HECM REVERSE PURCHASE PROGRAM: A GUIDE FOR REALTORS

Cornerstone®
HOME LENDING

WHAT IS AN HECM REVERSE MORTGAGE?

HECM = HOME EQUITY CONVERSION MORTGAGE

- Reverse mortgage insured by the U.S. federal government
- Allows eligible seniors to withdraw some of their equity for improvements or living expenses
- May be used to buy a new primary residence (HECM for Purchase Loan, or H4P)

ELIGIBLE BUYERS/BORROWERS

- 62+ years old
- Primary residence
- Financial assessment required

BORROWER MUST REMAIN CURRENT ON

- Taxes and insurance
- Home maintenance
- HOA dues

Lots of misconceptions about this product

H4P: THE HECM FOR PURCHASE MARKETPLACE

CLOSER TO FAMILY

Whether moving closer to children and grandchildren or maintaining relationships with siblings or other relatives, many retirees are searching for the perfect location.

QUALITY HOUSING

Quality may mean a better floor plan, such as a single-story residence that eliminates stairs, or simply enjoying the benefits of a more high-end, energy-efficient home.

LOW MAINTENANCE LIVING

Many older homeowners are ready to give up the hassle of yard work, exterior home repairs, and other necessary maintenance in favor of a community that provides these services.

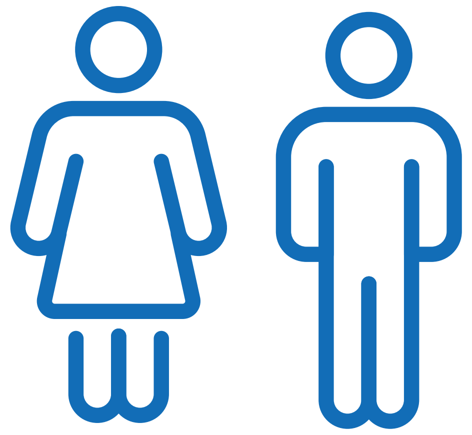
MORE PURCHASING POWER

By utilizing the HECM for Purchase program, senior homebuyers have found that they can buy more home with less cash out of pocket!

A GOLDEN OPPORTUNITY FOR MORE BUSINESS

Homeowners 62 and older saw their housing wealth grow to a record $9.57 trillion in Q2*

About 10,000 baby boomers turn 65 every day until 2030**



By 2030, all baby boomers will be 65 or older***

Sources are deemed reliable but not guaranteed: *NRMLA/Risk Span Reverse Mortgage Market Index. **The Pew Research Institute. ***Census.gov.

BENEFITS AND ADVANTAGES

PROTENTIONAL CLIENT ADVANTAGES:

- Increased purchasing power
- Eliminate monthly mortgage payments*
- Conserve other retirement funds
- Free up cash flow for other expenses

REALTOR ADVANTAGES:

- Sell more homes
- Create new market niche
- More purchasing power for clients – more home, less cash out of pocket

*Borrower must remain current on property taxes, homeowners insurance premiums, and HOA dues and maintain the property according to the terms of the reverse mortgage loan.

WHAT DO THE NUMBERS LOOK LIKE?

SCENARIO 1

(For illustrative purposes only)

A 70-year-old couple sells their home for $500,000 and purchases a new home for **$350,000** and does not want monthly mortgage payments.

Downsizing without the HECM for Purchase

Sale Price (Old Home)	**$500,000**
Minus 8% Closing Costs	**$40,000**
Net Proceeds from Sale	**$460,000**
New Home Price	**$350,000**
FUNDS REMAINING	$110,000

Downsizing with the HECM for Purchase

Sale Price (Old Home)	**$500,000**
Minus 8% Closing Costs	**$40,000**
Net Proceeds from Sale	**$460,000**
HECM for Purchase Funds	**$153,783**
FUNDS REMAINING	$263,783

WHAT DO THE NUMBERS LOOK LIKE?

SCENARIO 2

(For illustrative purposes only)

A 70-year-old couple sells their home for $500,000 and purchases a new home for **$700,000** and does not want monthly mortgage payments.

Upsizing without the HECM for Purchase

Sale Price (Old Home)	**$500,000**
Minus 8% Closing Costs	**$40,000**
Net Proceeds from Sale	**$460,000**
New Home Price	**$700,000**
NEW HOME LOAN AMOUNT	**$240,000**

Upsizing with the HECM for Purchase

Sale Price (Old Home)	**$500,000**
Minus 8% Closing Costs	**$40,000**
Net Proceeds from Sale	**$460,000**
New Home Price	**$700,000**
HECM for Purchase Funds	**$305,573**
FUNDS REMAINING	**$65,573**

PROPERTY AND LOAN QUALIFICATION

- Learn how principal limits work (Call **Loan Officer Name**!)
- Eligible property types: single-family, 2-4 units (one unit must be owner-occupied), planned unit developments, townhomes, and FHA-approved condos
- Borrower must complete HUD-approved HECM counseling, financial assessment, and residual income review
- Underwritten to a senior's willingness and capacity to make tax insurance obligations for the life of the loan

WRITING THE CONTRACT

- Seller concession - 6% maximum, not to exceed total closing costs
- No rent backs or personal property allowed
- Repairs must be completed before closing; escrow hold-backs not allowed
- Be sure to include the FHA Amendatory Clause

REVERSE MORTGAGE MYTHS VS FACTS

MYTH **A reverse mortgage is like a home equity loan.**

FACT A home equity loan will require the borrower to repay the loan with monthly payments. A reverse mortgage doesn't require monthly payments (borrower must maintain the property and stay current on property taxes, homeowners insurance, and HOA dues).

MYTH **The borrower could get forced out.**

FACT FHA/HUD reverse mortgages specifically state that as long as the homeowner meets the program's terms, they cannot be forced out of their home. The reverse mortgage loan requirements include living in the home as the borrower's primary residence, maintaining the property, and remaining current on the property taxes, homeowners insurance, and HOA dues.

MYTH **The bank will assume ownership of the home.**

FACT The borrower retains title to the property. The borrower is responsible for maintaining the property and staying current on property taxes, homeowners insurance, and HOA dues.

MYTH **The borrower can't qualify if they have an existing mortgage or other real estate secured debt.**

FACT Not necessarily. They could still qualify, but the reverse mortgage proceeds must be first used to pay off an existing mortgage or other debts. This is a big benefit; many reverse mortgage borrowers have eliminated payments on an existing mortgage or home equity loan.

MYTH **The borrower's heirs won't inherit their home.**

FACT Borrowers can leave their home to their heirs. When the borrowers pass away, the heirs may pay the balance due on the reverse mortgage (principal plus accumulated interest and MIP) and keep the home or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, any remaining equity after the reverse mortgage is repaid is theirs to keep.

REVERSE MORTGAGE MYTHS VS FACTS

MYTH **Medicare and Social Security benefits will be affected.**

FACT Reverse mortgage proceeds aren't considered income and won't affect Medicare or Social Security. But eligibility for Medicaid and other programs could be affected. Encourage your clients to check with their local program office or attorney to determine how their specific situation may be affected.

MYTH **The reverse mortgage will use all of a borrower's equity.**

FACT Not necessarily. It's true that a reverse mortgage is designed to convert equity into cash, which means the loan balance rises over time. However, it's also designed to preserve equity. It's not a financially viable program if it quickly uses up a borrower's equity. A HECM reverse mortgage is a non-recourse loan insured by FHA. This means the FHA insurance fund covers the shortage if there's not enough value in the home to settle the entire loan balance at the time of repayment. For the program to be financially viable, it must be designed in such a way as to limit the claims against the insurance fund, which means it must preserve equity at the same time it gives the borrower access to their equity. It's also important to understand that the borrower has latitude to decide how much of the reverse mortgage proceeds they use. If they use less, then more of their equity is preserved for longer.

MYTH **The borrower will pass on debt to their heirs.**

FACT Because this is a non-recourse loan insured by FHA, a debt can't ever be passed on to a borrower's heirs. If there isn't enough value in the home to pay off the balance, the borrower or their heirs aren't responsible for covering the shortage. The most that must be repaid is the value of the home at the time the loan is due and payable.

MYTH **Reverse mortgage interest rates are very high.**

FACT HECM rates are often comparable to traditional mortgage rates. This is possible because FHA insures the loan, reducing the lender's risk and allowing them to offer attractive reverse mortgage rates.

CONTACT ME TO LEARN MORE ABOUT THIS STRATEGY!

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