



Glossary of Reverse Mortgage 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 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 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

credit line - 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; it equals the one-year rate for U.S. Treasury Securities, plus a margin (see below)

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 (see below)

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

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+, 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

AARP does not endorse any reverse mortgage lender or product.