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Reverse Mortgage Rules Change to Allow Seniors to Buy New Homes

The following November 14, 2008 article by Cliff Auerswald of All Reverse Mortgage Company outlines how the new Purchase Reverse Mortgage Program set to take effect in January 2009 may allow seniors to purchase a new home and never make a mortgage payment for as long as they live in the home. Under the new FHA rule, the down payment required will be reduced more for older purchasers who get the best deals on purchase price.

Starting January 1, 2009, FHA will begin to insure reverse mortgage loans for purchases. What does this mean? Senior borrowers age 62 and over can now purchase a home using a reverse mortgage rather than a traditional forward mortgage. This is great news to seniors who have had a desire to purchase a new home but felt they could not either due to their credit, their income, they did not want to have to start making payments again at this stage in their lives or a myriad of other reasons.

What does this really mean for senior borrowers?

We have heard many senior borrowers who loved their homes and never wanted to leave it. We have heard from almost as many who told us that they found their existing home just did not suit their needs any longer, but they could not see any way of moving to a new home.

So, they felt that they either had to remain in the home with which they no longer felt comfortable or their only other option was to sell it and rent an apartment somewhere and that option just was not very appealing to them.

The reverse mortgage purchase program allows borrowers to purchase a new home, they do not have to pay for the entire home with cash and they never have to make a mortgage payment for as long as they live in the property.

There is no income or credit qualification (other than HUD's requirement that the borrowers must be able to maintain their home and pay the taxes and insurance and cannot be delinquent on federal obligations or currently in bankruptcy) and the Home Equity Conversion Mortgage (HECM) for purchase can be used with all the same property types that the refinance HECM programs currently accommodate.

One thing that HUD did for seniors that will really help them in this market is that they are determining the down payment requirements solely on the appraised value, rather than the normal FHA method of the appraised value or the sales price, whichever is less. This may

not sound like much of a concession at first, but stop and think about a property which must be sold quickly in this market which still appraises for a higher value.

HUD is willing to allow the senior buyer to gain the benefit of the higher appraised value which may significantly, or in some cases even eliminate, the down payment requirement. This leaves more of the senior's funds available to the senior as disposable assets. What follows below are some HECM purchase examples illustrating this point:

● **67 Year Old Buyer – 5% Expected Average Interest Rate**

Home Purchase	Example #1	Example #2
Appraised Value	300,000	300,000
Sales Price	300,000	280,000
Principal Limit	199,500	199,500
Minus Insurances & Fees	15,500	15,500
Available Proceeds	184,000	184,000
Required Down Payment	116,000	96,000

(example taken from [HUD Mortgage Letter 2008-33](#)) Notice the borrower has to come in with less money when the value of the property is higher than the sales price (example #2). Now let's give two more examples and show what happens when the borrower is a little bit older and they get even a little better deal on the home:

● **79 Year Old Borrower Today's Expected Rate of 5.57%**

Example #3	
Appraised Value	325,000
Sales Price	275,000
Principal Limit	242,642
Minus Insurances & Fees	15,500
Required Down Payment	116,000

● **85 Year Old Borrower Today's Expected Rate of 5.57%**

Example #4	
Appraised Value	325,000
Sales Price	265,000
Principal Limit	260,924
Minus Insurances & Fees	15,500
Required Down Payment	19,576

As you can see by the last two examples, the older the borrower and the better deal the borrower can get when purchasing the home, the less out of pocket the borrower needs to close the transaction. We have actually seen examples where the appraised value was significantly higher than the sales price due to distressed sales and borrowers had a zero down payment requirement.

This allows borrowers who do not currently own an opportunity to purchase. It also gives current owners the chance to downsize, move into communities closer to friends, family and activities more in line with their needs or desires while keeping more of their proceeds from the sale of their existing home available for their use.

This is much more advantageous instead of having to buy their next home for all cash to avoid loan payments or qualification for a new mortgage with income they may not have. Remember, borrowers who purchase with a reverse mortgage never have to make a monthly mortgage payment for as long as they live in their home!

What are acceptable down payment sources for the Reverse Mortgage Purchase Program?

- Proceeds from sale of current home
- Retirement Funds including 401k, Stocks, Bonds, etc
- Other Savings

Now may be the time for seniors who are serious about making a move to begin looking in earnest as they have a tool that has never been available to them before. The Purchase Reverse Mortgage effective date is January 1, 2009 for FHA to begin to insure the loans but there is no reason seniors cannot begin to look now!

If you think a reverse mortgage or a move to smaller living arrangement may be beneficial to you or your loved one, contact us at 866-ELDERLAW.