

Reverse Mortgage FAQs



1. QUESTION: What states do you do business in?

ANSWER: We can accept applications in Arizona, Arkansas, California, Colorado, Florida, Georgia, Michigan, New Jersey, New York, Oregon, Pennsylvania, South Carolina, Texas, Virginia, & Washington.

2. QUESTION: What are the qualifications for a reverse mortgage?

ANSWER: There's three parts to qualification – age, loan to value ratio (LTV), and credit/income/property charge payment history. The minimum age for an FHA home equity conversion mortgage (HECM), which is the most common reverse mortgage, is 62 year old (one spouse must be 62). The age for proprietary reverse mortgages can be slightly lower.

The average loan to value ratio of a reverse mortgage is in the 50-65% range and is based on the youngest age. The older you are the more you can borrow. If you owe more on your home than we can offer, you'll have to bring money to closing or wait until the debt balance on your home is lower.

The last part is an income, credit, and twenty-four-month property charge payment history qualification. We go over that in detail at PremierReverse.com/qualification.

3. QUESTION: What are the different options for taking the proceeds?

ANSWER: The proceeds must be taken as a lump sum when opting for a fixed rate reverse mortgage. When choosing the adjustable rate programs, you can elect to receive a lump sum, line of credit, monthly payments or a combination of these options. It is not unusual, for example, to see an adjustable rate customer choose to receive some funds at closing, some on a line of credit, and set a monthly payment stream.

Keep in mind that until the funds are received, the interest does not accrue. Electing to take an adjustable rate reverse mortgage with a line of credit or monthly payments can drastically decrease the amount of interest that will accrue over a long period of time.

4. QUESTION: What is the difference between an FHA Home Equity Conversion Mortgage (HECM) and a Proprietary Reverse Mortgage?

ANSWER: The FHA HECM is the more popular reverse mortgage type and is used on most homes under \$1M in value. There are special situations when a proprietary reverse mortgage makes more sense, and one example is for condominiums, due to HUD's strict rules on them.

FHA HECMs have low interest rates, but come with upfront and ongoing mortgage insurance. Proprietary reverse mortgages aka jumbo reverse mortgages have no mortgage insurance, but have an above market interest rate.

5. QUESTION: What is the difference between a reverse mortgage and a home equity line of credit (HELOC)?

ANSWER: A home equity line of credit will also release equity in your home in the form of cash to be spent as you like. The main difference is that a home equity line of credit will need to be repaid monthly as do all conventional mortgages. A reverse mortgage does not have to be repaid until you sell your home or no longer occupy the residence.

You will also need to have sufficient income & credit scores to qualify for a HELOC. HELOCs have an interest only payment to start, go fully amortizing, and then have a balloon payment due. They can also be frozen when home values change or a bank decides to do so. Reverse mortgages are always first mortgage products, paying off and replacing any other debt against the property while HELOCs are often second mortgages.

6. QUESTION: What if the title of my house is still in the name of someone else, such as my parent, deceased spouse, or adult child?

ANSWER: HUD/FHA started allowing non-borrowing spouses and non-borrowing co-owners to remain on title to make the inheritance process easier after the last borrower passes away. If on title, that person has to participate in the counseling session. If there is a deceased spouse or deceased parent on title, they need to come off prior to closing a reverse mortgage. That process could be simple or very complicated depending on the probate laws in your state.

7. QUESTION: How much is due when I repay the loan?

ANSWER: Any funds you've received plus accrued interest, mortgage insurance, and closing costs will be repaid once you sell or no longer occupy the residence. You will be able to keep up with your mortgage balance because post-closing you will receive a monthly statement. You can opt to pay on your reverse mortgage at any time, or let the balance grow.

8. QUESTION: What if, when the loan is due, I owe more than my home is worth?

ANSWER: Reverse mortgages are considered non-recourse loans meaning you cannot owe more than the value of your home. Your home serves as the only collateral for the transaction. Any losses at the time of repayment are covered by the FHA mortgage insurance fund. With proprietary reverse mortgages, the loans are also non-recourse and the lender eats any losses.

9. QUESTION: Will there be anything left for my heirs?

ANSWER: Upon your death, your estate will repay the loan balance with cash, proceeds from the sale of the property, or by refinancing the loan (usually with a conventional mortgage). If they decide to sell, the estate will retain any additional proceeds from the sale. If your estate decides to & qualifies for a refinance, they will retain the home and any additional equity.

10. QUESTION: How long do my heirs have to sell the home?

ANSWER: The estate is given six months with up to two three month extensions, allowing for a full year to sell the home. They must make an effort to sell the home to

qualify for the extensions. A limited time period is given, so an unrealistic sales price isn't set, allowing the heirs to live in the home indefinitely.

11. QUESTION: Are the proceeds from the reverse mortgage considered taxable income?

ANSWER: No, reverse mortgage proceeds are not income, no matter how they are received. The funds are considered loan proceeds and are not taxable.

12. QUESTION: The proceeds aren't taxable, but can they have an effect on my government benefits?

ANSWER: Social security and Medicare benefits are not affected by a reverse mortgage. Qualification for Medicaid or supplemental social security, among other needs based benefits, could be jeopardized by a reverse mortgage. It depends on many factors, including how the proceeds are distributed. Should you have any questions about how your benefits would be affected, please contact an elder law attorney or your area agency on aging.

13. QUESTION: How do I know how much my home is worth?

ANSWER: You can do some preliminary research before speaking with us about your situation. The most common places to look are your county's tax assessment, Zillow, Realtor.com, and Redfin. You can even speak to a real estate agent in your area to see what comparable sales exist. Keep in mind, we will order an appraisal as part of the process to determine the actual value.

14. QUESTION: If my home is in a trust, do I qualify for a reverse mortgage?

ANSWER: That depends on the language in the trust, the state you reside in, and whether the trust is revocable or irrevocable. If you submit a fully executed copy over to us, we can have it reviewed before you make application.

15. QUESTION: I am the Power of Attorney (POA) for my father and would like to obtain a reverse mortgage on his behalf. Can I handle the entire process for him?

ANSWER: First, make sure you have a durable general power of attorney that gives you the ability to mortgage the property in question. Second, make sure the document has been executed before you look to obtain a reverse mortgage for him. Third, we'll need to know if your father is considered of "sound mind" or not by his physician.

If he is competent, HUD requires him to participate in the counseling and application process. You will be given the authority to sign a majority of the application documents and all of the closing documents on his behalf.

If he is incompetent, HUD will allow you to handle the entire transaction on his behalf with two doctor's notes. The first will need to say that he was of competent mind when he signed the POA document. The second note will need to say that he is no longer competent due to a specific reason.

16. QUESTION: Who pays my real estate taxes & homeowner's insurance?

ANSWER: In some circumstances, we'll set aside funds from the loan for payment of taxes and insurance for your estimated life expectancy. The majority of reverse

mortgages don't have set-aside accounts, leaving the borrower responsible for their own taxes and insurance. It's a credit and property charge payment history based decision.

17. QUESTION: How long does it take to close a reverse mortgage?

ANSWER: It really depends on whether you've been through the counseling session or not. If you've been counseled prior to applying with our company, we'll be able to close within four to five weeks. If you apply for a reverse mortgage prior to being counseled, the process is more along the lines of six weeks.

18. QUESTION: My home has some deferred maintenance. How will that affect my ability to get a reverse mortgage?

ANSWER: It depends on how severe the "maintenance" is. Cosmetic issues like carpet cleanliness, interior wall paint, stained drywall, damaged gutters, etc. are often ignored during the transaction. The appraiser, when valuing your home, will make note of any FHA repair issues. Those items will need to be fixed in one of two ways, before closing, or after closing where we hold back an escrow to cover the cost.

If the total cost of the repairs are greater than 15% of the appraised value or the issues affect the livability of the property (structure, heating / air, plumbing, etc), the requirement will be that they be fixed prior to closing. If the repairs are of a less urgent nature, a contractor's estimate is required. The contractor is chosen by you and must be licensed in the area.

You are given twelve months after closing to make sure the contractor completes the work. Once the work is finished, the original appraiser will visit again to certify the completeness of the repairs. If the inspection is satisfactory, the contractor is paid in full and any additional funds in the escrow are released to you.

19. QUESTION: I have a very valuable home. Are there any limitations to the value that you'll consider?

ANSWER: The FHA lending limit can change annually, and is the most home value we can consider when setting the loan amount (typically 50-65% of the lending limit). Give us a call to find out what the current national limit is. Proprietary reverse mortgages don't have a limit.

20. QUESTION: Are there any prepayment penalties if I decide to make payments, in part or in full?

ANSWER: No, there are no prepayment penalties on FHA reverse mortgages. You can pay the interest as you go along if you'd like to have the deduction on your tax return for that year. Keep in mind that your payments will be applied to closing costs, FHA insurance, and then interest. Speak with your loan servicer for more information about what category your payment will be applied to.

21. QUESTION: What if I decide to move out for any reason, temporarily or permanently?

ANSWER: The terms of the reverse mortgage state that you must keep the home as your primary residence. You cannot vacate the home for twelve months consecutively

or the loan can be called due.

22. QUESTION: My spouse recently passed away and was on the loan with me. Does that change anything?

ANSWER: No. The terms of the reverse mortgage state that as long as one customer meets the terms of the loan, it will continue as we have offered it.

23. QUESTION: I am 62 years old and my wife is 58. Can I take her off the title to our house and get a reverse mortgage?

ANSWER: No, HUD/FHA changed the rules on this in 2014, because it was being abused. If you are married, and both spouses are living in the home, the youngest age will factor into the amount loaned. The non-borrowing (under-age) spouse will be considered eligible for deferral of the reverse mortgage should the older spouse pass away. The surviving spouse will have to continue meeting the other obligations of the loan.

24. QUESTION: Can they kick me out of my home once I've spent all the money on my line of credit?

ANSWER: No, you cannot be kicked out of your home at any time due to your spending of the proceeds. You only have to meet the terms of the loan and you can live in your home for the rest of your life. The terms include keeping the home your primary residence, not being out of the home for twelve consecutive months, not letting the home fall into disrepair, paying your taxes and insurance, and not changing the title into someone else's name.

25. QUESTION: If I have a recent appraisal that was completed on my home, can I use it? What if my friend is an appraiser?

ANSWER: No, we cannot use the old appraisal or take any appraiser referrals. We will have to order an appraisal as part of the processing of your loan. The appraiser will be randomly assigned, and we will not be allowed to have contact with this individual.

26. QUESTION: Can I use a reverse mortgage to purchase a home?

ANSWER: Yes, the FHA HECM and proprietary reverse mortgage can be used to purchase a home. You will have to put around 50% down, depending on your age and interest rates at that time, and the loan will provide the other half. The reverse mortgage will not require monthly payments, but you still have to pay the other property charges. It's a good way to double the purchase price you can afford if you are paying cash, or to keep cash on the sideline to live off of.

27. QUESTION: Can I rent out my home?

ANSWER: Yes and no. You can rent out a second unit on the property or even take on boarders in your main home. You have to keep the home your primary residence, so you cannot rent it out and live elsewhere. If you do that and get caught, you could have your loan called due for not keeping the property your primary residence.