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# The facts about HOME EQUITY CONVERSION MORTGAGES

(HECMs)

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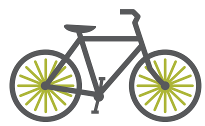
# INTRODUCTION

Americans aged 62 and older have a combined $6.2 trillion worth of home equity[1] (wealth) as of March 2017.

This home equity can be strategically used to support a wide range of financial costs and goals. By using a product called the Home Equity Conversion Mortgage (HECM), eligible seniors could:

**Build a "rainy day fund" for future health care costs**



**Live a more active lifestyle**

**Supplement monthly living expenses**

**Continue living in their home for the rest of their life**

**Fund expensive home and auto repairs**

**Buy a new home**

This eGuide discusses the basics of the HECM, its range of benefits, if you're a good candidate, and how to apply.

Ready to start? Let's begin!

# GROWING FINANCIAL PRESSURES?

Seniors are living longer than ever, a trend that's expected to continue for decades.

In fact, a recent report from the National Center for Health Statistics[2] found that a 65-year-old American can expect to live to the age of 84.3—or for 19 years past the age of retirement.

Because seniors are living longer, they face the challenge of extending their retirement savings. Considering a recent U.S. Government Accountability Office study[3] found that households aged 65 – 74 have an average of $148,000 in retirement savings (or $649 to draw on monthly), it's clear that new solutions are needed to help seniors live comfortably during retirement.

## How HECM Can Help

Fortunately, a powerful tool exists for helping seniors supplement retirement savings and provide a financial nest egg: the Home Equity Conversion Mortgage (HECM).

With HECMs:

1. A mortgage lender pays you using a percentage of equity that you've built up from years of making mortgage payments. The money you receive usually isn't taxable, and it generally doesn't affect your Social Security or Medicare benefits.

2. You're not required to pay back the loan balance while you live in the home. If you pass away, sell the home, or the home isn't your primary residence, the loan comes due. This means you or the estate must repay the loan.

3. You keep the title (ownership) to your home. This means you're responsible for paying property taxes, homeowner's insurance and other expenses.

Sound interesting? Let's discuss HECM eligibility requirements.

# HECM ELIGIBILITY

To be eligible for a HECM, the following requirements must be met:

**Borrower(s) must be 62 or older**
**(In Texas all borrowers must be 62 or older)**

**Have approximately 50% or greater equity in your home**

**Be able to pay for ongoing property charges including property taxes, homeowners insurance, and HOA fees**

**Be able to maintain your home**

**Live in the home - if you're absent from the home for more than 12 months, the HECM must be paid off**

**Receive HECM counseling from a third party counselor prior to obtaining the loan**

# TALK TO YOUR ADULT CHILDREN ABOUT HECMS

If you're considering getting a Home Equity Conversion Mortgage (HECM), it's important to talk with your adult children before applying. Here are some tips that can help guide this conversation:

## Prepare for the discussion in advance

Spend time researching HECMs on credible websites such as the Federal Trade Commission and U.S. Department of Housing and Urban Development.

These websites provide excellent HECM information, and you can print pages from these websites for your family discussions. You're also encouraged to invite your adult children to your HECM counseling session.

## Know why you want a HECM

Be ready to explain to your children why you're considering a HECM and how you plan to use it. Are you planning to use it for medical expenses? Are you using it to live without monthly payments? Are you using it to supplement your retirement? These answers can help put your children's mind at ease.

## Explain that HECMs are non-recourse

HECMs are "non-recourse loans," which means that if the home is worth less than the loan balance, the lender cannot go after your family estate for the remainder of the loan.

## Discuss repaying the loan

Let your children know what you'll need from them when the loan needs to be repaid – including how quickly the home will need to be sold, how they can apply for extensions, and what they should do with other assets.

## Explain how the HECM could benefit them

HECMs can help reduce financial pressures on families with seniors. For example, your children may have helped fund your medical care that could instead be funded using a HECM.

Your family will be looking out for your well being, and taking out any type of loan – even one safe like a HECM – can make family members worried. Let your family members know that you've thought about your decision extensively, and be willing to patiently discuss your reasons.

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# UNDERSTANDING THE REVERSE MORTGAGE PROCESS

## 1 *Education*

- Meet with a reverse mortgage loan professional
- Learn advantages and disadvantages of reverse mortgages
- Discuss all available options
- Decide if a reverse mortgage is right for you

## 2 *Counseling*

- Receive list of HUD counseling agencies from your reverse mortgage loan professional
- Contact the agency of your choice
- Receive counseling
- When counseling is complete, let your loan professional know whether you're ready to proceed

## 3 *Application*

- Your loan professional will contact you  for the required information for your loan application
- Your loan professional will set up an appointment with you to review your application
- Once you sign the application, your loan professional submits it for processing

## 4 *Processing/Underwriting*

- The loan processor reviews your application to ensure it is complete, and orders a credit report, appraisal, and open title
- The loan processor gathers any documentation required
- Once the appraisal is finished, your file is submitted for underwriting
- After underwriting conditions are met, the loan will be cleared for closing

## 5 *Closing*

- Your loan professional contacts you to schedule a final document signing
- Once you sign the documents, you have three days to decide to cancel the loan
- Once the waiting period expires, the loan funds and any monies you requested is disbursed

## 6 *Servicing*

- Approximately 30 days after closing, you'll receive a welcome package from the loan servicing team
- The packet includes instructions receiving draws from your credit line, if applicable
- It also contains other important information on servicing your loan

# SCENARIOS WHERE HECMS COULD BE USEFUL

While HECMs aren't meant for all seniors, here are five situations they could be ideal:

## 1. You love your home and don't want to move

If you take out a HECM, you keep home ownership and can stay in the house for the rest of your life. Keeping home ownership means maintaining your home and continuing to pay property taxes, insurance and HOA fees.
HECMs don't need to be repaid unless you pass away, permanently move out of the home, fail to maintain your property, or stop paying your property taxes or homeowner's insurance.

## 2. You want to move

Been thinking about moving to a warmer climate? Want a house more suited to retirement living? The HECM for Purchase (discussed in a later chapter), also called H4P, lets you purchase a new home using a HECM combined with a down payment. This could increase your home-purchasing power and provide home options previously unavailable to you.

## 3. You have extensive home repairs or renovations

Home repairs are an expensive fact of life. If your home has issues such as a leaking roof or a failing heating system, a HECM can provide the funds to correct these issues (if your homeowners insurance doesn't cover the repairs).
Or if you've been wanting to complete a special home renovation project, taking out a HECM could provide the opportunity you've been waiting for.

## 4. You need a 'rainy day' fund

Even with the best plans and preparation, you sometimes need extra money. This could be from health emergencies, car repairs, or investments declining in value. A HECM could help give you the additional cash you need without affecting your financial stability.

## 5. You want to live a more active lifestyle

One of the best parts of retirement is the opportunity to do things you've always wanted, like visiting a dream destination or taking up golf. A HECM could help fund an active lifestyle while helping prevent you from depleting your retirement savings.

# DOCUMENTATION AND APPLICATION REQUIREMENTS

The Home Equity Conversion Mortgage (HECM) application process is less complicated than traditional mortgages. However, to protect both senior homeowners and mortgage lenders, HECMs have strict eligibility and documentation requirements.

To be eligible for a HECM, here's what you'll need:

## Valid identification proving you're 62 or older

You must be 62 or older to receive a HECM, and you'll need valid identification showing your age. In most cases, a driver's license is sufficient. You must also provide a copy of your social security or medicare card to verify your social security number.

## Verification of your principal home address, in which you have approximately 50% or greater equity

HECMs are available on your principal home, where you live in for the majority of the year, and have approximately 50% equity. Vacation homes are not eligible for HECMs.

Usually, your driver's license address is the same as your principal address. If you don't have a driver's license or it doesn't reflect your principal address, your lender may ask you for other documentation such as bank statements or tax records.

## Sufficient income to maintain your home, pay property taxes, and homeowners insurance

With HECMs, your mortgage lender needs to verify you have sufficient income to continue to maintain your home and pay for property taxes and HOA fees, as well as homeowners insurance.

If you're retired, your income could come from various sources such as social security, pensions, distributions or even a part-time job.  You can verify income through items such as a social security award letter, W2s, or statements from your bank.

## Verification of HECM counseling certificate

Before you can obtain a HECM, you're required to take part in a counseling session with a mortgage counselor approved by the U.S. Department of Housing and Urban Development (HUD). The session is to help ensure you understand HECM requirements, as well as alternatives to HECMs.

Your HECM lender will provide you with a list of independent agencies that offer counseling, but the lender cannot make any recommendations on which agency to contact. You can also find a list of counseling agencies on the HUD website. After completing the counseling, you'll receive a certificate and provide a copy to your lender.

# HECM PAYMENTS

When you take out a Home Equity Conversion Mortgage (HECM), you can choose from several different ways to receive your funds. These include:

## Term Payments

Fixed monthly payments for a specified timeframe. For example, if you're 65 and want to defer going on Social Security until age 70 (to receive the maximum payout benefit), you could establish term payments for five years. With term payments, your monthly payment would not change, even if your home were to decrease in value.

## Line of Credit

A stand-by line of credit to access when you need funds. You can access these funds by submitting a written request to your mortgage lender. An important feature of your line of credit is the unused portion grows over time.

## Tenure Payment

Fixed monthly payments for as long as you live in the home. Even if your loan balance were to exceed the value of your home, you would still receive the same monthly payment. The payments only stop if you were to pass away or permanently leave the home.

## Modified Term / Line of Credit

Establishing a line of credit and receiving fixed monthly payments for a specified amount of time.

## Lump Sum Disbursement

Drawing up to 60% of available funds at close of escrow in one lump sum. The remaining 40% can be drawn after 12 months.

## Modified Tenure/Line of Credit

Establishing a line of credit and receiving fixed monthly payments for as long as you live in the home.

## HECM for Purchase (H4P)

Instead of remaining in the same home, you can use a HECM to rightsize and purchase a new home. H4P lets you combine funds from selling your existing home with private savings, gift money and other income alongside funds from a HECM. This lets you purchase a new home outright and have no mortgage payments.*

*Must maintain property as primary residence and keep property taxes, insurance and HOA due current.

# HECM FOR PURCHASE LOAN

As mentioned in the last chapter, you can use a Home Equity Conversion Mortgage (HECM) to purchase a new home.

Until recently, if you were retired and wanted to buy a new home, your options were limited by the equity (wealth) you could access from selling your existing home, your cash savings, and the size of any mortgage you could obtain. But in 2009, a new way for seniors to buy new homes was created by the Federal Housing Administration.

The HECM for Purchase (H4P) lets seniors aged 62 and older purchase a home with approximately 50% down.

Following your down payment and closing of your loan, you'll have no monthly mortgage payments as long as you live in the home.*

## To be eligible for the for H4P:

- You must be 62 or older**
- You must only use the mortgage on your primary residence (vacation homes are ineligible)
- The money used for the down payment must come from checking, savings, investments, gifts or an existing house sale (it cannot come from money acquired through debt)
- You must be able to maintain the home and pay property taxes, HOA fees and homeowner insurance

## H4P can provide seniors with powerful advantages:

- Greater home purchasing power
- The ability to move into a home that better fits your needs
- The opportunity to move to a different part of the United States
- Reduced out-of-pocket expenses from not having a monthly mortgage payment*
- Being able to retain more of your life savings
- You keep the title to your home

*Must maintain property as primary residence and keep property taxes, insurance and HOA dues current.
**In Texas all borrowers must be 62 or older.

## H4P Matrix

The matrix below demonstrates the increased home purchasing power gained by Americans (62-and-older) who use H4P.***

To use the matrix, match your age (on top of the chart) with the desired home purchase price (on the left side). The number where the age and purchase price intersect is the amount of down payment you will need at closing.

For example, a 65-year-old who wants to purchase a $300,000 home must provide a down payment of $177,004. The remainder of the balance is ($122,996) is funded by a HECM loan.

| | AGE OF YOUNGEST BORROWER | | | | | |
|---|---|---|---|---|---|---|
| **PURCHASE PRICE** | **62** | **65** | **70** | **75** | **80** | **85** |
| **$150,000** | $92,939 | $89,939 | $84,689 | $80,789 | $74,639 | $66,239 |
| **$200,000** | $122,962 | $118,962 | $111,962 | $106,762 | $98,562 | $87,139 |
| **$250,000** | $152,762 | $147,983 | $139,233 | $132,733 | $122,483 | $108,483 |
| **$300,000** | $183,004 | $177,004 | $166,504 | $158,704 | $146,404 | $129,604 |
| **$350,000** | $213,025 | $206,025 | $193,775 | $184,675 | $170,325 | $150,725 |
| **$400,000** | $243,048 | $235,048 | $221,048 | $210,648 | $194,248 | $171,848 |
| **$450,000** | $273,069 | $264,069 | $248,319 | $236,619 | $218,169 | $192,969 |
| **$500,000** | $303,090 | $293,090 | $275,590 | $262,590 | $242,090 | $214,090 |
| **$600,000** | $363,134 | $351,134 | $330,134 | $314,534 | $289,934 | $256,334 |
| | DOWN PAYMENT | | | | | |

*** This calculation is based on youngest borrower at age 65 using HECM Fixed Rate of 4.81% as of October 2, 2017. Recent interest rates range from 5.71- 6.26 APR. Loan charges will include origination fees, mortgage insurance premiums, and settlement costs which are to be determined. Most of these fees may be financed into the loan. Interest rates and funds available may change without notice and not be available at time of the loan commitment. Prices subject to change. This information is for illustrative purposes only. Estimated fees, including up-front FHA mortgage insurance premium, range from $3000 - $12,000 depending upon the value of the home (included in mortgage). Closing costs vary from state to state and can affect down payment. Please check with your HECM Loan Officer for actual figures. Your loan balance and accrued interest will become due upon a maturity or default event such as no longer living in the home as your principal residence, failing to pay your hazard insurance or property taxes, or failing to maintain your property.

## WHEN A HECM IS DUE

HECMs need to be completely paid off when the last surviving borrower passes away, sells the home, or permanently moves out.

HECMs may also become due if you stop paying your property taxes or homeowner's insurance, or fail to maintain your property.

## RETIREMENT EXPERTS ARE RECOMMENDING HECMS

Growing numbers of retirement experts and respected institutions are recommending HECMs. Wade Pfau, professor of retirement income at The American College and Director of Retirement Research at McLean Asset Management and inStream Solutions, says HECMs can improve retirees' financial sustainability and build a larger legacy for their heirs.

Harvard University, America's oldest university and one of the world's best, stated that HECMs can be an option to help senior homeowners reduce cost burdens and comfortably age in place in a recent report.

# AVOID THESE HECM MISTAKES

While Home Equity Conversion Mortgages (HECMs) can offer seniors a range of benefits, they're not meant for everyone, and there are mistakes that can be avoided. These include:

## Wasting your loan money on non-essential purchases

How you use your HECM proceeds is up to you, but we recommend you to use your loan proceeds wisely. Try to resist spending your home equity (that you've built up over decades) on impulse purchases, and use it for essential purchases or as a "rainy day fund."

## Not paying your property taxes and homeowner's insurance

In the past, some borrowers spent their life savings and HECM proceeds, leaving nothing left to pay their property taxes and homeowners insurance. This caused the HECM balance to become due and payable.

To protect seniors and banks, HECM lenders are now required to conduct financial assessments to ensure applicants can successfully tap into their home equity while still being able to afford taxes and insurance. You should be confident that you can stay current and up-to-date on taxes and insurance before you take out a HECM.

## Not telling your family about your HECM

As with all financial decisions, HECMs should be carefully considered. Because a HECM loan balance becomes due after the last surviving borrower passes away, it can be an unpleasant surprise to learn that their parents' HECM is now due and payable.

By speaking with loved ones about your HECM plans, you can help avoid misunderstandings and give heirs time to plan whether to refinance and keep the home or sell it and repay the HECMs upon your death.

## HECMs can offer many benefits, but should be researched carefully

Taking out a HECM can be powerful retirement strategy for Americans 62 and older, especially for seniors who want to:

- Build retirement savings
- Prepare for unexpected health care costs
- Buy a new home
- Live a more active lifestyle

We recommend carefully research HECMs before applying, and discuss your plans with your family members . This can help you decide if a HECM is the right step for your unique situation.

# THINGS TO KNOW ABOUT REVERSE MORTGAGES:

1. At the conclusion of a reverse mortgage, the borrower must repay the loan and may have to sell the home or repay the loan from other proceeds

2. Charges will be assessed with the loan, including an origination fee, closing costs, mortgage insurance premiums and servicing fees

3. The loan balance grows over time and interest is charged on the outstanding balance

4. The borrower remains responsible for property taxes, hazard insurance and home maintenance, and failure to pay these amounts may result in the loss of the home

5. Interest on a reverse mortgage is not tax-deductible until the borrower makes partial or full re-payment

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# GLOSSARY

## Important Mortgage Terms

While you're considering a HECM, and during your HECM application process, here are some terms and definitions you'll likely hear.

**Appraisal**
A report that analyzes a property value based on the property's characteristics and recent selling prices of similar area homes.

**Counseling Session**
A mandatory session with an independent third party, approved by the U.S. Department of Housing and Urban Development. This counseling session is aimed at making sure a prospective borrower fully understands the HECM and reviews alternative options before submitting their application.

**Initial Principal Limit**
The amount of funds a person is eligible to receive from a reverse mortgage before closing costs are deducted.

**Loan Closing Date**
The date a reverse mortgage is scheduled to close.

**Monthly Service Fees**
A monthly fee charged by a loan servicer for administering a loan after it closes, such as for disbursing loan funds, maintaining the loan records and sending statements.

**Net Principal Limit**
The amount of funds you can receive at closing after the loan costs have been deducted.

**Non-Recourse Loan**
A feature that limits the amount owed by a borrower, heirs or estate when the loan becomes due and payable to the appraised home value. With HECMs, non-recourse only applies when a home is sold.

**Origination Fee**
A fee charged by a lender to cover its expenses for originating the loan.

**Principal Limit**
The total loan proceeds available at closing.

**Servicing Set Aside**
The amount of funds estimated at closing that are needed to service the reverse mortgage over the projected life of the loan. These funds are deducted from the initial principal limit and are automatically paid monthly to the loan servicer.

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