

# What are the requirements to obtain a reverse mortgage (in Massachusetts), and should I get one?

3 January 2010

The most prevalent and only recommended type of reverse mortgage is the Home Equity Conversion Mortgage ("HECM") (the acronym is pronounced *heck um*). HECM's are insured by the United States Department of Housing and Urban Development (HUD). Some of the basic requirements for a reverse mortgage in Massachusetts are:

- 1) the mortgage must be granted in your primary residence (annual certifications of this fact will be conducted);
- 2) you must complete a counseling program that is approved by the Executive Office of Elder Affairs (associated with the Massachusetts Division of Banks);
- 3) the loan you apply for must be approved by the Massachusetts Division of Banks
- 4) the dwelling type must meet eligibility requirements, generally single family homes, owner-occupied (2-4) family homes, condos (additional details apply), manufactured homes (additional details apply), and Planned Unit Development(s) are acceptable;
- 5) the dwelling itself must be approved on the basis of safety and structural integrity, and the repairs deemed necessary may not exceed 15% of the value of the property;
- 6) the borrower(s) must be 62 years or older; and
- 7) (other more detailed requirements apply).

If a dwelling is found to need repairs, one can still obtain the loan before the repairs are made. A repair estimate must be provided. The lender then can set aside 150% of the repair estimate, and the loan can close. The borrower will have 6 months to make the necessary repairs, and upon successful inspection of the repairs, the remaining funds can be disbursed.

Some myths that do not matter are, the borrowers': 1) income; 2) generally, their credit (with some exceptions); 3) liquid assets; and 4) physical health.

How much can I borrow? The maximum loan amount (known as "maximum claim amount" by insiders) is determined by a formula that considers the borrowers' age, the maximum claim amount, and the expected applicable interest rate. However, it will not be more than the lesser of: 1) the fair market value of the dwelling; or \$625,500.

The most basic, attractive feature of the reverse mortgage is that no payments are required during the life of the borrowers. This allows a person to use the equity usually built up over many years, without the requirement of periodic payments that a senior person may not be able to make. (However, property taxes or insurance will likely need to be made.) Further, they are non-recourse, which means that the lender can only seek repayment from the collateral, the dwelling itself.

Disbursements can be made in the following ways: 1) lump sum; 2) fixed monthly payments (for a time or as long as the borrower lives in the dwelling); 3) open access to a credit line; and 4) some mix of a credit line and monthly payments.

Can I use a reverse mortgage to purchase a new home? Yes, the mortgage is granted in the dwelling the borrower is purchasing. The funds are used to purchase the home, and the borrower must move in within 60 days and maintain residency. The property must be inspected, and any required repairs must be completed prior to closing. There is no other financing allowed in the transaction. So, any funds needed in addition to the reverse mortgage must come from the borrower. Other conditions apply.

When is the loan required to be paid back? When one of the following occurs:

- 1) All of the borrowers have died;
- 2) all of the borrowers have transferred their interest in the dwelling;
- 3) the borrowers move;
- 4) the property is deemed in need of repairs that the borrower refuses to make; or 5) a condition/covenant of the mortgage is violated.

Some major considerations are the cost and estate planning ramifications. Bottom line, reverse mortgages are expensive. You will give a significant amount of the equity in the home in upfront costs/fees, insurance fees/costs, monthly service fees, and continuing interest. Also, consider that the expected beneficiaries of the dwelling will have a significant loss of the value to be received. Further, the heirs of the borrowers' will need to ensure the re-payment of the loan after the borrowers' pass away. This is usually done by the sale of the residence, but must be completed in a timely manner.

If you are considering a reverse mortgage, we suggest obtaining counsel from an attorney with experience in financial and/or elder law matters.

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