Reverse Mortgage Update

Reverse mortgages (also called Home Equity Conversion Mortgages, or HECMs) were designed to help senior homeowners tap into equity accrued in their home—potentially providing a valuable tool for seniors who prefer to age in place. Over time, however, the Federal Housing Administration (which insures most reverse mortgages) suffered extensive loan losses, partly due to market factors but also from borrower misuse of the program.

To protect the long-term viability of its reverse mortgage program, FHA periodically revises its lending requirements. In late-2013 a significant round of modifications were introduced, including:

Mortgage insurance premiums and principal limits: While the lending formulas are complex, most borrowers will now qualify for a lower principal limit (their total borrowing power) but pay more in up-front premiums (the cost of the reverse mortgage).

Initial drawdowns: To encourage its use for long-term planning (instead of crisis management), borrowers will face new limits on the amount of money that can be taken out at closing and during the first year of the loan.

Financial assessments: Previously, the primary requirement to qualify for a reverse mortgage was age, since lending decisions focused on the value of the property instead of the borrower's creditworthiness. Under the new provisions, however, a borrower's ability to maintain their property taxes and homeowner insurance over the life of loan will also be considered. This change is intended to reduce lenders' risk that a borrower fails to maintain the property or defaults on key obligations.

Set-asides at closing: Borrowers will need to set aside part of their loan proceeds to pay for property taxes and insurance (or withhold part of their monthly disbursements for these payments).

Protections for surviving spouses: Under the original program, a surviving spouse had to be listed on the loan documents to avoid eviction in the event their spouse dies and they aren't able to pay off the full mortgage balance. Lenders are now expected to put both spouses' names on a reverse mortgage, even if both parties don't appear on the title to the property.

To learn more about reverse mortgages and determine your eligibility, it's best to meet with a federally approved reverse mortgage counselor. Your SRES® can help you find one and direct you to other resources for evaluating your financial options.

You can count on an SRES® to guide you through the process of buying or selling your home, making the transaction less stressful and more successful.

The Seniors Real Estate Specialist® (SRES®) designation is awarded by the SRES® Council, a subsidiary of the National Association of REALTORS® (NAR).

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