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Food Stamps and Medicaid

Authorized Signature

Number: SS-PT-04-026

Issue Date: 11/08/2004

Topic: Treatment of Income from Reverse Mortgages; FS

Transmitting (check the box that best applies):

- New Policy
 Policy Change
 Policy Clarification
 Executive Letter
 Administrative Rule
 Manual Update
 Other: _____

Applies to (check all that apply):

- | | |
|---|--|
| <input type="checkbox"/> All DHS employees | <input type="checkbox"/> County Mental Health Directors |
| <input checked="" type="checkbox"/> Area Agencies on Aging | <input type="checkbox"/> Health Services |
| <input checked="" type="checkbox"/> Children, Adults and Families | <input checked="" type="checkbox"/> Seniors and People with Disabilities |
| <input type="checkbox"/> County DD Program Managers | <input type="checkbox"/> Other (please specify): |

Policy/Rule Title:	Treatment of Income from Reverse Mortgage; FS		
Policy/Rule Number(s):	461-145-0330	Release No:	
Effective Date:	Upon Receipt	Expiration:	
References:			
Web Address:			

Discussion/Interpretation: Recently there have been several FS cases where the client has a reverse mortgage. The question is how is this income treated for FS?

The policy interpretation in the past has been to count the monthly income received from a reverse mortgage as unearned income. This transmittal changes that interpretation. Effective immediately, please exclude the income received from a reverse mortgage.

What is a Reverse Mortgage?

A reverse mortgage is a loan that a homeowner may take by cashing in on the equity in their home. To have a reverse mortgage, the homeowner must be at least 62 years of age.

Do not confuse reverse mortgages with traditional home equity loans. In a home equity loan the homeowner must make monthly payments to the lender. With a reverse mortgage, the lender is paying the homeowner from the equity in the home and the repayment only occurs after the borrower's death or sale of the home. The homeowner's name will continue to show as owner of the property until their death. If the homeowner has a reverse mortgage, their loan papers will clearly stipulate that it is a reverse mortgage.

Most reverse mortgages are made through HUD or Fannie Mae. However, others are made through other financial institutions. HUD may call the loan a Home Equity Conversion Mortgage. The reverse mortgage payment may be received in a variety of ways. It may be received in a lump-sum but most generally it is received in monthly payments. The payments may be for the balance of the homeowners life or for a set period of time.

Why would a person want a Reverse Mortgage?

Reverse mortgages have become appealing to many elderly homeowners due to market conditions the last couple years. The laws governing reverse mortgages allow the homeowner to receive the equity in their home as income while they continue to reside in the home. Recoupment of the loan occurs after the surviving borrower’s death, sale of the home, or if the borrower vacates the property permanently. The loan is usually paid off through the sale of the home. All remaining proceeds from the sale of the home go to the estate.

Treatment of Reverse Mortgage Monthly Payments in FS:

Exclude the monthly payment that a client receives from a reverse mortgage payment, the same as with income received from any loan. Count one time lump sum payments according to lump sum policy.

Implementation/Transition Instructions: Begin to use this policy regarding reverse mortgages as you become aware of a reverse mortgage as changes in income are reported or at the next recertification. Do not restore FS benefits if income from a reverse mortgage is currently being counted.

Training/Communication Plan: Locally, share the policy change with staff at the next unit meeting. Central office will add this policy with the next manual release in January 2005.

Local/Branch Action Required: Share the information with staff at the next staff meeting.

Central Office Action Required: Update policy in the FS Manual to reflect the change.

Field/Stakeholder review: Yes No

If yes, reviewed by:

Filing Instructions:

If you have any questions about this policy, contact:

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