

## New Rules Make it More Difficult to Obtain a Reverse Mortgage

The federal government has tightened the rules regarding reverse mortgages, making it harder for some seniors to get these types of mortgages and reducing the amount of their home's value that they can tap. The new rules are an effort to strengthen the federal Home Equity Conversion Mortgage (HECM) program, which insures almost all reverse mortgages and which has seen default rates rise.

A reverse mortgage allows a homeowner who is at least 62 years old to use the equity in his or her home to obtain a loan that does not have to be repaid until the homeowner moves, sells, or dies. In a reverse mortgage, the homeowner receives a sum of money from the lender, usually a bank, based largely on the value of the house, the age of the borrower, and current interest rates. Seniors sometimes use the loans to pay for long-term care.

In recent years there have been complaints over problems with reverse mortgages, including large costs, aggressive marketing techniques, and the danger of default if insurance and property taxes aren't paid on time. Encouraged by lenders, more homeowners withdrew the entire loan amount all at once, straining the HECM program's reserve funds.

The government began addressing these problems last year by eliminating one of the most popular types of reverse mortgage, the HECM Standard fixed-rate, lump-sum reverse mortgage. The new rules make changes to who can take out loans, the amount they borrow, and the pricing, among other things:

- **Who can borrow money.** Borrowers are now required to undergo a financial assessment to ensure they can make insurance and property tax payments. If a lender determines you are a risk to default on insurance or tax payments, you may be required to set aside money to make those payments.
- **Amount you can borrow.** Before the new rules, homeowners had the choice of two programs: HECM standard, which allowed for higher loans, and HECM saver, which had smaller loans and smaller fees. The government has merged these two programs, and the new maximum loan amount is about 10-15 percent less than in the standard, but slightly higher than in the saver.
- **Fees.** Previously, the upfront fee to take out an HECM standard was 2 percent of the property's value, while a HECM saver was .01 percent. The new fee is .5 percent on smaller loans, but individuals who take out a loan that is more than 60 percent of their home's value will pay a 2.5 percent fee.
- **First-year limit.** During the first year of a loan, homeowners can only withdraw up to 60 percent of the loan amount.

Used correctly a reverse mortgage can be a valuable long term financial planning tool.