

## Reverse Mortgage -- FHA Modernization in Plain English

In July 2008 Congress and the President passed legislation to reform the FHA Home Equity Conversion Mortgage (HECM).

All HECM Reverse Mortgages are insured by the FHA and are intended for homeowners age 62 and older to be able to afford to stay in their homes during retirement. The bank pays money to the borrower instead of the borrower paying money to the bank. It is a loan with payments in reverse.

All loan calculations are made by trained Reverse Mortgage Consultants using a proprietary calculator. However, there is a simplified calculator on my web site that is available to anyone interested to estimate their own benefits. Go to [www.RoyalReverseMortgage.com](http://www.RoyalReverseMortgage.com) and click on the link "Calculate Your Reverse Mortgage Benefits." You'll see that an older borrower qualifies for more money than a younger borrower. This is because they'll be in their home a shorter period of time (statistically) so the loan won't have time to grow as large as with the younger borrower. Yes, a Reverse Mortgage balance grows larger over time, the reverse of a regular mortgage.

There are two important changes in the new legislation that are of significant benefit to seniors.

1. PLEDGE LIMITS: The Pledge Limit (sometimes referred to as a Loan Limit) has increased to \$417,000 nationwide. Previously each county in the United States had its own Pledge Limit with the highest being \$362,790.

A Pledge Limit is the maximum home value used in Reverse Mortgage calculations. Here is an example as a way to explain. When a senior applies for a Reverse Mortgage they provide their age and property value. When the benefit amount is calculated the money is always less than the home value. That just makes sense. Banks won't lend the borrower more than what can be secured by the home. The FHA Pledge Limit goes one step further by placing a ceiling on the home values that are used in the benefits calculation. When the actual home value exceeds the Pledge Limit (\$417,000), the calculator uses the Pledge Limit to run the calculation. Therefore, the Reverse Mortgage benefit calculation is the same for a \$500,000 home as a \$417,000 home, with the age of the borrower (as stated above) affecting the actual loan amount. In this scenario a 65 year old would get approximately \$238,000 net. A 75 year old would get approximately \$286,000 net. The loans are payable lump sum, monthly or in a line of credit.

2. HOME PURCHASE: Previously the HECM was strictly a Refinance Loan. The senior already had to own their home (paid for or not) in order to take advantage of the benefits of a Reverse Mortgage. The new legislation allows the HECM to be used toward a home purchase. This change will be very beneficial to seniors that want to downsize at retirement but do not want to tie up all their cash in their new home. With a Reverse Mortgage they will be able to finance a sizable portion of their purchase and use their money for other purposes. This greatly benefits seniors that were already planning to relocate. They won't need to qualify for a purchase loan, incur the closing costs and then apply for a Reverse Mortgage.

Steven Moline is a Reverse Mortgage Consultant with First Priority Financial serving all of California. For more information, to ask questions or to receive a complimentary brochure call toll free at 866-885-5573 or on the web at [http://www.RoyalReverseMortgage.com/Contact\\_Steve.htm](http://www.RoyalReverseMortgage.com/Contact_Steve.htm)