

FHA Insured Home Equity Conversion Mortgage(HECM) Understanding The Basics



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5 Common HECM Myths

- #1 When I take out a reverse mortgage, the bank owns my home. NOT TRUE. You own your home and you retain ownership rights by abiding by the rules of the mortgage.
- #2 My home must be free & clear to obtain a reverse mortgage. NOT TRUE. While you must have equity in the home, we can refinance your current mortgage with a reverse mortgage, eliminating your monthly mortgage payment obligation.
- #3 My Social Security & Medicare benefits will be affected. NOT TRUE. Money from a reverse mortgage is considered loan proceeds, not income...so eligibility for these benefits will not be affected.
- #4 I could be forced out of my home. NOT TRUE. As long as you live in the home as your primary residence, pay your property taxes and home owner's insurance policy current, and maintain your home up to FHA standards, you can **NEVER** be forced out of your home.
- #5 If I live a long time, I could owe more than the home is worth. NOT TRUE. There are specific provision guaranteed by the FHA, that you can never owe more than what the home is worth at the time the loan becomes due and payable.

Qualification Requirements as of 3/1/2014

- You must own your home and at least one borrower must live in the home as a primary residence.
- The youngest borrower must be at least 62 years old at the time the loan funds.
- All borrowers and those with title interest in the home are required to complete HECM counseling.
- Credit scoring is not considered. BKs must be discharged prior to loan application. No FHA loan foreclosures in the past 36 months. Borrowers cannot be delinquent or in default in any federal debt, student loans, federal tax liens, etc.
- Under current guidelines, income is not considered. However, a financial assessment requirement on every HECM has been proposed and is expected to take effect in the near future.
- You must have equity in the home, determined by an appraisal.
- You must be a U.S. Citizen, or a documented Permanent Resident Alien, or a Non-Permanent Resident Alien.
- Most Revocable Trusts are allowed following review, Irrevocable Trusts are reviewed on a case by case basis.
- Allowed property types – SFRs & townhomes, 1-4 unit owner occupied, FHA approved condos, PUDs

Popular HECM Uses

- Supplement retirement income.
- Fund in-home or long-term health care.
- Refinance existing mortgage to eliminate a monthly mortgage payment.
- Home improvements or repairs.
- Utilize equity in lieu of drawing down other liquid assets.
- Standby HELOC for emergency purposes or future use.
- Purchase money HECM to right size into a home that meets one's changing needs in retirement.

Types of HECM Loans

- **Fixed Rate**
 - One time lump sum to cover immediate needs.
- **HELOC**
 - Open ended line of credit.
 - Partial lump sum with the remainder as an open line of credit.
 - Term Plan – receive monthly payments for a set period of time.
 - Tenure Plan – receive monthly payments for as long as long as you live in the home.
 - Any combination of the above.
- **Benefits of a HECM HELOC over a Traditional HELOC**
 - No credit scoring or income requirements.
 - No monthly payments are required after using funds.
 - Line of credit can never be reduced, and in fact the unused portion grows depending on usage.
 - FHA insurance guarantees that neither the borrowers, heirs, nor their estate will be held responsible for any deficiency judgement.

HECM Rules Regarding Conservatorships

A transaction in which the borrower is represented by a conservator or guardian is **acceptable provided** the transaction meets all applicable provisions and the following requirements:

- A valid(unexpired) county-recorded/court-certified copy of Letters of Conservatorship or Letters of Guardianship, as applicable.
 - A court order, signed by a judge, stipulating approval of the conservator's/guardian's rights to encumber the subject property with a reverse mortgage loan.
1. If the court order specifies a loan amount, such amount may not be less than the amount specified in the reverse mortgage security instrument.
 2. For HELOC products, if an interest rate is specified, then language must be included to indicate that such rate is an initial rate and the mortgage is an adjustable rate, negative amortization loan.
 3. For Fixed rate products, then such rate may not be lower than the rate reflected in the mortgage note.
 4. If the title to the subject property is held in the name of a trust, the court order must authorize the trustee(s) to act on behalf of the trust.
 - Title to the subject property is vested in the name of the person who is conserved or protected under guardianship(except where title is vested in an eligible trust).
 - The title policy ensures full title protection to lender, listing no exceptions with respect to conservator.
 - The security instrument is executed by the conservator/guardian(John Doe conservator/guardian for Mary)
 - The conservator/guardian receives reverse mortgage counseling with an approved counseling agency.
