



Will my House qualify? You need to know.

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Many times seniors consider a Reverse Mortgage as a viable way of increasing their retirement cash flow, but sit and wonder if their property will qualify. While they sit and “wonder”, rates are fluctuating and in some cases moving against their interests. By “interests” I mean the amount of cash benefits they might derive from a Reverse Mortgage. Usually, in the case of a Reverse Mortgage, if the interest rate climate is one of increasing rates, waiting is NOT in the senior’s best interest. We will save that discussion for our next bulletin, so let’s go back to qualifying property types.

This is really fairly simple. There are four or five classes of property that you will encounter with your seniors; they should fit into one of these classes.

1. Single Family Detached Homes
2. Single Family Attached Homes (condos and townhouses)
3. Duplexes, Tri-plexes, and quads where one unit is owner occupied
4. Manufactured housing built after 1976, to HUD standards WITH a HUD medallion on it, permanently tied to the ground, double wide, and able to pass a heightened scrutiny type of inspection.
5. Co-ops, but so far only in a few states like New York. Under evaluation.

In all cases, the senior must occupy the home as their primary residence. This means they call it “home”; they eat Thanksgiving Dinner there and entertain their kids; you get the picture. There is an originator running around Florida telling people that if they occupy the house for one day of the year, that is sufficient. It is NOT – what that is, is fraud. You client must have the property as their home stead; they must get utility bills there, keep clothing there, I hope this picture is coming through loud and clear. As more and more of you “forward” originators get into this business, there will be more and more attempts made at “creative occupancy”. Please don’t do that. This is a wonderful program and it does wonderful things for seniors. But the property is the ONLY source of repayment, and with the exception of a few private programs out there HUD and Fannie Mae REQUIRE that the subject property be the principal residence. I think I have said enough.

Now let’s talk about condition. Remember, the house does not have to be perfect. There can be minor repairs that need to be done, and most of the Reverse Mortgage programs will allow the loan to close holding back a portion of the benefits to fund the needed repairs. You are probably used to having to complete repairs before your client can close. This is different with most Reverse Mortgage customers.

What about insurance and taxes? These will usually remain the responsibility of your senior, so you must not think in terms of escrows but rather in terms of impressing upon your client that they need to set some of their cash aside to be sure to keep these items current. If the senior fails to maintain property insurance or fails to pay their property taxes, that is a “maturity event” (means DEFAULT) and can cause the servicer to inform the investor and perhaps call the note. Look at it this way. You are probably eliminating a big old mortgage payment for your client when they close on their new Reverse Mortgage. A certain portion of that big old payment was escrowed for taxes and insurance. Have them commit to set that portion aside, so they won’t come up short at the end of the year. Remember, repeatedly I have said; if you explain these things up front you will avoid causing problems later. Paying taxes and maintaining insurance is no exception.

On to Condos: here we have a real conundrum. Let me describe the perfect Condo first. It will be listed on the HUD approved list which you can access at <https://entp.hud.gov/idapp/html/condlook.cfm> If it’s on this list, write the deal up as fast as you can!

If it’s NOT, then you have to follow the “Spot Condo” procedures. There is a questionnaire that is required and you should try to obtain back-up documentation for the “cash reserves” information that you obtain. Here’s what to watch out for. If a Condo has no reserves, how is it preventing deferred maintenance? It might be using fund accounting. If the Condo has no reserves, ask for the year-end financial statements and read the notes. Fund accounting is sometimes acceptable to HUD in lieu of cash reserves, because it is basically a reserve by another name.

Look for law suits. If the Association is involved in legal action where it is the defendant, this will be problematic and you will have some explaining to do.

Also watch for the percentage of units used as rentals rather than as owner-occupied property. The intent of the HUD program in particular is to invest in developments and homes that are owner occupied, because owners usually take better care of the collateral. Makes sense to me.

Watch for recreational leases. If they exist, they will need to subordinate to third position behind the Investor and HUD. Certain Condo developments are not acceptable to HUD at all because of the nature of their relationships with the developer vis-à-vis the rec lease. So check it out before you do a ton of work.

Hope this has been helpful, remember you can call the Association Hot Line at (800) 762-2535 and leave specific questions. I will try to answer them in future pod casts. If you haven’t listened to our pod casts, go to www.reversemortgageexpert.net and sign up. Well worth it, especially if you are new to this market.

Thanks for reading; back at you soon!