



Home Equity Conversion Mortgage (HECM)

Commonly referred to as a Reverse Mortgage

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What is a HECM?

A Federally insured loan that allows homeowner's that are 62 and older receive cash from the equity in their home in a lump sum, line of credit or monthly payments.

Traditional Ways to Receive Cash from Your Home



- **Sell It**
- **Cash-Out Refinance or Home Equity Loan**
(both require monthly payments over a specific term)

How is a HECM Different?

- **The HECM loan allows you to establish a flexible line of credit from the equity in your home.**
- **No monthly payment is required on any cash received as long as you remain in the home as your primary residence.**
- **Although no monthly mortgage payment is required you can pay back any portion at any time.**
- **Borrowers are responsible for paying property taxes and homeowner's insurance**



You Can Choose to Receive the Cash from Your Home in Several Ways

- **In a lump sum**
- **In monthly payments**
- **In a line of credit, which you can withdraw from as needed**
- **In any combination of these**

Can I Choose to Make Payments?

Since the HECM has No Prepayment Penalty You Can Make:



- **Interest Only Payments**
- **Principal and Interest Payments**
- **Lump Sum Payments**
- **Any Payment You Choose**

How Do I Qualify for a HECM?

- You need to be at least 62 years old (both owner's for joint application)
- Complete the required third party HECM counseling
- The home needs to be your primary residence
- Pass the financial assessment requirement or set up a LESA for future payment of Property Taxes and Insurance
- Any existing mortgage balance will need to be paid with the proceeds of the HECM

How Much Cash Can I Qualify For?



The Amount of Cash You Can Get Depends On Your:

- **Age**
- **The Value of the Property**
- **The Current Interest Rate**
- **LESA or Partial LESA is Established**

How Much Cash Can I Qualify For?



The amount also depends on whether you take an immediate cash advance at closing or you leave the funds in a line of credit that is guaranteed to grow until you access it.

How Much Cash Can I Qualify For?



The amount also depends on whether you have an existing mortgage or mandatory obligations. Once paid, any proceeds remaining can be directed as you choose.

When is the HECM Paid Back?



- **When You Sell the Home**
- **When the Final Borrower Passes Away**
- **If the Borrower Defaults on the Loan Terms**
- **When the Borrower Ceases Using the Home as the Principal Residence**

Lenders Can Also Require Repayment If You



- **Fall Behind on Property Taxes**
- **Let Your Homeowner's Insurance Lapse**
- **Let Your House Fall into Major Disrepair**

How Much Will I Owe When the House is Sold?



- **The Total Amount of All Cash Advances**
- **Interest on those Cash Advances**
- **95% of the Market Value of the Home, if the Loan Balance is Higher**

How Much Will I Owe When the House is Sold?



The HECM is a Nonrecourse Loan.

The house is the collateral so you have no personal liability for the repayment of the loan.

Borrowers or Heirs may be forced to sell the home to repay the debt.

How Much Will I Owe When the House is Sold?



No matter how long you live, no matter how much your home value declines, you or your heirs will never owe more than the actual value (sales price) of your home

What Do My Heirs Have to Do When I Am Gone?



- **The heirs of the property need to let the lender know if they plan to keep the property or sell it.**
- **If the heirs plan to keep the property, they will need to let the lender know how they plan on paying off the existing HECM.**
- **If they plan to sell it, they will need to show the lender they have it listed for sale at a fair market value.**

My Heirs Plan to Keep the Property



- **The heirs will let the lender know they plan to pay the balance of the loan, cash on hand, insurance proceeds, or apply for a new loan.**
- **When the loan exceeds the market value the heirs can purchase for 95% of market value.**

My Heirs Plan to Sell the Property



- **The heirs will list the property for a fair market value**
- **Pay the balance of the loan with the proceeds**
- **Keep any remaining equity (if any)**

What Costs are Associated with a HECM?

Costs are generally the same as a forward mortgage:

- Origination Fee
- Document Preparation Fee
- Appraisal
- Title Search
- Recording Fees
- Survey
- Settlement or Closing Fee
- Mortgage Insurance Premium

How Do the Costs Get Paid?

- **The costs are typically added to the loan at closing**
- **Generally the only out-of-pocket expense is to guarantee the cost of the appraisal, should you decide to cancel the transaction**



Remember You Still Own the Home and Are Responsible For:

- **Paying Property Taxes**
- **Paying Homeowner's Insurance**
- **Making Property Repairs**

Remember You Still Own the Home and Can Leave it to Whomever You Choose:

- **Please make sure your Last Will and Testament specifies your wishes or the State will determine who gets any remaining equity**

About the HECM?

- It is the only reverse mortgage insured by the federal government (FHA guarantees that the lenders will meet their obligations)
- FHA tells HECM lenders how much they can lend you, according to your age, value of your home and current interest rates
- HECM limits the costs that can be charged
- HECM loans usually provide the maximum benefits



Thank You!



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