HECM-Home Equity Conversion Mortgage

Congress authorized the original version of the government insured HECM Reverse Mortgage program in 1987. Over the past four decades there have been significant updates and improvements made. We refer to today's products as the "*New* Reverse Mortgages". We want to help seniors to understand that many of the concerns people have on Reverse Mortgages are no longer applicable. Many seniors are letting these misunderstandings get in the way of them making the most of their golden years.

The information below is for reference purposes only. An important part of the services we provide to seniors here at The Golden Age Lending Team is a comprehensive assessment of a borrower's needs, priorities, and circumstances. This is done to confirm that Reverse Mortgage is the best option for them, *and* to determine which Reverse Mortgage product and structure will best serve their needs.

What makes HECM the most popular Reverse Mortgage Option in America?

Please note there are several variations of the HECM product. The references to the credit line below only pertain to the credit line products.

Government Insured	Many people see the required up-front mortgage insurance as a drawback when it comes to the HECM programs. They are not understanding what they are actually getting for this expense. This insurance is what allows: 1) Lower interest rates than proprietary programs. 2) A non-borrowing spouse to remain in the home with no required payments for the rest of their lives in the event of the borrowing spouse passing away. 3) Heirs to satisfy the loan payoff for the *lesser of* the loan balance or 95% of the value. 4) A Credit Line that can *never* be frozen even if the property value suddenly dropped below the outstanding loan balance. 5) A Credit Line where the available funds actually grow from year to year.

Government Regulated	Although all Reverse Mortgage products including the Proprietary options are highly regulated, the HECM program has additional protections like the spousal protections and Credit Lines that cannot be frozen regardless of housing market dynamics.
Funds Disbursement Options	On the HECM line of credit products, there are several different ways that a borrower can elect to access their loan funds. These include term payments, tenure payments, lump-sum options and certain combinations. Tenure payments can continue as long as the loan remains in good standing.
Equity Preservation	Lenders are very restricted on the amount of the home's equity they can allow a borrower to access. As a result, it is very likely that the home will appreciate at a faster rate than the loan balance increases. This can help to ensure that there is equity left to be passed on to the borrower's heirs and/or a cause of their choosing.
Payment Flexibility	Although monthly payments are not *required* on the HECM products, they are certainly allowed. Borrowers can elect to forego all or some of the monthly payments; they can pay interest only so the loan balance doesn't increase over time. They can pay down all, or any part of the loan balance. On the Line of Credit products, they can even pay it down and then re-access the funds as needed.
Credit Line Dependability	Many people like the assurance of having a HELOC (Home Equity Line of Credit) for those surprise expenses that life has a habit of throwing at us. What most people don't realize is that lenders can freeze those lines at their discretion. With a HECM line of credit, the line cannot be frozen due to a downturn in the market. Even if we saw another catastrophic decline in property values like we did between 2008 and 2012, the HECM line of credit will remain available to the borrower.
Line of Credit Growth	A unique and advantageous feature on the HECM Line of Credit product options is the growth feature. Any unused balance on the equity line grows at the same rate as the interest rate on the loan. As an example, on a HECM with a 6% interest rate, a credit line with $100,000 in available funds would increase by 6% to $106,000 in available funds. This growth is not tied to the value of the home. Even if we had another collapse in housing values that resulted in the home value dropping below the outstanding loan balance, these funds would still be available to the homeowner and they would still continue to grow.
Discounted Sales Price	With the updates that have been made to the HECM product, it is unlikely that there will not be significant equity remaining in the home upon the passing of the borrowers. However, the

	HECM program offers additional protection for the borrower's heirs in the event that the loan amount exceeds the property values upon their passing. In that unlikely event the heirs are given an opportunity to satisfy the loan for an amount equal to 95% of the current property value, the balance of the loan is forgiven.
Non-Recourse	Although this is also the case with our proprietary products, I feel like it is worth mentioning here. HECM mortgages are Non-Recourse. This means that a borrower and/or their heirs are never liable beyond the value of the house. If the balance of the loan were to exceed the value of the house, the lender cannot go after any other assets of the borrowers or their heirs to satisfy the balance.
Flexibility for Heirs	If a borrower passes away, their heirs have no obligations to the lender, but they do have options. 1) They can walk away from the house with no obligations to the lender. 2) They can pay off the Reverse Mortgage (*or refinance it to a standard mortgage in their name*) if the home is worth more than the HECM loan balance. 3) If they would like to keep the house but the loan balance exceeds the home value at that time, they can pay back 95% of the current home value and the balance of the loan will be forgiven. *Please see our **Important Considerations with Reverse Mortgages** section for important information related to the transferring of a property to heirs when it has a Reverse Mortgage on it.*
LESA	One of the important Consumer Protection features that was added with the new Reverse Mortgage products is a requirement that lenders do a Financial Assessment on the HECM products to confirm that borrowers have the ability to meet their property tax and insurance obligations. If they are unable to pass this financial assessment, they can still take advantage of the HECM programs through the utilization of a LESA . This is a *Life Expectancy Set Aside* where a portion of the HECM funds are held back and the servicing lender will use these funds to pay the taxes and insurance on the borrowers' behalf.
No Set Term	There is *no* set ending date on a Reverse Mortgage. If a borrower takes out a HECM loan at 62 and lives to 102 they will not be required to repay the loan as long as they continue to meet the terms of the loan.

When are the Proprietary Products a better option?

One of the most exciting developments we have experienced recently in the Senior Lending space is the introduction of several new and innovative proprietary Reverse Mortgage products. Although these products are not government insured, they are still highly regulated and subject to lending and consumer protection laws. For some seniors, these products can offer significant advantages and opportunities.

Although I included some of the things we consider when we are advising clients, we always do a thorough evaluation with them to determine the best option to meet their individual needs, objectives, and circumstances.

Ages 55 to 62	The HECM products require a minimum age of 62, most of our proprietary Reverse Mortgage products will allow borrowers all the way down to the age of 55.
Access to Funds	The HECM restricts the amount of the loan funds a borrower can access in the first year after the loan is taken out. It is limited to the greater of 60% of the loan amount or mandatory obligations plus 10% (*See below for an explanation of Mandatory Obligations*). The proprietary program options allow access to all loan funds with no first year restrictions.
Second Loans	The HECM products are only available as first position loans. This means that any current mortgages are absorbed into the HECM loan. If a homeowner has a current first mortgage at favorable rates and terms, and they do not need, or want, to pay that off, our Proprietary Reverse Second may be a better option for them.
Higher Loan Amounts	The proprietary products will generally allow borrowers to access a higher percentage of their home's equity than a HECM will.
Higher Loan Limits	The percentage of the equity a borrower can access on all Reverse Mortgage products is calculated based on their age and the properties value. For HECM products the value used for this calculation is currently capped at $1,249,125. This means that even if the property is valued at $10,000,000, the loan is calculated on $1,249,125. The proprietary products do not limit the value used to calculate the loan amount. They will allow loan amounts up to $4,000,000.

No Legacy Concerns	The proprietary options will generally allow borrowers to access a higher amount of the equity in their home than a HECM. However, with this higher loan amount and the higher interest rates when compared to a HECM, the loan balance can climb at a faster rate. For borrowers who are just interested in maximizing the funds they can access, and they are not concerned about preserving equity for heirs, a proprietary Reverse Mortgage may better meet their needs.

HECM Mandatory Obligations

Mandatory Obligations are the Items that can be paid in the first year calculation. The HECM Loan Products limit the amount of the funds a borrower can access in the first year to the greater of 60% of the total loan amount or Mandatory Obligations plus 10% of the total loan amount. The balance of the funds can be accessed without restrictions on the line of credit products after the first year.

The following items are considered Mandatory Obligations

Paying off existing mortgages, HELOCs, and other liens against the property
Initial FHA mortgage insurance premium
Loan origination fee
Appraisal, title, recording, credit-report and other permitted closing costs
Delinquent federal debts that must be satisfied
Delinquent property taxes, homeowners' insurance or flood-insurance premiums
Required property-repair set-asides
A required Life Expectancy Set-Aside, or LESA, for future property taxes and insurance
Other liens, judgments or assessments that must be cleared for the HECM to hold the required first-lien position

HECM Loan Terms

There are a lot of misunderstandings when it comes to what can trigger a Reverse Mortgage to be called. I have received some heartbreaking calls on this including a call from an elderly woman who was in need of a surgery that would require her to be in an assisted living facility for a couple of months while she recovered. She was

refusing the procedure because she didn't want to have her house foreclosed on. I was able to reassure her that wasn't going to happen.

Here is the real list of requirements on homes with a Reverse Mortgage:

Death of the last borrower	The loan generally becomes due when the last borrower passes away. An eligible non-borrowing spouse may qualify to remain in the home under HUD's deferral provisions but cannot receive additional loan proceeds.
Sale or transfer of the property	Repayment is required when the borrower sells the home or transfers all ownership. Certain transfers into a qualifying trust or between borrowers may be permitted and should be reviewed with the servicer first.
The home is no longer a borrower's principal residence	The loan may become due if every borrower permanently moves to another residence.
Extended absence	If all borrowers are absent from the home for more than 12 consecutive months because of physical or mental illness, for example, living in a nursing facility the loan may become due.
Failure to pay property charges	The loan may be called due if the borrower fails to pay required expenses, including: ◦ Property taxes ◦ Homeowners insurance ◦ Required flood insurance ◦ HOA charges or assessments when applicable Other property-related charges required by the loan
Failure to maintain the property	The borrower must keep the home in reasonably good condition and complete repairs required by the servicer or HUD.
Violation of another loan obligation	Examples can include failing to complete the annual occupancy certification, allowing a prohibited lien to be placed on the property, or failing to maintain required insurance.