

What Do I Do When My Loan is Due?

AN EASY GUIDE FOR REVERSE MORTGAGE BORROWERS AND THEIR FAMILIES

A reverse mortgage is a loan

Most reverse mortgages are Home Equity Conversion Mortgages (HECMs) that are insured by the Federal Housing Administration (FHA).

Your HECM is money loaned to you by a lender against the equity you have accumulated in your home by making monthly mortgage payments.

Like any loan, a reverse mortgage must be paid back

You are also responsible for paying your real estate taxes and hazard insurance premiums for as long as you have your HECM. You are also responsible for maintaining the structural integrity of your home.

Your HECM will be paid back in full when you reach what is called a *Maturity Event*.

You can pay off your HECM in full at any time—or you can wait until you reach a *Maturity Event*.

A *Maturity Event* occurs when a borrower:

- Sells the home;
- Conveys title of the property to someone else;
- Passes away;
- Resides outside of the principal residence for a period exceeding 12 consecutive months due to physical or mental illness;
- Fails to pay property taxes, insurance premiums, condo fees, and other “mandatory obligations,” and all options to bring the loan current have been exhausted; or
- Fails to maintain the home and allows it to fall into disrepair

This guide will help you prepare when a *Maturity Event* occurs and the loan has to be repaid. It includes:

- A step-by-step walk through the end of the loan process.
 - ◆ **Step One: You Reach a Maturity Event**
 - ◆ **Step Two: Contact Your Servicer**
 - ◆ **Step Three: Plan to Pay Off Your Debt**
 - ◆ **Step Four: Settling the Loan**
 - ◆ **Step Five: If Loan Cannot Be Settled, Face Foreclosure**
- Advice for surviving spouses of HECM borrowers
- Advice for children or other heirs of HECM borrowers
- A glossary of terms that HECM borrowers should know

It is very important that you communicate with your *Loan Servicer* whenever you have a question about your reverse mortgage. Your Loan Servicer will always help you through the end of the loan process.

Make sure you keep the telephone number and or email address of your *Loan Servicer* someplace convenient.

The End of Your Loan: Step-by-Step

STEP ONE: You reach a Maturity Event

- **Single Persons**

When you pass away, sell your home, convey title to someone else, or live outside of the property for more than 12 consecutive months due to physical or mental illness, you have reached a Maturity Event and the reverse mortgage must now be paid back.

- **Couples**

As long as both spouses were 62 or older and on title when they obtained the reverse mortgage, the loan does not need to be paid back until the last surviving spouse passes away, moves out, or lives outside of the property for more than 12 consecutive months due to physical or mental illness. If one spouse passes away, the surviving spouse can continue living in the home and will have access to any remaining reverse mortgage proceeds.

PLEASE BE AWARE: *Servicers* audit the death records of borrowers using a variety of tools. It is not to your advantage to delay notifying your servicer about this event, as many of the deadlines listed below are based upon the date that the borrower passed away – not the date that the Loan Servicer was made aware of the borrower’s death.

STEP TWO: Contact Your Servicer

When a *Maturity Event* occurs, you or your heirs should immediately contact the Loan Servicer by telephone or by email.

Within 30 days of being notified of a *Maturity Event*, the *Loan Servicer* will mail a “Due and Payable” letter to the borrower, or borrower’s estate, that discloses the current loan balance and explains the options for paying back the reverse mortgage, number of days to respond, and options to avoid foreclosure. An appraisal is also ordered by the *Loan Servicer* within the same timeframe to determine the property’s current market value.

It is very important that the borrower or estate respond to the Due and Payable letter within 30 days or the *Loan Servicer* can initiate foreclosure as required by federal regulation.

Please also know that no further funds can be disbursed to you from the reverse mortgage once a maturity event has occurred.

PLEASE BE AWARE: Some borrowers pass away without having any heirs. The *Loan Servicer* needs the flexibility to foreclose, or take legal ownership of the property, so that it can dispose of the home and get repaid. Therefore, it’s important that the heirs keep in contact with the *Loan Servicer* and carefully follow the prescribed timelines in order to avoid any legal complications.

STEP THREE: Plan to Pay Off Your Debt

Payment is due immediately, but the estate may have up to six months to satisfy the debt. The estate can sell the property to pay off the debt, use private savings, or the property can be purchased for 95 percent of its current appraised value.

If additional time is needed to sell the property, you can request a 90-day extension from the *Loan Servicer*, but the request must be approved by the U.S. Department of Housing and Urban Development (HUD). The estate will have to be able to demonstrate that the property is actively being marketed or financing is being actively pursued. If the property still has not sold after the first extension has expired, you may request one additional 90-day extension, subject to approval from HUD.

The balance owed equals the total sum of the loan proceeds advanced, plus interest and other unpaid fees, such as mortgage insurance.

Interest, mortgage insurance premiums and homeowner's insurance will continue to accrue until the loan is paid and settled. This means your loan balance will continue to grow during the settlement period.

PLEASE BE AWARE: You must contact the *Servicer* to request these 90-day extensions and they may require specific documentation that has to be submitted to HUD to substantiate your request. As an example, if you have listed the property for sale, HUD would need to see a copy of the real estate listing for the property.

STEP FOUR: Settling the Loan

If the initial Due and Payable letter, also called a "Demand Letter," is not responded to, or if the 90-day extensions have expired and the property still has not sold, the borrower has no heirs to help pay off the loan, or the loan is not otherwise satisfied, then the *Servicer* may be required to initiate foreclosure.

Pre-foreclosure notices will be mailed to the borrower's home address by the *Loan Servicer* or a foreclosure attorney. A foreclosure attorney must take First Legal Action to initiate foreclosure within 6 months of the "due and payable" date, unless prior time extensions have been approved by HUD.

You or your heirs may receive these foreclosure notices, even if you are actively working to refinance the property or sell it to pay off the loan. In some cases, state law may require these notices be sent. Don't let this worry you. You should, however, contact the *Loan Servicer* and make them aware that you have received these letters and ask them for further instructions.

PLEASE BE AWARE: Your HECM is a *non-recourse* loan, which means when the home is sold, you do not have to pay any more than the current appraised value. If the loan balance is less than the market value of the home when sold, the additional equity is retained by you or your heirs.

STEP FIVE: If Loan Cannot be Settled, Face Foreclosure

We hope the information in this document will prevent you from getting to this point in the process. Foreclosure is a legal term where, at the end of that process, the investor on your loan assumes ownership of the property and will sell it to pay off the loan balance. When foreclosure occurs, the borrower has no more responsibility for the home or the loan, nor will the borrower receive any remaining proceeds after the loan balance is satisfied.

Advice to Spouses of Borrowers

All HECM borrowers must be 62 years or older and identified on the deed as an owner of the property.

The amount of proceeds you can receive from a reverse mortgage loan is based on the age of the borrower, the value of the property and interest rates at the time of closing. The older you are, the more you can borrow.

When a couple jointly owns a property, the loan amount will be based on the age of the youngest borrower. For example, if a husband is 75 and a wife is 65, the principal limit will be based on the wife's age.

If a borrower dies and the surviving spouse is listed on the deed as a homeowner and on the HECM loan, no action needs to be taken. The information on the preceding pages about a *Maturity Event* is then applicable to the surviving spouse.

PLEASE BE AWARE: If you are a surviving spouse who is under 62 years of age, or if your name was removed from the title so that your spouse could get a reverse mortgage, you may be eligible to remain in the home.

As long as you qualify as an “Eligible Non-Borrowing Spouse,” the reverse mortgage will not become due and payable until another *Maturity Event* occurs. To qualify as an Eligible Non-Borrowing Spouse, the following conditions must be met:

- You are current in making timely tax and insurance payments;
- You are maintaining the property under the terms and conditions of the HECM;
- You were legally married to the borrowing spouse when the reverse mortgage originally closed, OR you were engaged in a committed same-sex relationship with the borrower akin to marriage but were prohibited under state law from legally marrying the borrower at the time of the loan's origination, but became legally married prior to the death of the borrower;
- You have lived in the property as a principal residence throughout the duration of the HECM;
- You have, or are able to obtain, within 90 days following the last surviving borrower's death, good, marketable title to the property or a legal right to remain in the property for life.

Unfortunately, if you do not qualify as an Eligible Non-Borrowing Spouse, the reverse mortgage will become due and payable and you will have to find a way to pay off the loan, or sell the property and find alternative housing.

It's important that you contact the *Loan Servicer* and find out what your options are.

Advice to Children of Borrowers (or Other Heirs)

If you are the heir to your parents' (or anyone else's) estate and the last surviving parent passes away, you assume responsibility for the future of the reverse mortgage.

You (and your siblings) can satisfy the debt by selling the home or purchasing the property for 95 percent of its appraised value. If the home depreciates in value to the point that the balance owed exceeds the value of the home, you will not be responsible for repaying more than what the home is worth.

Another option to consider is a “Deed In Lieu of Foreclosure.” If you or your siblings live in different parts of the country, or otherwise don't want to take responsibility for selling the property, the *Loan Servicer* can assume that obligation.

Glossary of Terms You Should Know

Foreclosure: A legal term meaning the lender assumes ownership of your home as collateral against your loan due to your failure to pay property taxes or homeowner's insurance, your failure to maintain your home, or your failure to respond when the loan is deemed due and payable.

HECM (Home Equity Conversion Mortgage): The name for reverse mortgages that are insured by the Federal Housing Administration.

Homeowners Insurance: Insurance that protects you and your lender in the event the home is destroyed by vandalism, an act of God or in any other way.

Maturity Event: A life changing event that triggers repayment of a reverse mortgage.

MIP (Mortgage Insurance Premium): A fee deducted from the available loan proceeds that is paid directly to Federal Housing Administration at closing and monthly while the reverse mortgage is outstanding. In exchange for paying this fee, if the company servicing the loan is interrupted, FHA assumes responsibility for the loan, providing the borrower with uninterrupted access to proceeds from his or her reverse mortgage. In cases where the sale of the home is not enough to pay back the reverse mortgage, the insurance protects the borrower or estate from owing more than the current appraised value by covering losses incurred by the lender.

Non-recourse Loan: A loan for which the settlement payment for your balance is limited to the value of the home and for which surviving spouses and heirs cannot be charged if the balance exceeds the appraised value or sales price.

Principal Limit: The loan proceeds to which you are entitled based on your age, home value and interest rates at the time of closing.

Property Taxes: Annual taxes assessed and administered by your state, county or city, and based on the value of your home and plot of land.

Servicer: The company responsible for administering your loan including providing you timely update statements, informing you of any changes your behavior may trigger, and helping you through the end of the loan process.



For additional information such as finding a reverse mortgage lender or a reverse mortgage counselor, go to

www.reversemortgage.org