

Reverse Mortgages

Glossary of Terms



203-b Limit - the dollar limit in each county for how much of a home's value can be used to determine the amount of money you can get from a federally insured HECM reverse mortgage; the name comes from Section 203-b of the National Housing Act.

AARP Model Specifications - rules recommended by AARP for analyzing and comparing reverse mortgages.

Acceleration Clause - the part of a contract that says when a loan may be declared due and payable.

Adjustable Rate - an interest rate that changes, based on changes in a published market-rate index.

Annuity - a monthly cash payment you get from an insurance company for the rest of your life.

Appraisal - an estimate of how much a house would sell for if it were sold; also called its market value.

Appreciation - an increase in a home's value.

Area Agency on Aging (AAA) - a local or regional nonprofit organization that provides information on services and programs for older adults.

Cap - a limit on the amount an adjustable interest rate may go up or down during a specified time period.

Closing - a meeting where documents are signed to "close the deal" on a mortgage; the point in time a mortgage begins.

Condemnation - a court action saying a property is unfit for use; also, the government taking private property to use for the public by the right of eminent domain.

Creditline - a credit account that lets a borrower decide when to take money out and also how much to take out; also known as a "line-of-credit" or "credit line."

Current Interest Rate - in the HECM program, the interest rate currently being charged on a loan, which equals the one-year rate for U.S. Treasury Securities, plus a margin.

Deferred Payment Loans (DPLs) - reverse mortgages that give you a lump sum of cash to repair or improve a home; usually offered by state or local governments.

Depreciation - a decrease in the value of a home.

Eminent Domain - the right of a government to take private property for public use. For example, taking private land to build a highway.

Expected Interest Rate - in the HECM program, the interest rate used to determine a borrower's loan advance amounts; it equals the 10-year rate for U.S. Treasury Securities, plus a margin.

Fannie Mae - a private company that buys and sells mortgages; a government-sponsored business that is watched over by the federal government.

Federal Housing Administration (FHA) - the part of the U. S. Department of Housing and Urban Development (HUD) that insures HECM loans.

Federally Insured Reverse Mortgage - a reverse mortgage guaranteed by the federal government so you will always get what the loan promises; also, a Home Equity Conversion Mortgage (HECM).

Fixed Monthly Loan Advances - payments of the same amount that are made to a borrower each month.

Home Equity - the value of a home, subtracting any money owed on it.

Home Equity Conversion - turning home equity into cash without having to leave your home or make regular loan repayments.

Home Equity Conversion Mortgage (HECM) - the only reverse mortgage program insured by the Federal Housing Administration, a federal government agency.

Initial Interest Rate - in the HECM program, the interest rate that is first charged on the loan beginning at closing; it equals the one-year rate for U.S. Treasury Securities, plus a margin.



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Leftover Equity - the sale price of the home minus the total amount owed on it and the cost of selling it; the amount the homeowner or heirs get when the house is sold.

Loan Advances - payments made to a borrower, or to another party on behalf of a borrower.

Loan Balance - the amount owed, including principal and interest; capped in a reverse mortgage by the value of the home when the loan is repaid.

Lump Sum - a single loan advance at closing.

Margin - in the HECM program, the amount added to the one-year Treasury rate to determine the initial and current interest rates, and to the 10-year Treasury rate to determine the expected interest rate.

Maturity - when a loan must be repaid; when it becomes “due and payable”.

Mortgage - a legal document making a home available to a lender to repay a debt.

Non-Recourse Mortgage - a home loan in which the borrower can never owe more than the home’s value at the time the loan is repaid.

Origination - the process of setting up a mortgage, including preparing documents.

Property Tax Deferral (PTD) - reverse mortgages that pay annual property taxes; usually offered by state or local governments.

Proprietary Reverse Mortgage - a reverse mortgage product owned by a private company.

Reverse Annuity Mortgage - a reverse mortgage in which a lump sum is used to purchase an annuity that gives the borrower a monthly income for life.

Reverse Mortgage - a home loan that gives cash advances to a homeowner, requires no repayment until a future time, and is capped by the value of the home when the loan is repaid.

Right of Rescission - a borrower’s right to cancel a home loan within three business days of the closing.

Servicing - administering a loan after closing, such as maintaining loan records and sending statements.

Shared Equity - an itemized loan cost based on a percent of a home’s value at loan maturity. For example, a 5% shared equity fee on a home worth \$200,000 at maturity would be \$10,000.

Supplemental Security Income (SSI) - a federal monthly income program for low-income persons who are aged 65 years or older, blind, or disabled.

Tenure Advances - fixed monthly loan advances for as long as a borrower lives in a home.

Term Advances - fixed monthly loan advances for a specific period of time.

Total Annual Loan Cost (TALC) Rate - the projected annual average cost of a reverse mortgage including all itemized costs.

T-Rate - the rate for U.S. Treasury Securities; used to determine the initial, expected, and current interest rates for the HECM program.

Uninsured Reverse Mortgage - a reverse mortgage that becomes due and payable on a specific date.

