

Reverse Mortgage Terminology

Term	Definition
Asset Dissipation	When a client has assets (ex. checking/savings, retirement funds, stocks, bonds, etc.), those assets can be divided by the youngest borrower's life expectancy (in months) and applied to their Residual Income.
Birthday Rule	When a youngest borrower's birthdate is within 6 months of loan closing the borrower gets "credit" for the age they are turning, resulting in a higher Principal Limit.
Capacity	Refers to the borrower residual income or their financial ability to meet their monthly obligations.
Compensating Factors	A list of ways a borrower can increase their Residual Income when necessary.
Constant Maturity Treasury (CMT)	The index that is currently used on all HECM loans. The 1-year CMT is used to calculate the Initial Rate for monthly and annually adjusting HECMs. The 10-year CMT is used to calculate the Expected Interest Rate.
Counseling	All reverse mortgages require counseling from an approved agency. For HECMs, counseling must be completed prior to ordering an FHA Case #. Many states have additional counseling guidelines, see the Underwriting Guide for details.
Deferral Period	When the last borrower passes away, if there is a NBS who lives in the home and has remained married to the borrower, the NBS may stay in the home for their lifetime as long as they maintain the home and pay property taxes and maintain HOI and HOA (if applicable)
Expected Interest Rate (EIR)	The Expected Interest Rate is used for on all HECM ARMS to calculate Principal Limit, loan growth, and growth in the Life Expectancy Set Aside prior to loan Closing.
Extenuating Circumstances	When a borrower's credit does not meet guidelines, a letter of explanation must be provided outlining what occurred that caused the late or missed payments.
Financial Assessment	The credit and income guidelines outlined by HUD that borrowers must meet in order to close their reverse mortgage.
Initial Disbursement Limit (IDL)	The amount of HECM loan proceeds that can be draw at Closing or in the first year. The IDL is 60% of the Principal Limit or Mandatory Obligations + 10% of PL.
Initial Interest Rate	The Initial Interest Rate applies to all HECM ARM loans; it becomes the Note Rate after closing.
Life Expectancy Set Aside	A LESA carves out a portion of loan proceeds to pay taxes and insurance. The calculation is based on the youngest borrower's life expectancy.
Mandatory Obligations	Items that are required to be paid from proceeds at Closing. The most common MOs are liens on the property and Closing Costs. For a complete list see Mtg Letter 13-33 .
Maturity Event	When the loan becomes due and payable. Two of the most common include death of the last borrower and sale of the home.
Maximum Claim Amount (MCA)	Usually the homes' final appraised value, unless the home is worth more than the HUD national lending limit of \$1,089,300 (2023)
Mortgage Insurance Premium (MIP)	MIP come in two parts. The first is the 2% of MCA is paid to HUD at Closing, sometimes called Upfront or Initial MIP. The second part is called Ongoing or Monthly MIP, this is 0.05% of the outstanding loan balance annually. The amount of ongoing MIP is applied to the loan balance monthly (.05%/12).

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Non-Borrowing Spouse	Most often a spouse that is less than 62 years of age. Can also be a spouse that lives apart from the borrower. In some cases, the NBS's age is used to calculate Principal Limit.
Non-Recourse	It simply means that the home is the only source of repayment, no deficiency judgements can be made on the borrower or their heirs.
Principal Limit	Think of Principal Limit as loan amount. HECMs start with Max Claim Amount, factor in the Expected Interest Rate and youngest borrower's age to come up with the Principal Limit.
Principal Limit Factor	Published by HUD, this is the component used together with the Expected Interest Rate and age of youngest borrower to determine Principal Limit.
Principal Limit Growth	A great selling feature of a HECM is its growth. A HECM grows at the Note Rate + .05% annually. That growth is seen in the unused Line of Credit, a Life Expectancy Set Aside and is factored in when tenure payments are calculated.
Principal Limit Lock	All HECM ARMs can lock-in the Expected Interest Rate (rate used to calculate PL) for 120 days from FHA Case # assignment.
Repair Set Aside	When the appraiser notes repairs (that are not related to health and safety) that must be completed, a portion of loan proceeds are carved out to pay for the repairs AFTER closing.
Residual Income	The amount of money left over after expenses are deducted from the borrower's income. HUD provides required Residual Income levels for four regions of the country for families of one to four.
Servicing Fee Set Aside	Not often used, but some reverse mortgages have a monthly fee to service the loan, this is the estimated cost of that fee that is carved out of loan proceeds.
Tenure Payment	Monthly payments for the life of the loan.
Term Payment	Monthly payments for a fixed period of time.
Unpaid Principal Balance (UPB)	The beginning loan balance. UPB is the basis of broker compensation.
Willingness	Refers to the borrower's history of meeting their financial obligations in a timely manner.