

# ask the servicer

By Ryan LaRose

Can a reverse mortgage borrower make a partial prepayment on their loan, and if so, how does that affect their loan?

One of the most important benefits that reverse mortgage borrowers receive at closing is the freedom of no longer having to make required monthly mortgage payments to their lender. It is this feature of the reverse mortgage product that makes it so unique - and as such - so difficult for those outside of our industry to comprehend and understand! The reverse mortgage product acknowledges and rewards long-term borrower responsibility and for the many who have obtained a reverse mortgage, it may well be the difference between financial autonomy and disaster.

While regular payments are not required on a reverse mortgage, the program does allow borrowers to make voluntary partial prepayments at any time during the life of the loan. There are no restrictions on prepayments based on the interest rate index (CMT vs. LIBOR), interest rate type (adjustable rate vs. fixed rate) or credit feature (open end vs. closed end).

When a borrower submits a partial prepayment to their servicer, what they will see on their monthly statement is fairly basic. For example, if a borrower with a line of credit as part of their payment plan sends in a \$1,000 prepayment, they will see their loan balance decrease by \$1,000 and their available line of credit increase by \$1,000. If the loan is not closed-ended, then the borrower can re-draw that \$1,000 at any time over the life of the loan.

There are two important exceptions:

1. If the loan is closed-ended, funds submitted for prepayment cannot be re-borrowed at any point during the life of the loan; the revolving credit feature does not apply.
2. If the borrower has a term or tenure payment plan (with no line of credit), the borrower would need to complete a payment plan change in order to obtain access to any prepaid funds. The payment plan change calculations would then use the total funds available, including those prepaid funds, to determine the new amount available to the borrower – either in the form of a line of credit or as a different monthly payment amount.

Let's now review the complex part of the prepayment equation. The borrower with a Line of Credit will see a very simple decrease of loan balance and increase of available funds when prepayment is made. However, behind the scenes, the



prepayment is applied to the outstanding loan balance in the following specific order, as dictated by the loan Note:

- First, to accrued mortgage insurance premiums;
- Second, to accrued monthly servicing fees;
- Third, to accrued interest;
- Last, to the remaining principal balance.

While this detailed application of funds will not be directly visible to the borrower, it does have some tax-related implications for them when prepayments are made.

It's important to note that 1098 statements are typically generated when a reverse mortgage loan is paid in full. Mortgage interest statements (Form 1098) are generated and mailed to borrowers in January of each year. These statements break down the amount of mortgage insurance premiums and interest actually paid by the borrower during the prior calendar year and can be used for income tax filing purposes. When borrowers make partial prepayments on their loan – and actually pay down accrued mortgage insurance premiums and interest – they will also receive a 1098 statement.

On one important and final note, varying models used by lawmakers estimate that the current poverty rate of the senior population ranges anywhere from 10-15%. The financial lifeline that a reverse mortgage provides to people in these most dire of circumstances is significant and profound. Media outlets latch on to outdated or perceived “flaws” of the HECM program – completely ignoring the positive personal and social impact the reverse mortgage industry has had on our senior population.

As a servicer of reverse mortgages, we regularly receive comments from borrowers such as “Thank you...I don't know what I would have done without this reverse mortgage”. It is in those moments that we experience the tangible feelings of the great goodwill that our industry and product generate each and every day.

I look forward to receiving any questions you may have regarding servicing at: [ryan@celink.com](mailto:ryan@celink.com). Please remember: there is no such thing as a stupid question. No doubt, the question you ask will have been in the minds of other readers as well. If you wish to remain anonymous for my response, just let me know.