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Home Equity Conversion Mortgages H.E.C.M. Also known as Reverse Mortgages

Special points of interest:

- What is a H.E.C.M.?
- Who is eligible?
- What are the requirements for a H.E.C.M.?

A Home Equity Conversion Mortgage also known, as a Reverse Mortgage is money borrowed from a lending institution using a consumer's home as collateral. This type of loan allows consumers to borrow any amount up to the value of the equity in their home, paid in monthly install-

ments, or in one lump sum. The monies borrowed can be used for living expenses, debt repayment, and any other costs a consumer may have.

With a Reverse Mortgage, the lender will receive a recorded lien on the home, but will not be listed on the title. The consumer will not need to worry about repayment of the loan, as long as they live in the home, and maintain the minimum requirements of the lending institution.

Lenders will typically require a consumer to:

- Maintain and make necessary repairs to the home
- Make payments of all property taxes
- Maintain all proper insurances on the home

A Reverse Mortgage is considered a "Non-Recourse" loan, meaning there is no personal liability to a consumer or their heirs. The lender can only look to the home for repayment. Repayment is due only when all owners no longer permanently reside in the home. At that time, the house will typically be sold, and the repayment of the loan will be taken from the proceeds of the sale, any excess amounts will go to the

consumer's estate.

Frequently Asked Questions About Reverse Mortgages Answered by F.H.A.

Who is eligible for a HECM?

You, and any co-borrowers, must be at least age 62 and either own your home free and clear or have a very low outstanding mortgage balance. Counseling from a HUD-approved counseling agency is also required. Family members are strongly encouraged to attend these counseling sessions.

Must I pay off any loans or liens that are against the property?

All loans or liens must be paid off to get the HECM loan, but they can be paid off with HECM dollars.

What are the minimum and maximum amounts that I can borrow?

The maximum amount you can borrow is based on a HUD formula that factors in the age of the youngest borrower, the expected interest rate, and the 'plan-adjusted value' for the particular county. The plan adjusted value is the lesser of the appraised value of your home or the plan-adjusted value for a one-family residence that can be insured by FHA in your area. There is no minimum borrowing amount. There is no upward limit on the value of the property.

How will the amount of the monthly income be calculated?

How much you can receive in monthly in-

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come depends on the age of the youngest borrower, the expected interest rate, the plan-adjusted value defined above, and the length of time that you will be receiving income -- for a fixed period or for as long as you live in your home. The older you are, the larger your income from the mortgage is likely to be.

Will I have to pay fees to obtain a HECM?

Yes, you will pay normal closing costs, and a mortgage insurance premium -- which is divided into two parts: an upfront premium of 2% of the plan-adjusted value and 1/2% per year on your mortgage balance, -- and a servicing fee. You can finance all but \$300 of the closing costs -- that is, these may be included in your loan balance so that you do not have to pay for them in cash.

You will need to pay \$300 up front to start your loan. Both the monthly servicing fee and the yearly insurance premium will be charged to your loan balance as the charges occur.

Can I be forced to sell or vacate my home if the money I owe on the loan balance exceeds the value of my home?

No, as long as you continue to occupy the property as your principal residence. You cannot be forced to sell or vacate the property, even if the total amount you owe exceeds the value of the property or if the fixed term over which you received your payments has expired. No deficiency judgment may result from your HECM loan. FHA insurance covers any further financial obligation to the lender.

Will my heirs owe anything to the mortgage lender if I die?

Upon your death, the loan balance, consisting of payments made to you or on your behalf plus accrued interest, becomes due and payable. Your heirs may repay the loan by selling the property or by paying off the HECM loan so that they may keep the property. If the loan exceeds the value of your property, your heirs will owe no more than the value of the property. FHA insurance will cover any balance due the lender. No additional financial claims may be made against your heirs

or estate. You will never owe more than your property value!

If my home appreciates in value during the mortgage term, who will be entitled to that money?

Any money remaining after the mortgage is paid goes to you or, upon your death, to your heirs. Under a HECM you are legally required to pay back to the lender only the outstanding balance.

What if I decide to sell my home?

If you choose to sell your home, the outstanding loan balance becomes due and payable to the mortgage lender. You, or your estate, will receive any proceeds exceeding the loan balance.

Can I sell my home to my children and continue to live in it?

If you sell your home to your children or any other individual, the HECM will be due and payable at settlement. After the loan is repaid, any arrangement for your continued occupancy of the property must be made with the new owners.

Is this a fixed rate loan?

There are no fixed rate HECM loans. The adjustable-rate mortgage (ARM) plan features monthly rate adjustments with a 2% cap on the amount that the interest rate may change at each adjustment and a 10% cap on increases or decreases over the life of the loan.

Will HECM payments affect my Social Security, Medicare, Supplemental Security Income, or Medicaid benefits?

HECM advances can be added to your liquid assets under some programs if not spent in the month received, and may affect your eligibility for some programs. We suggest you consult the local offices for these programs or any other to determine how HECM payments may affect your particular situation.