Home Equity Conversion Mortgage

GUIDE

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What is a

HOME EQUITY CONVERSION MORTGAGE (HECM)?

DEFINITION AND ADVANTAGES

If you are 62 or older, a home equity conversion mortgage (HECM) may offer a way to borrow against the equity in your home to provide "cash flow" or tax-free income. The equity is the value of your home minus any mortgage debt you may have. A HECM doesn't call for any scheduled loan payments, not until the loan ends.

What is the main difference between a regular, conventional mortgage and a HECM? With a regular mortgage, you pay the lender every month to buy your home over a period of time (most commonly over a span of 30 years).

With a Home Equity Conversion Mortgage, you get a loan in which the *lender* gives you access to a portion of your equity. This equity can be converted it into payments to you — almost like an advance payment on your home equity.

Let's move on to review some potential pros and cons of a HECM.

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Potential
BENEFITS

OF A HOME EQUITY CONVERSION MORTGAGE

- A HECM may help you continue your financial independence. It can also help you maintain and even improve the quality of your life.

- A HECM allows you to remain in your home and to keep the title to your home.

- The money you receive through a HECM is not considered taxable income. You should always consult with an independent tax professional in order to determine your individual tax consequences of a potential Home Equity Conversion Mortgage.

During the term of a HECM, you are not required to make payments but can if you wish to do so. The loan is payable when the last eligible borrower or spouse permanently leaves or sells the home, when you pass away, or if you fail to pay taxes, homeowners insurance, and upkeep of the home.

You can eliminate mortgage payments by paying off existing loans through the proceeds from your Home Equity Conversion Mortgage.

You can select from a number of different benefit payment plans and/or options to meet your needs.

With this mortgage, the underwriting is pretty simple. They just want to make sure you can pay your property taxes, homeowners insurance, upkeep of the property, and any other debt your responsible for like credit cards/auto loans. The credit score is not considered and there are some exceptions to the accounting for income and debts.

Potential
DRAWBACKS

THE OTHER SIDE OF THE HECM COIN

Compared to other loans (including home equity loans), HECM can cost more in closing cost because of the Mortgage Insurance Premium that insures the loan will be paid off no matter the length of time you live in the home.

These loans **may reduce or eliminate the equity in your home**, depending on the number of years you stay in the home and no payments are made toward interest.

Understand and verify your loan originators (like myself) experience with the Home Equity Conversion Mortgage. I have been a loan originator for 8 years, have a Bachelors Degree in Finance, and specialize working with clients looking to build wealth.

Process WHEN GETTING A HECM

STEP BY STEP OF A HECM

- Initial consultation to determine if it makes sense
- Complete the Mortgage Application
- Speak with a HUD Approved Counselor to make sure you understand the mortgage
- Home Appraisal
- Loan Processing and Underwriting Loan
- Closing to receive money or open line of credit

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Important QUESTIONS TO ASK

BEFORE OPTING FOR A HECM

- Is there a way to meet my needs that does not involve a HECM?
- How much money do I need to borrow?
- Does my home qualify for a home equity conversion mortgage?
- Will a HECM make my partner or me ineligible for any "needs-based" public assistance benefits—now or in the future?
- How much can I borrow through available home equity conversion mortgage?
- How much will it cost me in origination fees, closing costs, interest, monthly, or periodic fees?
- Will I have to sell my home before I die to pay off the HECM?
- If I die and my partner is still living in my home, will he or she have to leave or pay off the HECM?
- Can I confirm that the HECM is an entirely a non-recourse loan (this means the liability to repay the loan is limited to your home and would not be subject to any of your other assets or income!)

- Will there be anything left for my spouse/partner, my heirs, or me when the HECM is paid in full?
- Will the Home Equity Conversion Mortgage become due and payable if I require long-term care and move to an assisted-living facility, or to a nursing or convalescent home?
- Are there any fees, costs, or other charges due when the HECM is fully paid?
- What are my continuing financial obligations with a HECM (for instance, property maintenance, property taxes, insurance premiums, and homeowners' association assessments or fees)?

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Types of REVERSE MORTGAGES

MOST COMMONLY AVAILABLE OPTIONS

- FHA-insured mortgage: A Home Equity Conversion Mortgage (HECM). The only reverse mortgage insured by the U.S. Federal Government, HECM is only available through an FHA-approved lender.
- Mortgage loan insured by lender or a private institution. These reverse mortgages are known as "proprietary" loans.
- Uninsured mortgage products offered by a financial institution or a licensed lender

The HECM is the most typically used kind of a reverse mortgage.

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Important

TO-DO'S BEFORE YOU MAKE A DECISION TO OBTAIN ONE

DO YOUR HOMEWORK NOW SO AS NOT TO BE SORRY LATER.

To start, decide how long you expect to stay in the home you'll be taking the Home Equity Conversion Mortgage on.

Consult with a Housing and Urban Development (HUD)-approved reverse mortgage counselor before applying for a HECM. A counselor can help you decide whether a HECM or another alternative is the best choice for you. **To find a HUD-approved Home Equity Conversion Mortgage (HECM) counselor near you, call (800) 569-4287.**

Decide if you really need a Home Equity Conversion Mortgage. Another type of loan may be a less costly solution. Discuss this with a counselor.

You may instead also decide to sell your home, rather than go with the HECM.

Home Equity Conversion Mortgages are not to be taken lightly. Make sure to include trusted family members in your decision-making process. If inheritance is an issue, adult children may be willing to help with alternatives.

Determine with as much certainty as possible if a HECM will affect your eligibility for “needs-based” public assistance benefits.

Review your mortgage broker’s license record and ascertain their skill set and experience in the world of reverse mortgages prior to making any decisions.

Make sure to understand whether the HECM you may be considering is a recourse or a non-recourse loan, whether the loan would have a fixed or adjustable interest rate, and/or the current and projected market value of your home. Should you need any help at all with the evaluation of your home's projected market value, I will be more than happy to assist, so please feel free to reach out at any time.

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Myth vs. Facts!

Myth	Facts
With a reverse mortgage, bank owns the house... Not true	Homeowner never gives up the title or ownership of their home
Reverse mortgages are costly and have high fees... Not true	Interest rates and fees are comparable to conventional and FHA
When the loan balance grows more than the home value, the borrower and heirs have to pay difference...Not true	A reverse mortgage is a non-recourse loan and the borrower/estate will never owe lender more than current value of the home
You must own your home free and clear to qualify for a reverse mortgage... Not true	You can pay off your current mortgage with the equity you qualify for...Not true
Reverse mortgages are a loan of last resort... Not true	Many people use a reverse mortgage line of credit as a safety net for emergencies

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How is eligibility for a HECM determined?

- Titleholder of the property must be at least 62 years old
- If title is held jointly, the youngest of the two titleholders must be at least 62.
- The property must be a single-family home, an FHA approved condo, or a multiple family dwelling consisting of at least two, but no more than four, units.
- The home must be occupied by and be the primary residence of the borrower(s).
- There must be enough equity in the home to cover the payoff of all existing mortgages, liens, or legal obligations tied to the home.

Are there any special requirements to get a HECM?

You must own a home, be at least 62, and have enough equity in your home. There are no medical requirements. A financial assessment will be conducted for every HECM borrower to ensure he or she has the financial capacity to continue paying mandatory obligations, such as property taxes, homeowner's insurance, and HOA fees.

If a lender determines that a borrower may not be able to keep up with property taxes and homeowner's insurance payments, they will be authorized to set-aside a certain amount of funds from the loan to pay future charges.

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What is the minimum age for a Home Equity Conversion Mortgage?
HUD has established the minimum age for a HECM borrower to be 62 years of age by the time the loan closes.

What is the minimum age for a Jumbo Reverse Mortgage?
Generally, jumbo programs also use a 62-year-old minimum age but there are also several programs now available for borrowers down to 55 years of age.

What If A Spouse Is Under 62?
If your spouse ages below 62, you can still obtain a HECM by filing your younger spouse a “non-borrowing spouse.” If both spouses are on title, then only the spouse who is 62 or over can be on the mortgage.

Keep in mind that the principal limit of your mortgage will be determined by the age of the youngest borrower or non-borrowing spouse, whichever is less.

Can my spouse under the age of 62 be protected?
The HUD HECM allows for an “eligible non-borrowing spouse” under the age of 62 but they cannot access the HECM funds if the eligible borrower were to leave the home. They can remain in the home for life by living in the home as their primary residence, pay the taxes, insurance and any other property charges in a timely manner and also maintain the home in a reasonable manner.

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Can a surviving spouse remain in the home even though they are not the borrower?
Under a relatively recently decided court ruling, a surviving spouse may remain in a home that is subject to a reverse mortgage even though the sole borrower on the mortgage is the deceased spouse. Because eligibility for a reverse mortgage depends upon the borrower's reaching age 62, in some cases married taxpayers have been advised that the younger spouse can sell the home to the older spouse in a quitclaim sale. The older spouse would then qualify for a reverse mortgage but would be listed as the sole borrower on the mortgage after 6 months of the quitclaim deed.

Does the lender take the title to my home while I have a HECM?
No. You continue to own your home while you have a HECM. This means that you must still pay for property taxes, insurance, and repairs.

Can a non-borrowing Spouse remain on title?
YES. A non-borrowing can remain on title but will need to attend HUD Counseling.

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What are the obligations off the non-borrowing Spouse?
After the last borrower dies or permanently vacates the home for mental or physical illness, the NBS will need to make sure to keep up with all the obligations of it being their primary home, paying property taxes, insurance, and maintenance.

Can a non-borrowing Spouse draw from the line of credit?
NO. the NBS is not a borrower or party to the loan in any way. No disbursements can be made during the deferral period other than repair charges paid through a repair set-aside. This means that the line-of-credit and monthly payments will cease, including a Life Expectancy Set-Aside (LESA) used to pay property charges.

Does my home qualify?
Eligible property types include single-family homes, 2-4 unit properties, manufactured homes (built after June 1976), condominiums, and townhouses. Co-ops do not qualify.

How much money can a person expect to receive from a Home Equity Conversion Mortgage?
The higher the property value, the older the borrower(s), and the lower the current interest rates, the larger the available credit.

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Are the proceeds from a HECM taxable?
The IRS considers a HECM a loan are not considered income, so the amount(s) the borrower(s) receive at any given time are not taxable.

Is a Home Equity Conversion Mortgage borrower required to purchase mortgage insurance premium (MIP)?
Yes. Mortgage insurance has always been required on HECM loans. To reduce the high initial upfront cost that was keeping many people over 62 from obtaining a reverse mortgage, in 2010 the Federal Housing Administration introduced the HECM SAVER. The goal was to make HECM more affordable for more seniors by reducing the initial MIP and other upfront fees.

Are borrowers responsible for any costs relating to the property underlying the mortgage?
Borrowers under HECM must be able to pay the property charges associated with maintaining the home subject to the mortgage such as maintenance, property taxes, insurance, and HOA fees.

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What if I have an existing mortgage?
You may qualify for a HECM even if you still owe money on an existing mortgage. However, any existing mortgages must be paid off. You can pay off the existing mortgage with a HECM, money from your savings, or assistance from a family member or friend.

For example, let's say you owe $100,000 on an existing mortgage. Based on your age, home value, and interest rates, you qualify for $125,000 under the HECM program. Under this scenario, you will be able to pay off ALL the existing mortgage and still have $25,000 left over to use as you wish, with no monthly payment.

What is the loan closing date?
The Loan Closing Date for all HECMs is defined as the date on which you (the borrower) signs the note to your Home Equity Conversion Mortgage.

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Will I lose my government assistance if I get a HECM?
A reverse mortgage does not affect regular Social Security or Medicare benefits. However, if you are on Medicaid or Supplemental Security Income (SSI), any HECM proceeds that you receive must be used immediately. Funds that you retain count as an asset and could impact eligibility.

For example, if you receive $4,000 in a lump sum for home repairs and spend it all the same calendar month, everything is fine. Any residual funds remaining in your bank account the following month would count as an asset. If the total liquid resources (including other bank funds and savings bonds) exceed $2,000 for an individual or $3,000 for a couple, you would be ineligible for Medicaid. To be safe, you should contact the local Area Agency on Aging or a Medicaid expert.

What are my disbursement options?
You can choose to receive the money from a HECM all at once as a lump sum, fixed monthly payments either for a set term or for as long as you live in the home, as a line of credit, or a combination of these. The biggest difference in the Home Conversion Mortgage Line of Credit and a traditional Home Equity Line of Credit, is that the HECM Line of Credit is guaranteed unlike a traditional which can be forfeited at any time by the bank.

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How Much Money Can I Get?
The amount of funds you are eligible to receive depends on your age (or the age of the youngest spouse when there is a couple), appraised home value, interest rates, and in the case of the government program, the FHA lending limit, which is currently $970,800. If your home is worth more, then the amount of funds you may be eligible for will be based on the $1,209,750 loan limit. In general, the older you are and the more valuable your home (and the less you owe on your home), the more money you can get.

How much can a taxpayer receive within the first 12 months of closing?
The maximum value that a taxpayer is entitled to receive from a HECM at the time the loan is closed, or within the first 12 months after closing, is now limited to 60 percent of the “principal limit” or the sum of “mandatory obligations” plus 10 percent of the principal limit. After the first 12 months, the taxpayer is entitled to access the remainder of the loan.

Can I change the type of payment plan I elected at closing?
If you have a Home Equity Conversion Mortgage (HECM), and your loan documents allow for a payment plan change, then yes you can change your payment plan. This means that you can change from monthly payments to a Line of Credit, or vice versa. There is usually a fee associated with changing your payment plan.

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How can I use the proceeds from a HECM?

The proceeds from a HECM can be used for anything, whether it's to supplement retirement income to cover daily living expenses, repair or modify your home (i.e., widening halls or installing a ramp), pay for health care, pay off existing debts, cover property taxes, or prevent foreclosure.

If the unused balance in the HECM Line of Credit Option has a growth feature, does that mean I'm earning interest?

No, you're not earning interest like you do with a savings account. After the first month of your HECM loan, the principal limit increases each month. The growth is considered a further extension of available credit.

How long will my estate have to pay off the Home Equity Conversion Mortgage once it has been called due and payable?

The HECM is to be paid in full once you have passed, moved, or sold. Your heirs have 6 months to sell or refinance and if needed can apply for up to two 90 day extensions with acceptable reasons.

What does "non-recourse loan" mean?

This means that you can never owe more than the value of your home at the time you or your heirs sell your home to repay your HECM.

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Can I make a partial prepayment to my Home Equity Conversion Mortgage account?

Yes, HECM will permit a partial prepayment to your account without penalty.

Can I pay off my HECM?

Yes. You can pay your HECM in full at any time during the term of your HECM. If you pay completely off, the line of credit will be closed and you will no longer have access to it.

How long will my estate have to pay off the Home Equity Conversion Mortgage once it has been called due and payable?

The HECM is to be paid in full once you have passed, moved, or sold. Your heirs have 6 months to sell or refinance and if needed can apply for up to two 90 day extensions with acceptable reasons.

Can I lose my home while I have a HECM?

Yes. You could lose your home if you do not pay for property taxes, insurance, and repairs. For example, if you don't pay your taxes, the lender could demand that you repay the loan in full. You may have to sell your home to repay the loan. Or the lender could take your home through foreclosure. Also, if you don't live in your home for 12 straight months or more (for example, if you are in the hospital or a nursing home), the lender could demand that you repay the loan in full, and you may have to sell your home to repay the loan.

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If your loan has any of these conditions, either the home will need to be refinanced, or sold:

1. All borrowers have passed away
2. All borrowers have sold or conveyed title of the property to a third party
3. The property is no longer the principal residence of at least one borrower for reasons other than death
4. The borrower does not maintain the property as principal residence for a period exceeding 12 months because of physical or mental illness
5. Borrower fails to pay property taxes and/or insurance and all attempts to rectify the situation have been exhausted
6. The property is in disrepair and the borrower has refused or is unable to repair the property.

Can you outlive a Home Equity Conversion Mortgage?

You can outlive the available line of credit under a HECM if you draw all available funds, but you can live in the home payment free for life as long as you continue to pay the taxes, insurance and any property charges even after your available funds are gone.
The earlier you take the loan out, the longer your balance will accrue interest.

While it's not required, you do have the option of making payments—even if it's just on the interest—on your HECM throughout the term of the loan.

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Do heirs have to sell the property to repay the loan upon the borrower's death?

No, repayment can be accomplished in many ways. If the heirs – or any one heir – want to buy the house, they can pay off the loan and take title. This can be accomplished by putting up the cash required to pay off the loan, by using a conventional mortgage, or using a home equity loan on another property. If someone wants to buy the property, the proceeds will have to pay off the existing loan balance. If the home is worth less than the loan balance, the lender can take it over.

What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?

A HECM is usually repaid by selling the home. If the money earned through selling the home isn't enough to repay the reverse mortgage, you or your heirs will not owe the difference. This is considered a non-recourse loan, and the mortgage insurance premium being charged protects you from having owed any difference.

What happens if there is money left over after the home is sold?

If there is proceeds left over after sold, the homeowner (or the homeowner's heirs) keep any money left over.

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Is it possible for an estate or heirs of the borrower(s) to receive funds after the final settlement of a ?

The final settlement of the loan will come due when the borrower(s) sell the home, die, or no longer use the home as the primary residence. At that time, the heirs or estate have six months (this can be extended for a second six months) to repay the lender the principal plus accrued interest, and any other legitimate charges associated with the loan. Should the amount generated from the sale of the home be greater than the amount owed to the lender, all proceeds remaining belong to the borrower(s), heirs, or estate.

Under what circumstances should I not consider a HECM?

Because of the upfront costs associated with a Home Equity Conversion Mortgage, if you intend to leave your home within 2 to 3 years, there may be other less expensive options to consider, such as home equity loans. Also, if you want to leave your home to your children with it paid off, then you should consider other options, because in many cases, the home is sold to pay back a HECM. This would be a discussion to have with them to make sure they want to keep the home.

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Caution!

This general information is ***not*** a substitution for the advice of an attorney, accountant, and/or financial planner. Before you decide to pursue a Home Equity Conversion Mortgage, you need to carefully consider your individual circumstances so you can make the most informed decision about the most valuable asset you may own—your home.

This is an FHA-insured loan. Homeowners must be 62 years of age or older and live in the home as their primary residence. Homes must meet FHA/HUD minimum property standards. Borrowers must maintain hazard and flood insurance premiums, property taxes, utilities and make any property repairs. Although there are no mandatory monthly principal and interest mortgage payments, interest accrues on the portion of the loan amount disbursed if no payments are made. Reverse mortgages can use up all or some of the equity in your home and the amount you owe can increase over time.

Loan must meet underwriting requirements. Program rates, fees, terms and conditions are not available in all states and subject to change. Loan must meet underwriting requirements. Program rates, fees, terms and conditions are not available in all states and subject to change. All products and services offered through Pioneer Mortgage Funding, NMLS# 1980 is an Equal Housing Opportunity mortgage broker. Rates and terms vary depending on eligibility. Approval subject to review of information.

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