

Reverse Mortgage

Q) What are recently adopted new restrictions and requirements and why?

A) The basic rules around the origination and terms of a Reverse Mortgage remain unchanged:

- 1) The homeowner/borrower must be age 62 or older.
- 2) The mortgaged property must be occupied as the borrower's principal residence.
- 3) The property must be owned free and clear of other mortgages, or there must be significant equity in the property.
- 4) The loan becomes due when:
 - The property is sold;
 - The borrower vacates the property for more than 12 months;
 - Taxes and/or insurance on the property are not paid; or
 - The borrower dies.

Since, substantially, all Reverse Mortgages are insured by the Department of Housing and Urban Development (HUD), HUD has implemented new regulations to protect the consumer and the viability of the insurance insuring these loans by HUD. During the latest financial market downturn, defaults on Reverse Mortgages reached a rate of about 10%. These defaults were, for the most part, caused by the inability of the consumer/borrower to perform their obligations under the Reverse Mortgage loans. This includes the obligation to be able to pay the property taxes on the property, maintain hazard insurance on the property, and maintain the property. The main emphasis of the new regulations focuses on the borrower's qualification for the loan. In brief, these changes are:

- **Financial Assessment of the Borrower** — The lender is required to analyze the prospective borrower's income as it relates to their expenses for purposes of determining if the borrower has sufficient means to pay their property tax obligations and maintain hazard insurance on the property. If the income is not sufficient to meet these obligations, the prospective borrower may not qualify for the Reverse Mortgage. In addition, if the ability to meet these obligations appears questionable, a portion of the Reverse Mortgage loan proceeds may be required to be set aside for payment of these obligations thereby reducing the amount of the loan available to the borrower. The prospective borrower is required to submit verification of income, taxes, assets, payment history, and debt owed to other lenders. This rule became effective on April 27, 2015.
- **First Year Withdrawal Limit** — The amount of the Reverse Mortgage that may be withdrawn by the borrower during the first 12 months of the loan has been limited. In most cases only up to 60% of the principal loan amount may be withdrawn in the first year. The goal of this restriction is to have the loan proceeds withdrawn more slowly so as to last the life expectancy of the loan. One exception to this limitation may be if the payoff of an existing loan on the property exceeds the 60% threshold of the Reverse Mortgage loan.
- **Withdrawal Amount Decrease** — The amount available to withdraw under a Reverse Mortgage has been decreased under the new regulations by about 15%.

As a result of these changes, there are now fewer borrowers that can qualify for a Reverse Mortgage. However, for the borrowers that do qualify for a Reverse Mortgage loan, there is a better chance that the borrower will be able to continue to occupy the property for the remainder of their life.

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