



Reverse Mortgage Glossary of Terms

Acceleration Clause	The portion of the contract that determines 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	A professional estimate of how much your home would sell for if it were sold.
Appreciation	An increase in a home's value.
Available Principle Limit	The equity amount available to the borrowers determined by the age and appraised value and/or Maximum lending limit.
Change of Circumstance	When a qualified circumstance has happened which will allow the originator to update the fees (related to the Change in Circumstance) on the GFE. An example of this would be when the appraised value has changed.
Closing	The process where the clients sign the loan documents to begin the final process of having their loan fund.
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.
Correspondent	An organization that typically sells the mortgages it originates to other lenders.
Cost to Cure	The amount of money that needs to be brought into closing by the originator due to fee that was under disclosed or is higher than originally estimated on the GFE. (Good faith Estimate)
Credit Line	A credit account that permits a borrower to control the timing and amount of the loan advances. (Line of Credit)
Deed of Trust	A document which pledges real property to secure a loan, used instead of a mortgage in certain states.



Default	A breach or nonperformance of the terms of a note or of the provisions of a mortgage loan. Defaults under a reverse mortgage could include failure to repay the loan after a repayment notice has been issued, failure to maintain property, not live in the home for more than 12 consecutive months of the year and failure to pay property taxes and/or hazard insurance.
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 advances, which equals the 10-year rate for U.S. Treasury Securities, plus a margin (see Margin).
Fannie Mae (FNMA)	A private company that buys and sells mortgages; a government-sponsored entity that operates under the Federal general oversight of the federal government.
Federal Housing Administration (FHA)	An agency within the U.S. Department of Housing and Urban Development (HUD) that issues insurance to private lenders for HECM loans.
Federally Insured Reverse Mortgages	Home Equity Conversion Mortgages (HECM).
Gift Funds	Money donated to the borrowers from family members or close friends to pay for a shortfall of funds at the time of close. The funds received will be verified and sent in with a signed gift letter by both the donor and the recipient.
Home Equity	The value of a home minus any debt against it.
Home Equity Conversion	Turning home equity into cash without having to leave your home or make regular loan payments.
Home Equity Conversion Mortgages (HECM)	FHA-insured reverse mortgages that permit older homeowners to withdraw their cash equity from their home without having to leave their home or make regular home payments.



HUD (Housing and Urban Development)

A federal agency that oversees the Federal Housing Administration and numerous housing and community development programs.

Initial Interest Rate

The original interest rate of an adjustable rate loan, which equals the index in effect as of the date of closing plus the margin, and is first charged upon the loan funding. For example, on a HECM loan, the initial rate equals the one-year rate for U.S. Treasury Securities plus a margin (see Margin).

Judgement

A court ordered amount that is required to be paid by the borrower. Judgments can be found most often on credit reports.

Leftover Equity

The net proceeds from selling a home, minus the total amount of debt owed against it and the cost of selling it.

Loan Advances

Payments made from a loan to a borrower, or to another party on behalf of a borrower.

Loan Balance

The amount owed, including principal and interest; capped (limited) in reverse mortgages by a non-recourse limit.

London Interbank Offered Rate (LIBOR Index)

An index that is used to determine interest rate changes for certain ARM plans. It represents the average interest rate for 6-month or 1-year U.S. dollar-denominated deposits in the London Interbank market based on quotations of major banks.

Lump Sum

A single loan payment (Draw) to the borrower at closing.

Margin

The amount added to the index rate to determine interest rates, as stated in the note. The margin differs for different reverse mortgages. A HECM loan would use the one-year Treasury index rate plus the margin to calculate the initial and current interest rates, and use the 10-year U.S. Treasury index rate plus the margin to determine the expected interest rate.

Maturity

When a loan becomes due and payable.

Maximum Claim Amount

The lesser of a home's appraised value and the maximum lending limit that can be insured by FHA for one-family residences in the area where the property is located. This is used to determine the principal Limit for a HECM loan. (See Maximum Lending Limit Below)



Maximum Lending Limit	The lesser of the appraised value of a property and the maximum lending limit; this value is used in calculating the borrower's principal limit. The Maximum Lending Limit was extended by HUD at \$625,500 through 12/31/2011. The Maximum lending limit takes effect when the properties appraised value is higher than \$625,500. This limit is the highest amount that can be used as a property value for the HECM product.
Modified Tenure Payments	Equal monthly payments to the borrower that continue until the borrower no longer occupies the property as his or her principal residence, combined with a line of credit on which the borrower may draw at any time.
Modified Term Payments	Equal monthly payments to the borrower over a fixed term agreed to by the lender and borrower, combined with a line of credit on which the borrower may draw at any time.
Mortgage	A legal document that pledges property to a lender as security for the repayment of the loan. Collectively, the security instrument, note title evidence, and all other documents and papers that evidence as secured debt. The term is also used to refer to the loan itself.
Mortgage Insurance Premium (MIP)	The fee paid by a borrower to FHA or a private insurer for mortgage insurance. Charged to the borrower to reduce the risk of loss in the event that the outstanding balance exceeds the value of the property at the times that the reverse mortgage is due and payable. The FHA requires a single, upfront Mortgage Insurance Premium to be paid at closing. A monthly Mortgage Insurance Premium will be assessed throughout the life of the loan and will be added to the outstanding balance and remitted to HUD monthly by the lender.
Net Equity	The amount available to the client after all liens and loan costs have been subtracted.
Net Principal Limit	The amount of money available to the borrower at any time over the life of the loan. Equal to the Principal Limit less (1) any payments to the borrower, (2) any financed closing cost, (3) the servicing fee allocations, (4) any set-asides, plus (5) any partial repayments.
Non-Recourse Mortgage	A home loan in which a lender may look only to the value of the home for repayment; no other assets may be attached if the loan balance grows beyond the mortgaged home value.



Origination	The overall administrative process of setting up a mortgage, from taking down the loan application through the loan closing.
Origination Fee	A fee charged to the borrower for processing a loan application, usually computed as a percentage of the loan amount. Each loan product may differ. For HECM loans, the origination fee is the greater of \$2000 or 2% of the Maximum Claim Amount. For home Keeper loans, the fee is the greater of \$2000 or 2% of the adjusted property value.
Payment Plan	Manner in which loan proceeds are paid out to the borrower. In the HECM program, six options are available: (1) Tenure Payments, (2) Term Payments, (3) Credit Line, (4) Lump Sum, (5) Modified Tenure Payments, and (6) Modified Term Payments. For Home Keeper loans, borrowers may receive payments in one of three ways: (1) tenure plan, (2) line of credit plan, and (3) Lump Sum. All options are not available on all products: see Reverse Mortgage Handbook for payment plans offered for each specific product type.
Principal Limit	The total amount of money available to a borrower at loan origination. The principal limit is based on the maximum claim amount, the expected average interest rate, and the age of the youngest borrower.
Property Tax Deferral (PTD)	Reverse mortgages providing annual loan advances for paying property taxes usually offered by state or local governments. Payment of property taxes is deferred for as long as the borrower lives in the home. A tax deferral is usually set up with the county of residence, allowing the borrower to defer their tax payment until a later date.
Proprietary Reverse Mortgages	Reverse Mortgages owned by a private company, like the Cash Account Advantage product.
PUD (Planned-Unit Development)	A real estate project in which each unit owner has title to a residential lot and building and a non exclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, a parking space) while the common facilities are owned and maintained by a homeowner's association.



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

Reverse Mortgage

A financial tool which provides seniors with funds from the equity in their homes. Generally, no payments are made on reverse mortgages until the borrower moves or the property is sold. The final repayment obligation is designed to not exceed the proceeds from the sale of the home and is usually repaid in lump sum.

Right of Recession

A borrower's right to cancel a home loan within three business days of closing

Servicing

The tasks a lender performs to protect the mortgage investment, including the collection of the loan payments, escrow administration, and delinquency management.

Set-Aside

Funds for specified uses that are netted out when determining the borrower's Principal Limit.

Single-Purpose Reverse Mortgages

Reverse mortgages that can be used for only one purpose, generally offered by state or local government agencies.

Short To Close

Borrowers are required to bring in money to close due to not having enough equity in the home to qualify for the reverse mortgage.

Supplemental Security Income (SSI)

A federal program providing monthly cash benefits to low-income persons aged 65+, blind, or disabled.

Tenure Payments

Fixed monthly loan advances for as long as a borrower lives in a home.

Term Payments

Fixed monthly loan advances or payments for a specified time period.

Total Annual Loan Cost (TALC) Rate

The projected annual average cost of a reverse mortgage including all itemized costs.

U.S. Department of Housing and Urban Development (HUD)

A federal agency that oversees the Federal Housing Administration (FHA) and numerous housing and community development programs.