The Common Sense Guide: HECM

Home Equity Conversion Mortgage

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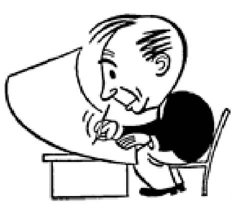
Your Credit Union Trusted Resource

FHA made the program – WE make the difference!

Steps to getting a Home Equity Conversion Mortgage (HECM)

	***1-AWARNESS:*** ***Senior homeowner learns about the potential benefits of a HECM Mortgage from a news article, advertisement, word-of-mouth from a friend, family member or trusted advisor.***
	***2-EDUCATION/ACTION:*** ***Homeowner seeks additional information by contacting one of our HECM Mortgage Professionals. We can help you by providing solutions, not just answers.***
	***3-CONSUMER COUNSELING:*** ***Homeowner seeks counseling from a*** *HUD-approved counseling agency for HECM counseling.* ***Counseling is required regardless of which HECM product you choose. Counseling can be conducted over the phone or in person. The homeowner will be given an original certificate as proof they have completed their counseling session as required by FHA/HUD.***
	***4-APPLICATION:*** ***Homeowner, with the assistance of the experienced HECM mortgage expert and our skilled professionals, fills out the HUD application and discusses appropriate payment option(s): fixed monthly payments, lump sum payment, line of credit or a combination of these.***

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Introduction to Home Equity Conversion Mortgages

What is a HECM? – also commonly known as a reverse mortgage

Home Equity Conversion Mortgages are federally insured loans specifically created by HUD and insured by the FHA to help homeowners 62 and older stay in their home.

Think of it as a home equity line of credit, specifically designed for seniors so that there are no monthly mortgage payments.

Using a HECM, seniors can use the equity in their home to pay off debts, taxes, provide home care, to fund other improvements, increase cash flow or for any other reason.

Through a HECM, you receive payments of your equity, instead of making a monthly payment – that's the "reverse" part.

You don't have to make a monthly mortgage payment and you never have to repay the loan as long as you live there and continue to pay your property taxes and homeowners insurance. You can choose to receive your money as monthly payments, a lump sum, or for future use as a line of credit. You can even structure the payments as any combination of these options. Also, because the FHA/HUD program is backed by the U.S. government, you will never owe more than the value of your home – even if you receive payments that exceed the value of your house! Finally, you **always** keep title to your property – the bank NEVER owns your home. This is a common misconception.

What are HECM mortgages used for?

Funds from a HECM mortgage can be used for anything the homeowner chooses. There are no restrictions on the use of the funds. Any existing mortgages, home equity loans or liens must be satisfied with the new mortgage. Here are some common uses for a home equity conversion mortgage:

Common uses (AARP and HUD survey):

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Healthcare costs	67%
Repay existing mortgages	55%
Reduce financial burden on children	50%
Home repair & improvement	50%
Pay property taxes	38%
Daily expenses	29%
Travel, something special	14%
Gifts	3%

Benefits

- ✓ Continue to live in and own ***your*** home
- ✓ Receive tax-free payments from the cash disbursements
- ✓ Choose from monthly payments, a line of credit or a combination of payments and a line or a lump sum
- ✓ Repay the loan at any time with no penalty
- ✓ Pay nothing as long as you occupy your home and continue to pay your property taxes and homeowner's insurance
- ✓ Non-recourse loan. You or your heirs are never liable should the loan balance exceed the value of the home, at any time.
- ✓ Pass the remaining equity in your home to your heirs

Costs

In September of 2013, HUD made changes to the program where the potential borrower can have much lower closing costs than before under many circumstances. Please ask us for more details.

The total cost of getting a HECM mortgage is about the same as getting a traditional mortgage on a new home, plus the cost of the mortgage insurance premium which goes directly to HUD. Different payment options most often have different costs. We will explain all the costs in detail to you. Every circumstance is also different so we'll create a quote specifically for you. While the cost could seem to be expensive at first, if the program is right for you, then the value of the HECM is priceless. Keep in mind that everything has a cost. It is important that we explain these costs to you and show you how everything adds up. We do not list the actual costs in this booklet, as every situation is different. Please ask us for more details on your situation.

Typical costs include:

- Appraisal/inspection fees
- Title insurance and recording fees
- Origination fees
- Document preparation fees
- Bank Attorney fees
- FHA/HUD Mortgage insurance

Home Equity Loan vs. a Home Equity Conversion Mortgage

With a home equity loan you make monthly payments until the loan is repaid. You must also have a sufficient income to qualify and have excellent credit. You must make monthly payments or you risk the possibility of foreclosure like any other 'regular' mortgage. Also, a home equity line of credit only allows you to draw on the funds for a set period of time only, and then full payments are required.

A new mortgage must pay off any mortgages in existence now and is not affected by income or credit score. Additionally, there are NO monthly payments ever (as long as you continue to pay your property taxes and insurance)! You qualify based on the age of the youngest person involved and the value of the home that you continue to own. Your funds are always available to you for the life of the loan. We can also handle a reverse mortgage transaction for a life estate or a trust.

Is a HECM Mortgage a good choice for everyone?

It is definitely a viable solution for many senior homeowners; but it is not right for everyone. It might even surprise you to hear us say that, but it is true. The HECM mortgage is really meant for people who want to remain in their homes. Like everything else, it is always good to learn, explore the options and weigh the facts.

It ***IS*** always a good idea to get the facts.

A HECM mortgage may not be the right choice for you if you do not intend to stay in your home long term (generally less than a year). You wouldn't necessarily buy a house if you planned to move out in one year. The same is true of a reverse mortgage. The value of the closing costs spread out over time makes it more cost effective over time. However, in only a year's time you can't spread out the costs. So, the longer you continue to live in the home, the more sense it makes.

Program Details

Eligibility Requirements

Eligibility is simple. Your main qualifications are the equity in your home and your age. That's it! Typically, there are no income, employment, or credit requirements. If you have had problems paying your property taxes or homeowners insurance, or have other judgments against you, additional qualifications may apply. We can explain that to you as it pertains to your situation. Sometimes, a HECM mortgage is the answer to these financial problems. Other times, a HECM mortgage may not solve the problem and may not be the solution.

Requirements:

- ✓ All homeowners must be at least age 62 and occupy the property as their primary residence.
- ✓ The home can have an outstanding mortgage, but that must be paid off with the new conversion mortgage.
- ✓ Houses, town homes, condominium units, and planned unit developments (PUDs) are eligible
- ✓ Co-ops are currently not eligible for participation in the HECM program by HUD.
- ✓ The home must meet minimum HUD property standards. This means your home must be in general good condition and be a safe living environment. If not, we will specify what needs to be done and

sometimes repairs can be made after the closing of the new mortgage.

- ✓ **Life Estates and certain trusts are permitted!**

How much can be borrowed?

The amount of money available from a conversion mortgage will vary based on the appraisal of the property, location, age of the borrowers and current interest rates at the time of application. Our experienced professionals will give you a free evaluation based on your individual situation.

Limits are based on:

- ✓ Age of the youngest homeowner
- ✓ Appraised value of the home
- ✓ Current interest rates
- ✓ Which program/options you choose.
- ✓ Call us for a free quote: **1-800-890-0372**

Cash disbursement options

You can choose to receive any combination of these options:

- ✓ **Lump sum**
  Cash is available immediately, all or part of total funds available.
- ✓ **Term**
  Monthly payments for a fixed number of months.
- ✓ **Tenure**
  Guaranteed, equal monthly payments for as long as at least one homeowner lives in the property. This is one of the best options to increase monthly cash flow over the long term.
- ✓ **Line of credit**
  A credit line that you can draw upon whenever you wish

Direct Deposit – is allowed and encouraged!

Interest Rate

Interest rates are low and are generally comparable or even lower than traditional mortgage rates. Rates are set based on the current indexes used. We currently base our adjustable options off the LIBOR rate. This is the **L**ondon **I**nter**B**ank **O**ffering **R**ate. You can choose to have the rate adjusted on a monthly basis or fixed for the entire term of the new mortgage. The fixed rate is based off of current market conditions and is generally set at the time of the closing. With an adjustable rate option, changes in interest rates will have no effect on how much cash is available to you; instead fluctuations in rates cause the loan balance to grow at a slower or faster rate.

Loan Repayment

If you choose to sell your property, then the loan is repaid at the time of the sale. Otherwise, the loan is due when the last borrower no longer occupies the property as the principal residence. At this point, the loan may be repaid either by sale of the home or through other resources (such as savings or applying for a new traditional mortgage-typically by the heirs).

If your heirs choose to sell the home, they will keep the remainder of the equity from the sale of the home after the loan balance has been satisfied. If the loan is in a "due and payable" status, then it can be purchased either by the heirs or sold on the open market for 95% of the appraised value at the time.

The process to gaining a Home Equity Conversion Mortgage

The mortgage process consists of 4 steps and generally takes about 3-4 weeks to complete.

1. **Education**

   By requesting our information, you will learn exactly how much money you can receive, how much it will cost, and how the various programs compare. This will help determine which program or option is the best for you and your circumstances.

   Since this is the education phase, we encourage you to involve your family and trusted advisors to help you learn as much as you can.

2. **HUD Counseling**

When you choose an FHA/HUD guaranteed reverse mortgage, you are required to complete a counseling session with a HUD-approved, independent housing counselor.

HUD counseling is available either by phone or by a face-to-face counseling session. There are plenty of telephone counselors available or we can locate the closest one to you. For an "in person" interview we will assist you in finding someone near to you when possible. We will always provide you a list of counselors to choose from.

The counselor will explain the legal and financial obligations of this type of conversion or "reverse" mortgage and help you explore any other options. At the end of the counseling session, you will receive the "Certificate of Borrower Counseling" that is needed to proceed.

3. **Application**

Either before or after your HUD counseling, you call us at 1-800-890-0372 to schedule your application. Sometimes homeowners want to complete the application first to get a better idea of the process and to ask more questions of the counselor. Either process can be done first and the application can be completed in the comfort of your own home, our office or through the mail.

4. **Closing**

After the closing, there is a federally mandated waiting period of three (3) business days before your funds are available to you. This is federal law for your protection. It allows you to review your closing documents without pressure.

Direct Deposit is also available for your convenience.

Common Questions and Answers

I have a $200,000 home. If I get a HECM mortgage and owe $50,000 then pass away, do my heirs get any money?

YES. You always keep the house. Your estate would choose to refinance or pay off the balance on the existing mortgage. If sold, upon the sale of the house for $200,000, the estate would pay the bank $50,000. The other $150,000 goes to your heirs.

How popular are HECM's?

The program is growing at 49% annually with 77,000 loans issued in 2008, over 125,000 in 2009 and even more in 2010. 2011 had about as many loans as did 2008. It was started by the Federal Housing Administration (FHA) and signed into law by President Ronald Reagan in 1988. The program began to be more popular in 1999 when policy changes lowered interest rates and cut closing costs. Since home values correspond directly to the amount of money you can receive, the housing market and fluctuations in value have a lot to do with the number of HECM's issued each year.

Can my heirs keep my home?

Yes. If they decide to keep it, they can refinance the property with a traditional mortgage or use their own assets to pay the balance.

Can the lender take my home away if I outlive the loan?

No. You cannot "outlive" the loan. As long as one borrower continues to live in the home and keeps property taxes and insurance current, you can not be evicted, foreclosed, or asked for repayment.

Will a HECM reverse mortgage affect my public benefits?

No. It will not affect Social Security, Medicare or Medicaid eligibility. (** recipients of Medicaid do have to follow Medicaid rules regarding assets. If you are currently receiving Medicaid benefits, or expect to, you should consult your attorney or Medicaid advisor for more details.)

Is the money tax-free?

Yes. The loan proceeds are not considered income and therefore they are not taxable.

Are there restrictions on how I use the money?

No. It is your money, after all.

Can I qualify for a new HECM mortgage if I have an existing loan?

Yes. The existing loan will be paid off during the closing. There must be enough money available from the new mortgage to pay off any existing liens.

My property is held in a Living Trust. Do I qualify?

Most likely the answer is Yes. We would review your trust before proceeding to make sure that your situation qualifies.

My property is held in an Irrevocable Trust. Do I qualify?

Maybe – irrevocable trusts can possibly be handled under certain particular circumstances. Please call us directly to inquire further.

My property is held in a Life Estate. Is that okay?

Yes – under most circumstances. We would review the terms to make sure it complies with FHA/HUD requirements; many life estates do.

What is a HECM? (Hek-um)

HECM stands for **H**ome **E**quity **C**onversion **M**ortgage, a specific type of reverse mortgage governed & insured by FHA/HUD. More than 95% of reverse mortgages are insured by HUD. There are other types of reverse mortgages for specific situations, such as high-value homes, that we can tell you about.

Notes and questions to ask: