How Title Insurance Plays a Role in HUD's Reverse Mortgage Program

In October, 2011, the FHA expressed concern over rising delinquency rates in the Home Equity Conversion Market (HECM), which includes Reverse Mortgage products. This has resulted in new underwriting guidelines propagated through the National Reverse Mortgage Lender's Association (NRMLA) and its members. One prominent Reverse Mortgage lender has announced that it will conduct financial assessments based on the applicant's entire credit history, cash flow, and on the applicant's overall ability to pay debts. Any defaults or delinquencies in the prior 24 months will have a negative impact on underwriting. Cash flow will be determined by the lender with audits of the borrower's tax returns and debt status. Some lenders have discontinued offering the Reverse Mortgage products.

For more information and a link to the HUD/HECM website, see:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/rmtopten

Lender's Title Insurance coverage on Reverse Mortgage products raise the following issues for Title Insurer's:

1) Will planned future advances or fund disbursements have the same priority *(lender will hold a secured 1st position)* as though fully funded at recording?

2) Reverse Mortgages are usually structured with Variable Interest Rates, a fact which can affect priority and even validity and enforceability.

3) Unpaid interest is often compounded and added back to the principal balance, again raising priority issues as to the increases to the unpaid balance.

4) Two Deeds of Trust are typically recorded securing this type of loan, one in favor of the lender and one in favor of HUD should the lender go out of business. The amount of the title policy is based on the maximum loan amount.

(See Q&A on reverse side)

Source: Mike Dullea, West Region UW Counsel, TRGC.

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Q&A

The Home Equity Conversion Mortgage (HECM) is FHA's Reverse Mortgage Program which enables you to withdraw some of the equity in your home. The HECM is a safe plan that can give senior citizens greater financial security. Many senior citizens use it to supplement social security, meet unexpected medical expenses, make home improvements and more.

Q. What is a Reverse Mortgage?

A. A Reverse Mortgage is a special type of home loan that allows you to convert a portion of the equity in your home into cash. The equity that built up over years of home mortgage payments can be paid to you. Unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence or fail to meet the obligations of the mortgage. You may also use a HECM to purchase a primary residence if you are able to use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

Q. Can I qualify for FHA's HECM Reverse Mortgage?

A. To be eligible for a FHA HECM, the FHA requires that you be a homeowner 62 years of age or older, own your home outright, or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan, and you must live in the home. You are also required to receive consumer information free or at very low cost from a HECM counselor prior to obtaining the loan.

Q. Can I apply if I didn't buy my present house with FHA mortgage insurance?

A. Yes. It doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new FHA HECM will be FHA-insured.

Q. What types of homes are eligible?

A. To be eligible for the FHA HECM, your home must be a single family home or a 1-4 unit home with one unit occupied by the borrower. HUD-approved condominiums and manufactured homes that meet FHA requirements are also eligible.

Q. What's the difference between a Reverse Mortgage and a bank home equity loan?

A. With a traditional second mortgage, or a home equity line of credit, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The Reverse Mortgage is different in that it pays you, and is available regardless of your current income. The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home, sales price or FHA's mortgage limits, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest rate, the more you may borrow.

With a HECM, you won't make monthly principal and interest payments, the lender pays you according to the payment plan you select. Proceeds are not taxed as income, the equity remains, funds can be used for any purpose and you can't out live your loan. You are subject to an occupancy requirement, one spouse can be evicted if non borrowing spouse survives borrowing spouse, maintenance must be done and if not maintained the lender can foreclose, and taxes must be paid.

Source: HUD/HECM Website