



Translating a HECM Loan Comparison

As the reverse mortgage industry continues to “build our bench” by attracting new originators, this job aid helps translate reverse mortgage terms that many of us use every day into forward terminology.

Terms from our Loan Comparison

REVERSE MORTGAGE TERMS	DEFINITION	EQUIVALENT FORWARD TERMS
Lender’s Margin	The margin lenders add to the index being used (current CMT) on adjustable rate reverse mortgages.	Margin
Initial Interest Rate	The rate in effect at the time of the quote or application. All rates on HECM loans are considered float until locked, at that time the initial rate becomes the Note Rate.	Interest Rate
Mortgage Insurance Premium	The amount of ongoing (sometimes called annual) MI that is added to the loan balance.	Mortgage Insurance (FHA loans)
HECM Expected Rate	Unlike forward loans, HECM ARMs use a second interest rate that determines the Principal Limit (Loan Amount). The rate is not used after loan closing.	N/A
Initial Interest Rate Cap	Like most ARMs, HECMs have an interest rate cap that differs depending the type of ARM selected.	Rate Cap (ARMs/HELOCs)
Credit Line Growth Rate	Unlike HELOCs, when a HECM borrower chooses to have a LOC, the unused portion grows at the Note Rate +.5% annually.	N/A
Monthly Servicing Fee	Some HECMs charge a small fee to service the loan each month. The fee is set aside based on life expectancy. Like forward loans, the cost of servicing HECMs is usually built into the rate.	Loan Servicing
Maximum Claim Amount (MCA)	The lesser of the homes’ value or HUD’s national lending limit.	Appraised Value
Total Principal Limit	The maximum the client can borrow, this is also the maximum loan amount.	Loan Amount
Financed Origination Fee	The cost of originating the loan. The fee is calculated by FHA and is usually financed into the loan.	Origination Fee, Application Fee
Other Financed Cost	A cumulative total of closing costs like credit, appraisal, title, settlements, etc.	Closing Costs
Initial Mortgage Insurance	2% of the Max Claim Amount, this is paid to HUD on all HECM loans, similar to MI on forward loans when borrowing more than 80% in value. However, this fee applies to ALL HECM loans.	MI (on private loans) or MIP on all FHA loans
Debt Payoff	Same as forward mortgages	Payoffs
Repair Set Aside	When repairs are required after loan closing, loan proceeds are set aside and distributed after the repairs are complete.	N/A
Life Expectancy Set Aside -Year1	Known as a LESA – this is when we reserve loan proceeds to pay for taxes and insurance on the borrower’s behalf.	Escrow Account
Credit Applied	When a lender or broker provides a credit towards closing costs.	Credit
Mandatory Obligations	The total amount of all items that must be paid when the loan funds.	Total Payoffs
% of MO to Principal Limit	Since proceeds in the first year are limited by FHA the % illustrates how much of the PL is being used.	N/A





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Access Additional 10%	When a borrower uses more than 50% of the available loan amount, they will be able to draw up to 10% more in the first year.	N/A
1 st Year Max Distribution Limit	Based on mandatory obligations and FHA initial distribution limits.	N/A
Loan Service Fee Set Aside	When the loan has a separate monthly service fee a portion of their available proceeds are reserved to pay that fee.	N/A
Life Expectancy Set Aside After Year 1	See Life Expectancy Set Aside – Year 1, above. This amount is the LESA amount for the remainder of the life of the loan.	N/A
Financed Portion of Unseasoned HELOC	When paying off a HELOC that is less than a year old, HUD limits the amount of proceeds that can be used.	N/A
Cash Requested at Closing	The amount of money the borrower wants at loan funding.	Cashout
Net Principal Limit	The amount of loan proceeds left after all payoffs, closings costs and cash out are paid. That amount can be used for a LOC and/or monthly payments	N/A
Line of Credit Life of Loan	The total amount of the borrower’s line of credit.	LOC
Line of Credit During Year 1	The amount of the borrower’s line of credit that is available in year 1.	N/A
Additional Line of Credit After Year 1	The amount of the borrower’s line of credit that is available after year 1.	N/A
Monthly Payment after Year 1	If the borrower has selected monthly payments, the amount they will receive monthly in the first year.	N/A
Monthly Payment During Year 1	If the borrower has selected monthly payments, the amount they will receive monthly after the first year.	N/A

Other Reverse Mortgage Terms

Youngest Borrower’s Birthdate	The loan amount on HECM is based on 3 factors, the Expected Rate, The appraised value, and the youngest borrower’s age. The older the borrower the greater the proceeds.	N/A
Tenure	Equal monthly payments for the life of the loan.	N/A
Term	Equal monthly payments for a fixed period of time.	N/A
Non-Borrowing Spouse (NBS)	Individuals who are married (defined by each state) but will not be a borrower, often because they are not age eligible.	N/A
1009	The reverse mortgage loan application.	1003
HECM For Purchase H4P	Reverse mortgages are generally all considered refinances; however, you may also use a reverse mortgage to buy a home.	Purchase loan
HECM To HECM Refinances	When a borrower who already has a reverse mortgage and refinances that loan into another reverse mortgage.	Refinance

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