Tapping Home Equity: Reverse Mortgages

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Agenda

- What is a reverse mortgage?
- Borrower requirements
- Property requirements
- Payment plans
- Reverse mortgage costs
- Some cheap advice
What is a Reverse Mortgage?

• A reverse mortgage is a loan
  - You use a portion of your home’s equity as collateral
  - The loan does not have to be repaid until the last surviving homeowner moves out of the residence – thus you cannot outlive a reverse mortgage
  - At this point, the estate has roughly 6 months to repay the balance on the loan (usually by selling the home)
  - Equity in excess of the loan balance belongs to the estate
  - The estate is not personally liable if the home sells for less than the loan balance (the lender assumes this risk)
Borrower Requirements

• FHA Home Equity Conversion Mortgage (HECM)

• To be eligible:
  - All homeowners must be at least 62 years old; each must have his/her name on the title
  - You must own the property “free and clear”
  - You must occupy the property as your principal residence
  - All taxes must be current (no delinquent taxes)
  - You must attend a HUD consumer information session
  - There usually are no income or credit score requirements
Property Requirements

• Qualifying properties:
  - Single-family home (built on site)
  - 2-4 unit residence with one unit occupied by the borrower
  - HUD-approved condominium project
  - HUD-approved manufactured home

• Homes must meet FHA property standards and flood requirements
  - Hazard and flood insurance premiums may be verified
  - Minimum insurance coverages must be maintained
Payment Plans

You can select from 5 payment plans:

- **Tenure**
  Equal monthly payments as long as an owner lives in the residence

- **Term**
  Equal monthly payments for a fixed time period

- **Line of credit**
  Periodic (installment) payments withdrawn at borrower’s discretion

- **Modified tenure**
  Combination of a line of credit and tenure payments

- **Modified term**
  Combination of a line of credit and payments for a fixed time period
Reverse Mortgage Costs

• There are 5 categories of loan fees:
  ▪ FHA mortgage insurance premium (initial and annual) to support loan guarantees
  ▪ Third-party charges (e.g., appraisal, title search)
  ▪ Loan origination fee (2% of the first $200,000 of property value, plus 1% of the value in excess of $200,000, up to the FHA lending limit, not to exceed a fee of $6,000)
  ▪ Servicing fees (annual cost of maintaining the loan)
  ▪ Interest charges (fixed rates 3% to 4%, variable rates are available in some markets)
Some Cheap Advice

• Points to consider:
  ▪ Reverse mortgage fees are high, due largely to insurance costs that support loan guarantees
  ▪ Because the loan balance grows over time, the remaining equity for estate / inheritance can decrease over time
  ▪ A reverse mortgage may affect eligibility for Medicaid and other need-based government assistance
  ▪ A reverse mortgage is a complex transaction; you need a professional counselor to advise you

• Use a Home Equity Line of Credit (HELOC)?
THANK YOU!!

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