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Lately we have heard more about an increase in the usage of a **Home Equity Conversion Mortgage** or what used to be called a "Reverse" Mortgage. With the stricter guidelines for income and credit history qualifications and the lack of home equity loans available today, more and more people are exploring these options. The HECM mortgage actually has changed the way a Reverse mortgage works and gives more options to borrowers. It provides 4 payment options that allow you to control the balance yourself. In many ways the Reverse mortgage has really been improved. Hopefully you may find this information useful and informative for educational purposes.

*Editor: National Mortgage Network*

### **Explanation of a Home Equity Conversion Mortgage (HECM):**

It's pretty clear that after you pass on, you will not likely be able to take your home with you. So why shouldn't you let your home fund the rest of your days? Well that is exactly why they created reverse mortgage loans. Every senior citizen should be aware of HECM mortgage loans and options if only for protection and or an obtainable "life raft" should an unforeseen catastrophe occur. Many senior citizens are financially damaged each year when unforeseen medical bill or other unexpected expenses jump out of the blue. A HECM mortgage loan may very well be financial salvation in case something like this happens to you.

HECM mortgage loans can also be a great way to receive additional retirement income that is needed to survive in an ever increasing cost of living society today. However there are several factors that come into play when you apply for and receiving a HECM mortgage loan. So before you choose this option make sure that you have all the information about HECM mortgage loans and how they work.

### **Qualifying and Benefits:**

The first thing you need to know about HECM mortgage loans is how to qualify. Any homeowner over the age of sixty-two who has sufficient equity built up in their home can qualify for a HECM mortgage loan.

The second thing you need to know about HECM mortgage loans is that you need to know how these loans actually work. When you get a HECM mortgage loan, you receive money from a lender based on your age, the amount of equity in your home, your home's current value, and current

interest rates. HECM mortgage loans will not become due until you or your spouse pass on, move to another principle residence, or sell the property.

There is little dispute that real estate has become a major money savings mechanism for baby boomers. As they look to retire, strategies for turning the investment into cash are coming to the forefront and the reverse equity mortgage is one such strategy. The HECM mortgage comes in a wide variety of types. At its base, an HECM mortgage makes a payment to the homeowner in exchange for an interest in the equity of their home.

The payments can be made monthly, quarterly, annually or in one lump sum, according to the plan you chose. Regardless of how the payments are made, they are credited against the equity of the home. The loan debt also grows at a specified interest rate and additional costs, sometimes hefty, are also charged at the origination of the loan. So, who is a good candidate for the HECM mortgage? The prime candidates are individuals over 62 who actually want to live in their homes instead of selling them.

### **Things to know:**

Seniors must ensure they don't run into a situation where they eventually use up the equity. A condition to be able to apply is for you to have some significant equity base. The costs and interest rates associated with the loan can also be very high. Ultimately, the decision to go with a HECM mortgage is one that should be made very carefully. While it provides convenience, it is often considered a truly expensive loan when compared to other financial options available on the market.

There are two prevalent HECM mortgage interest rates. The fixed HECM mortgage rate and the adjustable HECM mortgage rate. The principle and interest monthly payments do not change throughout the duration of the loan, in the case of a fixed HECM mortgage program. The interest rates would remain the same as long as the borrower is in a fixed term agreement. Another important aspect is the main advantage in opting for a fixed HECM mortgage is that the borrowers are able to keep track of the exact amount of their payments. Basically, they are able to manage their personal budget more easily.

### **The Government and your HECM Mortgage:**

The thing that makes HECM mortgages for seniors so accessible is the fact that it is most of the time they are backed by the US Department of Housing and Urban Development (HUD). This means that if the HECM mortgage is not repaid with the amount of money received upon the sale of the home, then HUD will pay the remainder of the balance. For example, if you have a HECM mortgage and you outlive the actual tables, the governmental institution will pay the monthly payments for the rest of your life.

Also the Federal Housing Administration (FHA) provides insurance. There are of course, some limits that may apply but the main idea is that you, as a citizen of the US, can take advantage of these benefits.

In case if the HECM mortgage interest rates are rising, it is advisable to sign up for the fixed option, as in will insure that you will not have to worry about the future increases in rates. In cases of

adjustable HECM mortgages, the rates are adjusted from time to time on the basis of an index. When there is a downward fluctuation in the interest rates, the borrower are often advised to take advantage of the savings.

### **Costs and Fees:**

HECM mortgage costs can be quite different from the cost of a traditional "forward" mortgage. In these traditional mortgages the costs and fees associated with them come mostly from the lender or third party fees like Title and Escrow and the interest rate that you receive for your loan. The APR is calculated by adding these costs to the overall interest rate.

Most traditional HECM mortgage costs include origination and processing fees, third-party closing costs (just like a first mortgage), a monthly service fee and possibly mortgage insurance. Most of these costs can be financed into the loan, and may vary depending upon which product you select. In addition, there is also a counseling fee that will be collected up front or financed within the loan.

This does not mean that you will pay taxes on the payments you receive because the payments are coming from your own home's equity. Your Medicare or Social Security benefits will not be affected by a HECM mortgage. Remember that most HECM mortgage brokers will charge an origination fee, this being the fee you pay the agency for arranging and processing the mortgage and finding you the institutional lender who is willing to finance HECM mortgage.

Another part of reverse mortgage costs are the ones that every homeowner is responsible for. Things like property taxes and all associated costs with owning the property .You will continue to pay taxes based on the assessed value of your home.

## **Frequently asked questions:**

### ***What is a HECM mortgage?***

A HECM mortgage is a home loan that allows you to access a portion of your home's equity and use the tax-free proceeds however you choose (please consult a tax advisor). With this type of loan, you retain your home's title, and no monthly mortgage payment is required for as long as you continue to live in the home or until a maturity event occurs.

### ***Who is eligible for a HECM mortgage?***

To be eligible, all borrowers must be titleholders of the property and age 62 or older.

### ***Does my credit score or income influence my eligibility?***

No. There are no income or credit score qualifications.

### ***What types of homes are eligible?***

Single-family, 2- to 4-unit multifamily, modular, planned unit development (PUD) and condominium homes are eligible. Manufactured homes may be eligible. The property must be your primary residence.

***Can I use a HECM mortgage to purchase a home?***

Yes, you can use the proceeds to purchase a home. You will need to make a down payment and apply the proceeds from your HECM mortgage at the time of purchase. This down payment is determined by the home value minus the amount of proceeds received from the HECM mortgage (after subtracting loan costs). You will not need to make monthly HECM mortgage payments while you live in the home or until a maturity event occurs.

***Will I still own my home?***

Yes. You always retain the title until your home is sold.

***What if I have an existing mortgage?***

You may be eligible for a HECM mortgage even if you still have an existing mortgage. However, the existing mortgage balance must be paid off at closing. You can choose to pay off the balance with proceeds from the HECM mortgage or from another allowable source.

***Are there homeowner's insurance and property tax requirements?***

Yes. It is your responsibility to maintain an acceptable amount of property insurance, including flood insurance where necessary. You are also responsible for paying your property taxes.

***What are the costs of a HECM mortgage?***

Costs include origination and processing fees, third-party closing costs (just like a first mortgage), a monthly service fee and possibly mortgage insurance. Most of these costs can be financed into the loan, and may vary depending upon which product you select. In addition, there is also a counseling fee that will be collected up front or financed within the loan.

***How much of my home's equity can I access?***

Loan amounts vary based on the HECM mortgage product chosen, the ages of all the borrowers, the appraised market value of the home and current interest rates. Generally, the higher the home value and the older you are, the more you can borrow.

***What are the differences between the fixed and adjustable rate options?***

The two types of interest rates offer benefits to accommodate a variety of individual needs. A fixed rate provides the predictability of an interest rate that will not change during the course of the loan. An adjustable rate is an open-end credit loan that offers the flexibility to pay down the balance and redraw funds. A HECM mortgage loan officer can help you learn more and evaluate which option may be right for you.

***How will I access the proceeds from my HECM mortgage?***

Access methods vary based on which product you select. You can choose to receive the proceeds in a single lump sum, through regular monthly installments, by drawing from a line of credit at your

discretion or any combination of these options.

***How can I use the proceeds I receive?***

You can use the proceeds for anything you choose. You can pay for medical, prescription and long-term care costs, make home improvements or cover unexpected expenses. The decision is completely yours.

***Are the proceeds I receive taxable?***

Loan advances from a reverse mortgage are generally not considered taxable income. This means the proceeds you receive from a HECM mortgage are generally tax-free, and your income tax bracket may not be affected. Please consult a tax professional.

***When will the loan become due?***

Circumstances that will cause the loan to become due include, but are not limited to: 1) the last surviving borrower(s) permanently moves out of the home or passes away; 2) the last remaining borrower(s) fails to live in the home for 12 consecutive months; 3) the borrower(s) fails to pay property taxes or insurance; or 4) the property deteriorates beyond what is considered reasonable.

***Will I have to make monthly payments?***

No. Monthly HECM mortgage payments are not required until the loan becomes due.

***If I decide to pay back the loan early, will I incur any penalties?***

No. The loan can be paid back at any time, and you will not be charged any fees for paying early.

