Reverse Mortgages Part 2 â€“ What you need to know - An ACCESS Special Project

This is part 2 of our 4 part series on reverse mortgages. Here, we discuss the process of qualifying for a reverse mortgage; a process that has changed substantially since the beginning of this year.

Part 1 - Click here

Part 3 - Click here

Part 4 - Not yet published

Tweet

(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();

(function() {
var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
po.src = 'https://apis.google.com/js/plusone.js';
var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
})();

How do I qualify for a reverse mortgage?

Beginning in late April of this year, new rules went into effect for anyone applying for an HECM reverse mortgage. The basic criteria are as follows:

- Borrowers must be at least 62 years of age.

- Borrowers must own their home outright or have a mortgage small enough that it can be paid off when the reverse mortgage closes.

- As of April 27, 2015, borrowers must pass financial assessment which shows that they have the ability to pay their existing mandatory bills. (NOTE: This rule was scheduled to go into effect on March 1, 2015 but was postponed.) The financial assessment includes looking at the borrowerâ€™s credit history. Borrowers with poor repayment histories may no longer qualify for a reverse mortgage

- You must live in your home.

- Borrowers have to agree to go through a credit counseling session prior to receiving any funds.

Why do I have to pass a financial assessment in order to get a reverse mortgage?

You may be surprised to learn that the default rate on reverse mortgages is quite high. In 2012, it was 9.4%. Thatâ€™s nearly twice as high as for traditional mortgages during the same time period. The financial assessment was implemented to reduce default rates; protecting borrowers, lenders and the federal government which insures all HECMs.

Iâ€™m 62 years old but my spouse isnâ€™t. Can I still get a reverse mortgage?

Yes, but your spouse canâ€™t be listed on the loan because of his/her age and there may be significant long-term consequences for that unlisted spouse. These include:
Â· If you die or are forced to move to an assisted living facility, your spouse will be forced to sell your home. The law protecting your right to live in your house until you die doesnâ€™t protect anyone else living in the house who is not named on the loan.
Â· Depending upon a number of factors including the size of your reverse mortgage, the interest rate and how long you have had the loan, your home may no longer have any equity left in it. If that is the case, you could be leaving your spouse and any other family members living with you homeless and broke.

What kind of property qualifies for a reverse mortgage?

Your home may be a single family residence, a HUD approved condominium or a manufactured home that meets FHA requirements. Two to four unit apartment buildings may also qualify as long as you live in one of the units.

If you live in a condominium, your property must be FHA approved. You can look up information on your condominium complex by visiting the following link: https://entp.hud.gov/idapp/html/condlook.cfm

If your condominium development is approved, you are free to apply. If it is not approved, the only way to become eligible to apply for a reverse mortgage is to convince your homeowners association to apply for FHA approval. This is a process that can take several months, which does involve some costs and certain criteria can completely disqualify a property. For instance, if your condominium is located in a building that once served as a hotel, your property is ineligible for FHA approval.

Even if your property is eligible for approval, your homeowners association may determine that it is not in their best interests to seek FHA approval. Thatâ€™s because once approved, units in your building can qualify for any FHA loan including purchase money loans for as little as a 3% down payment. Some associations view this as undesirable because it may attract buyers who are not financially stable.

If I have an existing mortgage on my home, can I still get a reverse mortgage?

Yes, provided that your existing mortgage can be paid off at closing with the money you receive from your reverse mortgage. In this case, when your reverse mortgage closes a portion of the loan must be used to pay off any other home loans you may have. As noted above, using a reverse mortgage to refinance your home can pose significant long term financial risk to borrowers.
Part 2 summary:

Prior to the new rules that went into effect in April, virtually any homeowner who met the age, equity and FHA requirements could qualify for a reverse mortgage. Thatâ€™s no longer the case. Now, you also need to have a fairly good credit history as well. But as you will see in Part 4 of our series, reverse mortgages are not the only financial vehicle you can use to gain access to the equity in your home, without monthly payments, while still living in it.

In our next article in this series, weâ€™ll be discussing the various types of reverse mortgages that are available, their costs and how much money you can borrow.
Links to other articles in this series:
Part 1 - Click here

Part 3 - Click here

Part 4 - Not yet published

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.
Follow me on Twitter:

Follow ACCESS