Keeping the process simple is a cornerstone of the program

Let's clear up some misconceptions about reverse mortgage purchases

1. You never forfeit the title to your home and you retain all rights as the homeowner.
2. As long as one borrower occupies the home, and property taxes and homeowners insurance are kept current, you cannot be required to leave or sell the home.
3. You can never be personally liable for more than the value of the home at the time of sale, and you cannot leave your heirs or estate personally liable for your mortgage debt.
4. Low interest rates, home appreciation and how interest is assessed often result in substantial equity remaining untouched and available to pass on to your heirs.
5. Proceeds from a reverse mortgage are not taxable and do not affect your Social Security or Medicare benefits.
6. Reverse mortgage can be used to pay off mortgage balances on your current home or used to purchase a home that might better suit your needs. In all cases, you will eliminate all requirements to make monthly mortgage payments.

Few financial transactions are governed by as many statutory safeguards as this government-insured loan

1. Loan amount, interest rate, loan terms and fees are standardized
   HUD insures the Borrowers cash flow and loan servicing
2. Mandatory third-party counseling prior to loan application
3. Lender has no recourse against the Borrower or their heirs in the
4. collection of the debt
   No prepayment penalties
5. No equity sharing
6. Proceeds are tax-free
7. Statutory rate and fee caps
8. Late fees paid to the Borrower if financial draws are not
9. funded on time

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Home Equity Conversion Mortgage

Making the right home more affordable for today's seniors

History of the HECM Loan

In February 1988, President Ronald Reagan signed into law the Community and Homeownership Development Act of 1987, which implemented the regulations that govern the FHA Insured Home Equity Conversion Mortgage (HECM)–known today as the reverse mortgage. At the time this program was established, it was intended to provide seniors with a safe method by which they could monetize their home's equity to help them remain in their homes and to supplement their financial needs during retirement. In the first 20 years of this program, nearly half a million seniors received direct benefits from a reverse mortgage. However, the original HECM legislation did not allow using a reverse mortgage for the purchase of a home.

On July 30, 2008, H.R. 3221 was passed by Congress and signed by President George W. Bush. This Bill established several important changes to the reverse mortgage program andestablished the HECM for Home Purchase Program, which permits an FHA-Insured reverse mortgage to be used as purchase money in acquiring a primary residence. Nationwide, there are 42.5 million senior homeowners with more than four trillion dollars of home equity, and many of these senior homeowners are interested in relocating to homesthat are more suitable for aging in place.

Why would seniors want to relocate?

According to the U.S. Department of Health and Human Services Administration on Aging, 78 percent of households with at least one member age 65 or older owns their home. AARP reports that 89 percent of seniors surveyed stated their desire to live out their life in a home they own. Considering these statistics alongside the ever-increasing life expectancy rate for Americans, there is great certainty that many seniors will relocate.

The reasons for relocating generally fall into four categories: **1.** The homeowners are in need of a home with fewer stairs and less maintenance, perhaps a ranch style home in a maintenance-free community; **2.** the current home is too large following the departure of their children or the death of a spouse; **3**. the home buyer would like to relocate to a home closer to work or other family members, or; **4.** the senior is looking to relocate to a different climate.

What is the benefit of using a reverse mortgage to purchase a home

Regardless of the reason for relocating, purchasing a home as a senior often presents a number of common dilemmas or challenges.
In some cases the profit from the sale of their current home is inadequate to pay cash for the home they wish to purchase. Perhaps for financial reasons, they need to retain some of the cash from their sale to help supplement retirement income. In both cases, the home buyer would need to apply and qualify for a mortgage. However, as a retiree with a limited income, this may not be an option. It is also safe to say, even if they could qualify for a traditional mortgage, the last thing a senior needs or wants is a monthly mortgage payment. For these reasons, many seniors who prefer or need to relocate will opt not to, or will settle for a home that does not fully meet their needs.

There is another option

The solution is a reverse mortgage. With a reverse mortgage, all the challenges of qualification are eliminated: there are limited credit, income or net worth requirements; the home buyer will be able to purchase substantially more home with the same down payment, or they may be able to purchase the home they want while retaining a portion of the proceeds from the sale of their current home. In all cases, there is never a monthly mortgage payment and therefore, no risk of losing one's home due to the inability to make a payment.

In what ways is this the same as other purchase transactions?

Many seniors (62 years of age or older) currently own a home and would prefer to sell this home and purchase a primary residence more suitable for their needs in retirement. They intend to use the proceeds from the sale of the current home as a down payment on the purchase of a new home (existing or new construction). If the proceeds from that sale are insufficient to pay cash for the new property, they would need to apply and qualify for a traditional mortgage. As long as the borrowers and the property meet all the guidelines of the traditional mortgage for which they have applied, the combination of the down payment and the mortgage provides the funds to purchase the new home. The HECM for Home Purchase Program is exactly the same; however the mortgage used in the purchase transaction is an FHA-insured reverse mortgage.

In what ways is it different?

While the process of listing and selling the current home and contracting to purchase a new home is exactly the same, there are substantial differences in how an FHA-insured reverse mortgage works:

1. Qualifying for the reverse mortgage has limited or less credit, employment, income or net worth requirements.
2. The amount of mortgage funds available is based on the borrower's age, the purchase price of the home and the current interest rate–not on a preset loan-to-value.
3. Historically, the interest rate on a reverse mortgage is more favorable than other types of mortgages.
4. The borrower may qualify for a larger mortgage than is needed based on their available down payment. In this case, they may retain part of their sales proceeds for personal use, or they can use the remaining reverse mortgage funds as an open line of credit to be used at their discretion in the years following the closing.
5. The homeowners will never be required to make monthly mortgage payments as long as they reside in the home. The loan can be paid down or paid in full at any time with no prepayment penalty.
6. There is no term on the loan. By statute, the reverse mortgage is an open-ended loan which does not expire until the 150th birthday of the youngest borrower.
7. This is a non-recourse loan. Regardless of the future payoff on the loan, the homeowner or their heirs cannot be held liable for any loan balance beyond the value of the home at the time the loan is being repaid; however, any profits from the future sale belong to the homeowner or their heirs.

What does it take to qualify?

There are only three basic requirements to qualify for a reverse mortgage:

1. All borrowers must be 62 years of age or older unless legally married, then new FHA loans allow the couple to have the same protection if only one borrower is over 62.
2. The home they are purchasing must be the primary residence
3. The home must meet standard appraisal guidelines
4. The borrower must meet credit and income requirements

What does it take to get prequalified?

If a borrower has selected a home to purchase, we will need the following information:

1. Borrower's name(s)
2. Date of birth for all borrowers
3. Property address
4. Purchase price
5. Amount of funds borrower has for down payment

With this information, we can determine if the reverse mortgage amount and the borrower's down payment are sufficient to purchase this home. If so, then the borrower would be pre-qualified, subject to the appraisal and verification of the borrower's down payment funds. If the borrower has not yet selected a home to purchase, but wants to know how much home they can shop for, we will need items **1**, **2**, and **5**, from the list above. With this information we can determine the borrower's maximum purchase price.

How do I select a lender?

HUD regulations concerning the terms of a reverse mortgage ensure that lenders operate under similar guidelines. Interest rates and fees don't distinguish reverse mortgage lenders; rather, depth of knowledge and expertise do–making the program easy to understand and the process simple. While a growing number of traditional lenders are adding reverse mortgages to their menu of programs, HUD reports indicate that a small group of lenders who specialize in this program are helping the majority of seniors who choose to obtain a reverse mortgage.