

## Section C. Reverse Mortgage Borrower and Property Eligibility

### Overview

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## 1. Reverse Mortgage Borrower Eligibility

**Change Date** March 18, 2011

**PROTCL 5.C.1.a** The table below describes the borrower eligibility requirements for a HECM.

**Borrower Eligibility for a HECM** *Note:* Eligibility requirements for other reverse mortgage products vary from those for a HECM.

<b>Borrower Eligibility Requirement</b>	<b>Description</b>
Borrower Age	<p>All borrowers must be 62 or older. If both husband and wife are on the title to the property, they must both be at least 62 years old in order to qualify for a HECM.</p> <p>A younger spouse may take his/her name off the title of the property in order to allow the eligible spouse to participate. Then, when the younger spouse turns 62, he/she may be added to the loan if the borrower chooses and is able to refinance.</p> <p>However, there is a significant risk associated with removing the non-borrowing spouse from the title in order to pursue a reverse mortgage. If the borrowing spouse should die, the HECM will become due and payable and the non-borrowing, non-titled spouse may be forced to sell the home to pay off the loan.</p>
Borrower Counseling	Borrowers must receive reverse mortgage counseling (and a Counseling Certificate certifying completion of the counseling) from a HUD-approved housing counseling agency before applying for a HECM loan with a lender.
Principal Residency Status	<p>The borrower must maintain his/her principal residence in the property securing the HECM loan. He/she may not leave the property for more than 12 months.</p> <p><i>Note:</i> A borrower may have only one principal residence.</p>

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# 1. Reverse Mortgage Borrower Eligibility, Continued

## PROTCL 5.C.1.a Borrower Eligibility for a HECM (continued)

<b>Borrower Eligibility Requirement</b>	<b>Description</b>
Borrowers with an existing mortgage	<p>A borrower who has an existing mortgage on his/her home must either</p> <ul style="list-style-type: none"> <li>• pay it off before getting a HECM, or</li> <li>• use an immediate cash advance from the HECM to pay it off.</li> </ul> <p><b><i>Borrower Ineligibility</i></b>                      A borrower who does not pay off the mortgage before obtaining a HECM, or who does not qualify for a sufficiently large cash advance to pay off the existing mortgage, is ineligible for a HECM.</p>
Borrowers with an existing lien	<p>If the closing proceeds from the HECM loan are not sufficient to pay off existing liens on the property, the borrower may not incur additional financial obligations, such as a credit card cash advance or an additional lien against the property from a home equity loan, to pay off the existing liens.</p> <p>FHA regulations require that borrowers have no delinquent Federal financial obligations or liens on their property in order to qualify for a HECM loan.</p>

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## 1. Reverse Mortgage Borrower Eligibility, Continued

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### PROTCL 5.C.1.a Borrower Eligibility for a HECM (continued)

<b>Borrower Eligibility Requirement</b>	<b>Description</b>
HECM for Purchase	<p>To be eligible for a HECM for purchase, the borrower must be able to make the required monetary investment at closing. This investment is the difference between the</p> <ul style="list-style-type: none"> <li>• principal limit of the HECM loan, and</li> <li>• the sales price of the property, plus any HECM loan related fees that are not financed in the loan minus the amount of the earnest deposit or downpayment.</li> </ul> <p>A borrower</p> <ul style="list-style-type: none"> <li>• <i>may</i> use cash on hand or funds from the sale of his/her existing property or from the sale of personal assets such as retirement accounts and stocks to satisfy the monetary investment requirement, but</li> <li>• <i>may not</i> use “gap financing” or other interim financing, such as credit card cash advances, seller financing or any other financial obligation that cannot be satisfied at closing.</li> </ul> <p><b>Note:</b> Sellers may <i>not</i> provide any concessions, except to reduce the sales price.</p>

**Note:** Counselors must advise the client that lenders will

- verify the client’s sources of funds, and
  - conduct a credit check during the application process.
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## 2. Reverse Mortgage (HECM) Property Eligibility

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**Introduction** This topic contains information on property eligibility for a HECM loan, including

- the requirement for counselors to stay up-to-date on program changes affecting property eligibility
  - types of properties eligible for a HECM loan
  - property eligibility for a HECM for purchase
  - types of properties ineligible for a HECM loan, and
  - ineligibility of “flipped” properties for a HECM loan.
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**Change Date** March 18, 2011

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**PROTCL 5.C.2.a Requirement for Counselors to Stay Up-to-Date on Program Changes Affecting Property Eligibility** Counselors must be aware of HUD program changes concerning the eligibility of different property types, as these requirements may change over time.

*Note:* Clients must confirm the eligibility of their properties with their lenders.

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## 2. Reverse Mortgage (HECM) Property Eligibility, Continued

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**PROTCL  
5.C.2.b  
Types of  
Properties  
Eligible for a  
HECM Loan**

For HECM loans, eligible property types include

- single-family homes (one to four-unit properties)
- manufactured homes (built after June 1976)
- condominiums
- properties in planned unit developments (PUDs)
- townhouses, and
- properties held in a living trust.

Newly constructed properties are eligible *only* if local authorities have issued a Certificate of Occupancy or its equivalent.

**Note:** The borrower must occupy the property securing a HECM loan within 60 days.

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**PROTCL  
5.C.2.c  
Property  
Eligibility for a  
HECM for  
Purchase**

Properties eligible for HECM for purchase must be one to four-unit properties held in fee simple, or on renewable leasehold lasting at least 99 years, or not less than 50 years beyond the date of the 100th birthday of the youngest borrower.

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**PROTCL  
5.C.2.d  
Types of  
Properties  
Ineligible for a  
HECM Loan**

Ineligible properties include

- cooperative units
  - boarding houses
  - bed and breakfast establishments
  - manufactured homes built before June 15, 1976, and
  - manufactured homes lacking HUD certification labels or a permanent foundation.
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## 2. Reverse Mortgage (HECM) Property Eligibility, Continued

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**PROTCL  
5.C.2.e  
Ineligibility of  
“Flipped”  
Properties for a  
HECM Loan**

“Flipped” properties are ineligible for purchase with a HECM. Properties are ineligible if they are being

- sold by anyone other than the owner of record
- re-sold 90 or fewer days from the previous sale, or
- re-sold between 91 and 180 days from the previous sale and
  - the new sales price exceeds 100% of the previous sales price, and
  - there is no additional documentation to validate the property’s value.

*Note:* HUD may issue exceptions to these restrictions to accommodate home sales in economically distressed areas. Potential borrowers must confirm with their lenders whether specific properties are exempt from HUD’s eligibility restrictions.

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### 3. Consideration of Modifications and Required Repairs

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**Introduction** This topic contains information on

- borrower consideration of possible necessary modifications, and
- the completion of required repairs affecting home habitability and safety.

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**PROTCL  
5.C.3.a  
Borrower  
Consideration  
of Possible  
Necessary  
Modifications**

Borrowers must consider

- what modifications may be necessary to ensure the home's habitability as they age, for example
  - ramps
  - stability bars in bathtubs, or
  - wider doorways for wheelchair access, and
- whether the proceeds of the reverse mortgage will cover the costs of these health-related modifications.

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### 3. Consideration of Modifications and Required Repairs, Continued

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**PROTCL  
5.C.3.b  
Completion of  
Required  
Repairs  
Affecting Home  
Habitability  
and Safety**

Certain repairs, which affect the home's habitability and safety, may be required for a property to be eligible for a HECM loan. The HECM may be closed before the required repairs are completed if the estimated cost of the repairs does not exceed 15 percent of the maximum claim amount.

Funds equal to 150% of the cost of the repairs, plus the administration fee

- *may* be set aside from the loan, and
- *may not* be drawn until the repairs are complete.

If the costs exceed the funds that have been set aside, the borrower must pay for the repairs directly, or with any funds available in a HECM line of credit. Repairs must be completed within the time stated on the loan documents at closing (usually 6 months). Otherwise, the lender must discontinue all payments on the loan until the repairs are complete.

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## 4. Eligibility of Properties Held in Trust

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**PROTCL**  
**5.C.4.a**  
**Properties Held**  
**in Trust**  
**Eligibility**

If a property is being held in a living trust for the benefit of the borrower or the future benefit of other individuals (such as the borrower's heirs), the property may be eligible for a reverse mortgage if it meets all other eligibility criteria.

The HECM application process for these types of properties is the same as for properties that are not held in trust.

FHA does *not* require a trust to be irrevocable for the property to be eligible for a HECM. However, a lender *may* require the trust to be irrevocable as a condition for approving a reverse mortgage.

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