

FHA-HECM REVERSE MORTGAGE

HECM = Home Equity Conversion Mortgage

FHA-HECM ELIGIBILITY

- All borrowers 62 years of age or older. Except Non-Borrowing Spouse.
Funds based on age of youngest borrower.
No limit on number of borrowers.
- Own / Occupy 1-4 unit residential property.
Primary residence = majority of the year
All borrower must reside in the home.
Exception-Co-borrower can be in healthcare facility at closing so long as at least one borrower is living in the home.

FHA-HECM ELIGIBILITY CONTINUE

- Lenders are permitted to impose an underwriting criteria “financial assessment” at origination.
- Condominiums and Manufactured Homes with specific requirements, PUD's, currently no Co-ops.
- Property must meet FHA minimum standards for health and safety. Property may close before repairs are completed if estimated amount is less than 15% of the home value.

FHA-HECM ELIGIBILITY CONTINUE

- First mortgage must be paid off in full.
- No new subordinate liens at the time of closing (A borrower cannot create a new lien to cover the debt not paid off by the HECM).
- Previous default on FHA loan may make borrower ineligible for HECM.
- HECM Refinance and HECM for Purchase are available.

LOAN FEATURES

- Rising debt, Falling equity
Overtime, the loan balance on a HECM will increase due to withdrawal of the loan proceeds and compounding interest.
Borrowers' equity will likely decrease, meaning less available for heirs.
- Payment Options
Tenure, Term, Line of Credit, Modified Tenure or Term and Lump Sum.
- 3- day Right of Rescission
Initial disbursements can be made on the 4th business day.
- Borrower can use loan proceeds however they want-even if it appears to be unwise.

LOAN FEATURE / IMPACT ON PUBLIC BENEFITS

- Retention of Title
The borrower continues to hold title to the property which is the security for the HECM.
- Borrower's basic Social Security and Medicare benefits are not affected by a reverse mortgage because these programs are not based on income or assets, HOWEVER, benefits from a needs-based government assistance programs (SSI, Medicaid, SNAP) may be affected by reverse mortgages.
- Medicare= health insurance for those over 65.
- Medicaid= health insurance for those who are low-income.
- HECM advances are not considered income therefore no Income tax paid on proceeds.

TIMING OF DISBURSEMENTS

- Term and tenure payments must be made on the 1st business day of the month.
- The lender shall pay a late charge to the borrower for any late payment.
- Lenders are required to disburse line of credit payments within 5 business days of receiving a written request for payment from the borrower.
- After 5 days lender will pay a late charge of 10% of the amount that should have been paid to the borrower up to a maximum \$500.00.

CONDITIONS OF DEFAULT

- No longer primary residence. (6 month plus)
- No longer own property.
- Failure to maintain property.
- Failure to pay property taxes / hazard insurance.
- Fraud / misrepresentation by borrower.
- Bankruptcy.
- If borrower is in default, lender may request HUD to allow them to call the loan.

REPAYMENT REQUIREMENT

- HECM is NOT assumable.
- Must be repaid.
- HECM becomes due and payable:
Upon death of last surviving borrower,
Upon sale of property,
No longer primary residence-12 months medical absence.
- Heirs / Estate have up to 12 months to pay off HECM balance.
- Non- Recourse limit heirs are not personally liable for any deficiency (No deficiency judgements permitted).

FACTORS DETERMINING LOAN AMOUNT

- Age of youngest borrower including Non-Borrowing Spouse (NBS)
- Expected mortgage interest rate.
- Maximum claim amount (lesser of appraised home value or HUD maximum home value of \$726,525).

LOAN FEES AND COSTS

- 3 Basic HECM rates: Annual and Monthly ARMs and a Fixed Rate.
- Origination fee, Mortgage Insurance Premium and Third Party costs.
- Service Fee Set Aside, Monthly service fee (rarely) and Life Expectancy Set Aside.
- Possible on going monthly fees: Monthly service fee, MIP and Interest.
- Total Annual Loan Cost (TALC): Conceptually similar to APR on a forward mortgage, it tells you the true cost of a HECM, looking at the cost of the loan versus the actual benefit.

Uses for a HECM

- Generate Cash (Everyday expenses)
- Foreclosure Prevention (Eliminates Mortgage)
- Purchase a home (HECM for Purchase)
- Purchase investments (Annuities and others)
- Retirement purposes (Bridge to full retirement)

COUNSELING REQUIRMENTS/ Certificate

- Must have counseling before one can receive FHA-HECM certificate.
- Counselors is to provide alternatives and options NOT to give advice or recommendations.
- Family members are encourage to attend counseling session.
- Required comprehension assessment for all clients (questions).
- Fee is usually charge in the range of \$125 or higher for counseling session.

QUESTIONS AND CONTACT INFORMATION

- Any question?
- Daryl Hill
Woodbine Community Organization, HUD approved housing agency
643 Spence Lane
Nashville, Tn 37217
615-850-3452