

Glossary of Terms

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

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.

Interest Rate Cap-a limitation on the amount by which an adjustable interest rate may change during a specified time period.

Monthly Service Fee-everything lenders or their agents do after closing it: making or changing loan advances at your request, transferring insurance premiums to FHA, sending account statements, paying property taxes and insurance from the loan at your request, and monitoring your compliance with your obligations under the loan agreement.

Estimated Home Value-an estimate of a home's market value.

Lending Limit-Also called a 203-b limit. In the federally insured HECM program, the dollar amount for each county that limits how much of a home's value can be used to determine a borrower's loan advances, as established in Section 203-b of the National Housing Act.

Percentage-lending limit divided by estimated home value.

Creditline Growth Rate-the rate at which your creditline grows each month equals the current interest rate being charged on your loan plus one-half of one percentage point, divided by twelve or 0.5%.

Principal Limit-amount you qualify for before service set aside and closing costs. Determined by HUD and based on your age, current expected interest rates and your home's value.

Service Set-Aside-the amount "set aside" for servicing is the "present value" of the monthly fee from closing until the borrower would reach age 100. This amount is NOT added to your loan balance. Instead, the monthly fee is added to your loan balance each month.

Available Principal Limit-Principal limit minus service set aside.

Initial Mortgage Insurance Premium-HECM insurance is financed by a mortgage insurance premium charged on all HECM loans. The cost, which may be financed with the loan, is charged in two parts: 2% of your home's value (or 2% of the 203-b limit in your area, whichever is less) is charge "upfront" at closing; and 0.5% is added to the interest rate charged on your rising loan balance. HECM insurance guarantees that you will receive your promised loan advances, and not have to repay the loan for as long as you live in your home, no matter: how long you live there; what happens to your home's value; what happens to the lender from whom you got your loan. HECM insurance also guarantees that your total debt can never be greater than the value of your home at the time the loan is repaid. It makes it possible for you to keep getting your monthly loan advances or growing creditline as promised even if: you live much longer than others your age; your home's value grows very little, not at all, or declines, or; your loan balance catches up to and then is limited by the value of your home.

Financed Origination Fee-The compensation to the lender for the overall administrative process of setting up a mortgage. Paid at closing with proceeds from the loan.

Other Financed Costs-may include but is not limited to; title work, appraisals, well or septic inspections, credit reports, flood zone determination, termite inspections and recording fees.

Net Principal Limit-Available principal limit less closing costs.

Debt Payoff Advance-Any liens or judgments against the property that must be satisfied.

Taxes & Insurance Set Aside-if necessary an amount may be set aside to pay taxes due or to pay hazard insurance premium.

Net Available to You-Net principal limit less debt payoff advance and tax & insurance set aside.

Cash Requested-amount requested by you at closing.

Creditline Requested-amount requested by you to remain as a line of credit.

Remaining Cash-Net available to you less cash and creditline requests.

Potential Tenure Payments-If you choose this option, the amount you would receive monthly for as long as a borrower lives in the home.

Financed Fees and Costs-Initial mortgage insurance premium plus financed origination fee plus other financed costs.

HECM-Home Equity Conversion Mortgage. The only reverse mortgage program insured by the Federal Housing Administration (FHA).