

If repair work is done after the close of escrow, the lender will hold 1 and 1/2 times the amount of money it costs to repair the item. Once the work has been completed, a final bill will be submitted to the lender, and they will disburse payments to the appropriate parties.

11. Am I limited as to how I can use the money I receive from a reverse mortgage?

You can use your money however you like. Borrowers have used a reverse mortgage for vacations, home modifications, healthcare, education for grandchildren, new cars and to supplement retirement income. It's your money to do as you wish.

12. Does the bank hold title to my house while my reverse mortgage is outstanding?

No. The person receiving the reverse mortgage must be on title during the course of the loan.

13. How is the interest rate determined on the reverse mortgage?

- For the Home Equity Conversion Mortgage (HECM), the interest rate is adjusted either monthly or annually based on an index called the "1-year U.S. Treasury Constant Maturity Rate." It changes weekly.
 - For monthly adjusting HECMs, the interest rate charged for the next month is equal to the current 1-year U.S. Treasury rate plus a margin.
 - For the annually adjusting HECMs, the interest rate charged for the next year is equal to the current 1-year U.S. Treasury rate plus 3.1%.
- For the "Homekeeper," the interest rate charged is equal to the Initial Rate Index 1-Month CD plus 3.4% margin.
- For other products in the market, please check with your loan officer.

14. If my spouse isn't 62, will they remain on title?

All parties on title must be at least 62 in order to receive a reverse mortgage. If you are considering removing someone from title to obtain a reverse mortgage, please seek legal counsel and a tax consultant regarding your particular scenario.

15. Does a non-borrowing spouse need to sign any documents?

Yes. A non-borrowing spouse must sign a Non-Borrowing Spouse (NBS) Certification, Notice of Right to Cancel, Riders (if necessary), Truth in Lending, the HUD, and the deed(s) of Trust. If there is a trust on the property, additional signatures may be required.

16. Who do I contact to get a reverse mortgage?