



# 62+ Homebuyer's Guide

If you are age 62 or better, there is a home purchase loan option that is **designed with you in mind.**



Discover how you can **increase your purchasing power to buy the home you really want** while preserving your retirement assets.

**Get to Know the Home Equity Conversion Mortgage for Purchase (H4P) Loan.**

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**Buying the right  
home later in life  
— and funding  
the purchase in  
the way that's  
best for you —  
can make all the  
difference for  
you and your  
retirement.**



**Your Primary Residence is a**

# Major Part of Your Retirement.

**"I Can Live Here  
and Not Ever Have  
Another Mortgage  
Payment."**

[Must still pay property-related taxes,  
insurance, and upkeep expenses.]

"I sold my home, which was my dream home. My husband and I had built it and unfortunately, he passed away, so I figured it was time for me to move on. I was able to take the proceeds from the sale of my home and use the HECM mortgage to purchase this new home."

**"I was just amazed in  
how the HECM mortgage  
would work for the  
purchase of a home. It  
cost me less than half of  
what the asking was."  
— Jean Waite**



**Where you live in retirement influences your family life, hobbies, comfort, safety, cash flow, overall happiness, and so much more.** Since you are reading this guide, you are probably giving some serious consideration to moving to a new primary residence during (or soon before) retirement.

For a moment, go ahead and imagine your ideal home in retirement. What is it about that new housing lifestyle that excites you? What does it offer you that your current home doesn't?

- Is it located closer to family and friends?
- Does it offer the ease of single-story or low maintenance living?
- Is it a new construction home?
- Is it right-sized for your current lifestyle?
- Is it in a sunnier state?
- Does it have updated aging-in-place design and offer the amenities you desire?
- Is it in a 55+ Active Adult Community?







Because few things will affect your post-employment life as much as your home and your cash flow, you owe it to yourself to learn about a powerful, little-known financing option that is just for homebuyers aged 62 and older.

It is called a **Home Equity Conversion Mortgage for Purchase loan**. However, its short name is **H4P loan**, which is how we'll refer to it throughout this guide.

So, what's so special about this type of mortgage? For starters, an H4P loan can help you increase your purchasing power so you can buy a new primary residence that aligns with your desired housing lifestyle. But where it really shines is its ability to help you to better afford that purchase and preserve your retirement nest egg — simply put, it offers you the best of both worlds between

a conventional mortgage and paying in all cash. If having a mortgage with an optional payment arouses your curiosity, keep reading — we are going to take a deep dive into a comparison of home funding options in just a bit.

### **In this guide you will learn:**

- How to increase your home purchasing power
- How to finance the purchase of your next home without taking on required monthly mortgage payments. (Must pay property-related taxes, insurance, and upkeep expenses.)
- How to buy the home you really want in retirement, while preserving more of your life savings
- The qualification retirements for the H4P loan
- Answers to frequently asked questions







in retirement; not wanting to give up all of the proceeds from the sale of their current home and/or to have to drain their retirement savings to pay in all cash; thinking they can't afford to move because of other financial obligations; thinking past credit blemishes will disqualify them from being approved for a mortgage; and unease with the current housing and borrowing environments.

**Most people don't even know that the H4P loan option exists.** That's a shame because older adults who are out of loop are missing out on an opportunity to have their hesitancy-to-move concerns allayed by a loan product that is **designed specifically for them and their needs at this phase of their life.**

Fortunately for you, after reading this guide, you will be in the know on what H4P loans are and what they could mean for you and your retirement housing lifestyle.



## Retirement: The Relocation Decision

There are many older-adult homeowners who would like to downsize, upsize, or right-size into their dream home — or simply a new home that better meets their lifestyle in retirement. These homeowners usually have this in common: They've realized that while their current home may have served them well during their prime working/family-raising years, that same home is not ideal for them in their retirement years. For example, maybe their current home is too big, too outdated, and too difficult to maintain, with costly repairs that have turned it into a money pit.

Despite how a change of scene could be good for their well-being, many older-adult homeowners are choosing to stay put in their current residence. Some reasons for their hesitancy to move may include getting priced out of the housing market; not wanting to take on a new mortgage payment



**Ways Homebuyers Aged 62+**

# Can Purchase a **New Home.**

Historically, there have been two ways to purchase a new home:  
1) pay in all cash, or 2) take out a mortgage that requires monthly  
principal and interest payments.

And now — you guessed it! — there's a third way: **Pay using a Home  
Equity Conversion Mortgage for Purchase — the H4P loan.**



**"I Would Not Have Qualified for a Mortgage at My Age and Without a Job."**

"I had sold my home quite a few years ago, and I had really found that I wanted a little house. Felt that I could never have a house again. . . . This was something I could have never done without the HECM mortgage program. With this [house] being half price, I still managed to have enough left over that I could buy new furniture and get my own hot tub in the backyard."

"I've been telling people about it. I'm not shy about telling them, **'You won't believe the deal that I got this house!'** It's a fabulous program for older people."

— **Mary Jo Giamberardini**



## What is an H4P Loan and

# How Does it Work?



**An H4P loan is a way for homebuyers 62 and older** to buy a new primary residence in lieu of a traditional mortgage to finance part of the home's cost. The H4P program, which was introduced in 2008 by the U.S. Government, is only available through Federal Housing Administration (FHA)-approved lenders like Fairway Independent Mortgage Corporation. Since the program's inception, it has been regulated by the U.S. Department of Housing and Urban Development (HUD) and insured by the FHA.

The H4P loan program is designed to help people 62 years or better to more affordably downsize, right-size or upsize into a home that suits them

better in retirement. This way, these homebuyers will be better positioned to enjoy their best possible lifestyle without spending all their retirement savings.

As with most traditional mortgage transactions, an H4P loan borrower must supply a down payment to supplement the H4P financing. You, as the homebuyer, can purchase a new home by putting as little as 40 percent to 65 percent\* of the purchase price down from your own funds — the remainder is funded by the H4P loan. Now, you may be wondering why there's a percentage range instead of just one specific percentage. It's because the required down payment is determined by three factors: your age, the interest

\* The required down payment on your new home is determined on a number of factors, including your age (or eligible non-borrowing spouse's age, if applicable); current interest rates; and the lesser of the home's appraised value or purchase price.





rate, and the value of the home you are buying up to the H4P limit. To get a ballpark idea of your required down payment, see our down payment matrix on page 16.

The required down payment for the new home can be paid out of proceeds from the sale of your current home. In fact, most H4P borrowers do just that. However, you can also use funds from any of your other qualified sources, such as from your savings or assets. Like any other type of mortgage, the home you are purchasing secures the loan.

Now here's what really sets the H4P loan apart from the rest of the field. While an H4P loan is

a mortgage, **the borrower is not required to make monthly principal and interest mortgage payments.** That's right, you, as the borrower, can defer repayment of the loan balance, so long as you live in the home, no matter how long that may be. You just need to reside in the home as your primary residence, maintain the home, and pay the property charges, like taxes and insurance. And yes, you remain on title and own your home; however, like any mortgage, you must meet the obligations of your loan.

In short, it feels a lot like an all-cash purchase, except you get to keep more of your retirement assets (e.g., keep more of the proceeds from the sale of your current home) to use as you wish.



# Comparison of Home Funding Options

## Here's a Hypothetical Example:

Consider Sue, a retired homeowner, age 73, who wants to relocate and can net \$300,000 on the sale of her existing paid-off home. She wants to right-size to a single-story home that's closer to her family and the amenities she desires. She finds her ideal home, which is listed at \$400,000.



# Option 1:

## Paying all cash

**Purchase price:** \$400,000

**30-year cash outlay**

(upfront payment + total required monthly principal and interest mortgage payments, if any): **\$400,000**

Sue could use all of the proceeds from the sale of her current home (\$300,000) and draw down on her retirement savings (use \$100,000 out of her available \$200,000 in retirement savings) to pay in all cash and own the home outright. While she wouldn't be saddled with a monthly mortgage payment, she would have all of her previous home's equity tied up in another very illiquid asset — her new home. Plus, she would have significantly depleted her retirement nest egg, reducing it from \$200,000 to \$100,000. Her cracked nest egg could hinder her retirement cash flow strategy going forward and increase the chances of her outliving her savings.



### Pros

Owens the home free and clear – has no monthly principal and interest mortgage payment

Since there is no loan on the home, the homeowner can save money by paying no interest on the purchase

### Cons

The cash that fully pays for the new home will be tied up in that home, a very illiquid asset

No protection against falling home values — the purchase could result in a cash investment loss

Opportunity costs of giving up all of the proceeds from the home sale and significant drainage of retirement account to pay for the upfront payment (e.g., homebuyer loses the ability to earn guaranteed interest on all that money)

# Option 2:

## Taking out a traditional 30-year fixed-rate mortgage

Sue could use about one-third of the proceeds from the sale of her current home to make a down payment on her new home using a traditional mortgage. This way, she can keep more of the proceeds from the sale of her current home to use as she wants (compared to all cash), and she wouldn't have to dip into her retirement savings to complete the purchase.

The downside of this approach is she will take on required monthly principal and interest mortgage payments during a phase of her life when her income is significantly less than it was through her prime working years. Assuming she's financing \$300,000 at a 5.5 percent interest rate on a conventional 30-year fixed rate mortgage, her monthly principal and interest mortgage payment would be \$1,901.

This repayment obligation, month after month, year after year, will result in a good chunk of her retirement cash flow being directed to and stored in her home — an asset that isn't easily liquidated. Her diminished cash flow in her golden years could make it more difficult for her to weather financial shocks, like a need to pay for her own in-home care.

**Purchase price:** \$400,000

**Down Payment:** \$100,000

**APR:** 5.50%

**Term:** 30 years

**Loan Amount:** \$300,000

**Total Monthly Mortgage Payment**  
(principal and interest): \$1,901

**30-year cash outlay**

(upfront payment + total required  
monthly principal and interest  
mortgage payments, if any):

**\$784,360**







### Pros

Less required upfront cash outlay compared to all-cash purchase and H4P loan

Loan balance decreases over time as monthly mortgage payments are made

### Cons

Required monthly principal and interest mortgage payment — diminished cash flow in retirement

Must meet loan obligations, which include paying property-related taxes and insurance

Could become upside down on the loan if home values fall

If heirs were to inherit home with the mortgage not satisfied, they would be responsible for making payments on that loan



# Option 3:

## Using an H4P loan

**Purchase price:** \$400,000

**Down Payment:** \$225,000

**30-year cash outlay**

(upfront payment + total required monthly principal and interest mortgage payments, if any): **\$225,000**



### Pros

Increased purchasing power, if needed, to secure desired home

No monthly principal and interest mortgage payment. (Must pay the property-related charges, like taxes and insurance.)

Less cash outlay over time in retirement compared to paying in all cash or using a conventional mortgage

Helps borrower to preserve productive retirement assets

Protective hedge against falling home values (see explanation on page 18)

### Cons

Unpaid loan balance accrues compounding interest (negative amortization)

Must meet loan obligations to continue to defer repayment of the loan balance

While borrower remains on title and owns the home, there is a lien against the home until the mortgage is satisfied

Sue could use about two-thirds of the proceeds from the sale of her current home to apply toward the down payment of her new home using an H4P loan. This way, similar to the traditional mortgage approach, she can keep more of the proceeds from the sale of her current home to use as she wants (compared to all cash), and she wouldn't have to dip into her retirement savings to complete the purchase.

The upside of this approach, compared to a conventional mortgage, is she can defer the repayment of the loan balance, so long as she lives in the home and abides by the loan requirements (which include paying the property charges). This repayment flexibility could help her to establish a more efficient retirement cash flow strategy.

With an H4P loan, she also has increased buying power over the traditional mortgage or all-cash approaches. She'd be well positioned to compete for her forementioned ideal home (without needing to drain her retirement savings or take on a higher monthly payment) if a bidding war broke out, a common reality in a competitive housing market.

She could also expand her new home search to include more pricey homes (ones that are double the value of her current home) — essentially, **she can purchase a \$600,000 home for about half the purchase price down, and still never have to make a monthly mortgage payment again.** Of course, she must maintain the home and pay the property-related charges.

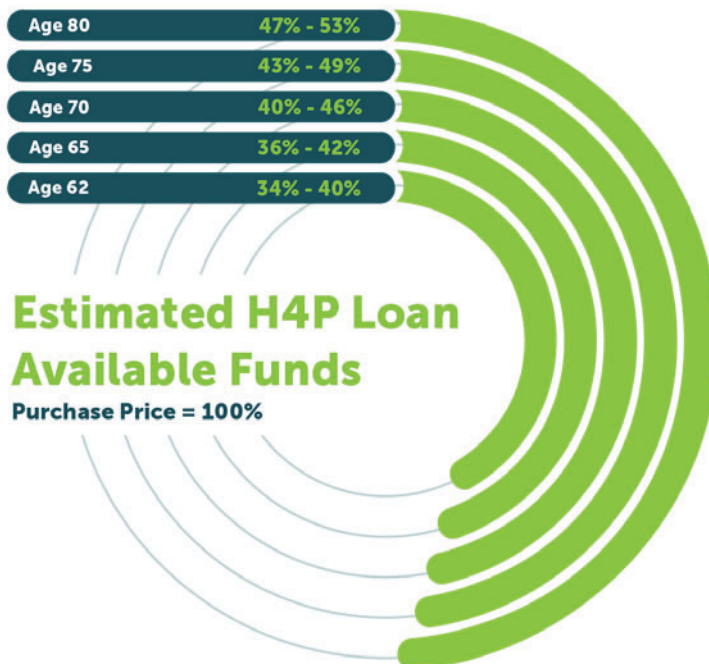
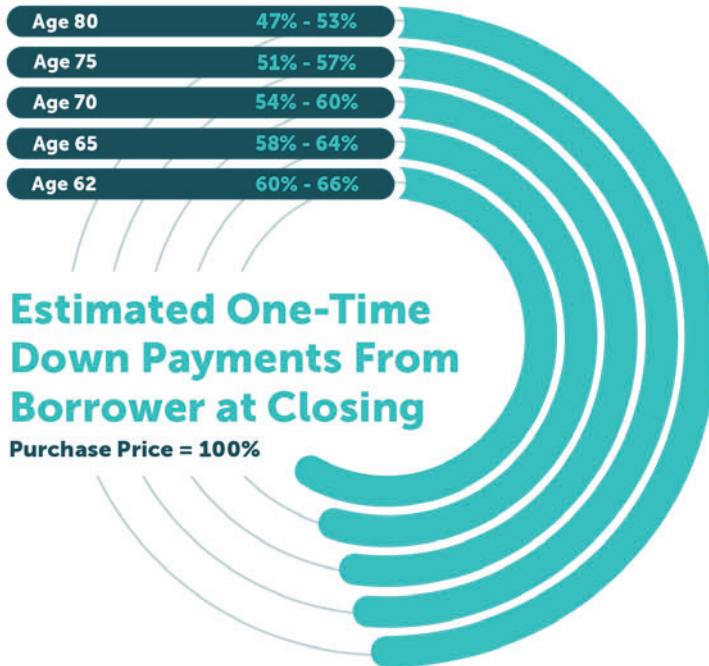


NOTE: Story is for illustration purposes only. The persons depicted herein are fictional and any resemblance to actual persons is a coincidence



## The Down Payment

# Requirement.



**When calculating the amount of H4P loan funds available** to the borrower (and, consequently, the amount of down payment funds that will be needed from the borrower), the expected interest rate (the 10-year Constant Maturity Treasury plus the lender margin) plays a role — along with the youngest borrower's age and the value of the purchased home up the H4P loan limit.

Generally speaking, the lower the expected interest rate is and the older the youngest borrower is — the less funds (as a percentage of the total sales price) the borrower will need to bring to closing as a down payment.

These graphs show the estimated loan funds available (expressed as a percentage of the home purchase price) from utilizing an FHA-insured H4P loan to purchase a home.

Loan proceed percentages are based on home values up to the FHA limit. The down payment in the chart does not include initial mortgage insurance premiums, origination fees, and third party closing costs. To get an instant estimate on how much loan proceeds you may qualify for on a home purchase price of your choosing, use our online calculator at

**[62plushomebuyer.com/H4Pcalculator](https://62plushomebuyer.com/H4Pcalculator)**

\*This information is provided as a guideline and does not reflect the final outcome for any particular homebuyer or property. The actual H4P available funds are based on current interest rates, current charges associated with loan, borrower date of birth (or non-borrowing spouse, if applicable), the property sales price and standard closing cost. Interest rates and loan fees are subject to change without notice. Following the closing of the home purchase, no further principal or interest payments will be required as long as one borrower occupies the home as their primary residence and adheres to all HUD guidelines of loan. Borrower must remain current on property taxes, homeowner's insurance (and homeowner association dues, if applicable), and home must be maintained. Percentage ranges shown are based on the expected rate on June 28, 2022.





## The Loan

# Balance, Interest, & Repayment

A higher interest rate affects buyers using a traditional mortgage by way of a higher required monthly interest and principal mortgage payment. If the interest rate on a traditional mortgage is fixed, the required mortgage payments will be the same over the life of the loan. However, if the interest rate is variable, the required mortgage payment will increase and decrease over time, as the interest rate is tied to a benchmark interest rate that

moves up and down over time. The portion of the required monthly mortgage payment that goes to the principal reduces the amount the borrower owes on the loan, which can bolster equity in the home.

The H4P loan, which can be either a fixed or variable interest rate, doesn't require monthly mortgage payments, so long as the borrower lives in the home and meets the loan obligations. That said, an H4P loan is borrowed money, and borrowed money that is not yet repaid accrues interest. The borrower can make payments toward the loan balance at any time. However, if the borrower opts to make no voluntary prepayments, the interest, along with any fees, will get tacked onto the loan balance. In other words, the loan balance will grow over time (the higher the interest rate, the faster the balance will grow), which can chip away at equity in the home. While your home equity may decline with an H4P loan, your total net worth may not necessarily decline, as you'll have freed up cash flow to manage, save, and potentially grow.

### **The H4P loan becomes due and payable when one of following maturity events occurs:**

- The property is no longer the principal residence of at least one borrower. For example, an H4P loan would become due if the last remaining borrower passed away or permanently moved to a nursing home.  
(Note: The due and payable status of the loan may be deferred in certain situations in which an eligible non-borrowing spouse is involved.)
- A borrower does not otherwise fulfill their obligations under the terms of the loan. For example, an H4P loan would become due if the borrower failed to pay their property taxes in a timely manner — a requirement for compliance with the loan terms.

When the H4P loan becomes due, it is typically satisfied through the sale of the home on the open market.





How an H4P Loan Hedges

# Against Falling Home Values.

**"I Like Having That Extra Money ... You Can Put Some Money Away and Do Some Things You Wouldn't Otherwise Do."**

"The thing that intrigued me the most about the Home Equity Conversion Mortgage is that it allowed us to take the cash that we had and basically use that to offset basically the rest of our life the obligation of a mortgage. In terms of at some point being on a fixed income and everything, that made of lot of financial sense to us. This is a unique program. It's probably not a very well-known program, but **it gave us an opportunity and will give anybody an opportunity that would really ease the financial burden at this point in life. We're really excited about it.**"

**— Randy & Cheryl Lush**



**As history has shown**, the housing market can swing from a seller's market to a buyer's market, and vice versa. No one knows for sure when the next housing market downturn will come.

Unlike with a traditional mortgage, an H4P loan has a built-in feature that protects the homeowner against the risk of the home becoming upside down. The Federal Housing Administration (FHA) insurance on H4P loans assures the borrowers that they will not be responsible for mortgage debt that accrues beyond the home's value.

In technical terms, an H4P loan is a non-recourse loan, which means neither the borrower nor their estate will owe more than the value of the home when the loan matures and the home is sold.\* So even if the property value drops, or if one or both borrowers live a very long time while deferring repayment, the homeowners can rest easy knowing they will not be leaving their heirs with a bill.

\*There are some circumstances that will cause the loan to mature and the balance to become due and payable. Borrower is still responsible for paying property taxes and insurance and maintaining the home. Credit subject to age, property and some limited debt qualifications. Program rates, fees, terms and conditions are not available in all states and subject to change.



## Options for

# Your Heirs.



**If you leave your home to your heirs and they DON'T want to keep the home, they can do the following:**

### **Sell the home and keep any profit from the sale.**

If there is still equity in the home — meaning the price that the home would sell for on the open market is greater than the H4P loan balance — selling the home can be a good route for the heirs to consider. If the heirs decide that they want to sell the home, they should notify the servicer of that decision right away. The heirs will then have up to six months to sell the home (in some cases, the U.S. Department of Housing and Urban Development may grant additional time to the heirs to find a buyer).

### **Sign a deed-in-lieu of foreclosure.**

If the H4P loan balance is higher than the value of the home, there would be no economic benefit to the heirs from selling the home on the open market. Instead, the heirs can sign a deed-in-lieu of foreclosure that allows them to turn the home over to the lender and walk away from it. Because, as we previously mentioned, an H4P loan is a non-recourse loan — the home stands for the debt, not the borrower — and the heirs will not be left with a bill. That's right, your heirs will not be required to pay the difference between what's owed on the H4P loan balance and the value of the home. The Federal Housing Administration (FHA) insurance will pick up the tab on any remaining loan balance.

Note: If the heirs choose this option, it will not affect their credit.

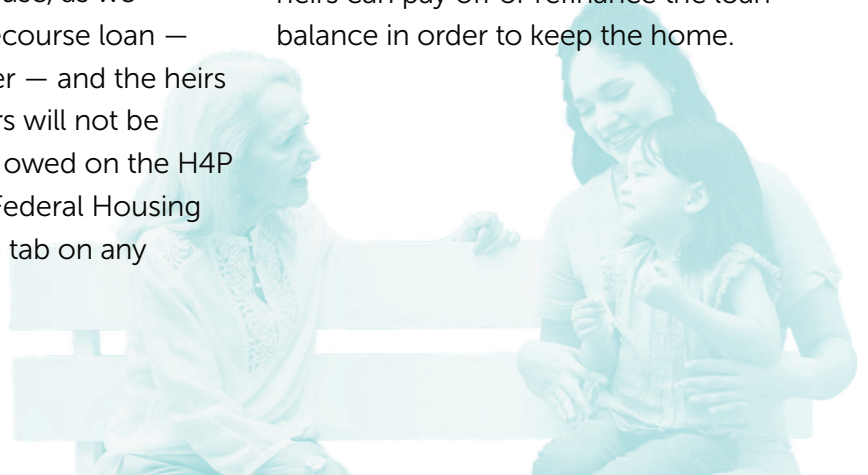
**However, if the heirs DO want to keep the home, they can do the following:**

### **Purchase the home for 95 percent of the property's appraised value.**

In situations where the H4P loan balance exceeds the value of home, the heirs can purchase the home with a short payoff of 95 percent of appraised value of the home. This would typically involve the heirs taking out a new traditional forward mortgage on the home.

### **Pay off the H4P loan balance.**

In situations where the H4P loan is less than the value of the home, the heirs can pay off or refinance the loan balance in order to keep the home.



## The Borrower and Property

# Eligibility Requirements.

Like any mortgage, with an H4P loan there are qualifications and requirements that the prospective borrower must meet in order to qualify for the loan. Let's take a look, shall we?



### Age

Here's a case where your time spent on this planet has its advantages. Only one homeowner has to be 62 or older. A borrower doesn't become eligible to complete the loan process until they officially turn 62 years old.

(Note: Some lenders may allow the application process to begin a short time before that age milestone is reached.)

### Residency

The home must be the purchased for use as the borrower's principal residence. The H4P program has an annual certification process in which the borrower must confirm that the home is still their primary residence.

### Property Type

Here is a list of the generally accepted — and generally not accepted — property types for the H4P program:

Note: Borrowers must make their new homes their primary residence within 60 days of closing the loan.

#### Generally Eligible

- Single family residence
- 2- to 4-unit properties
- Some manufactured homes
- Modular homes
- Planned unit developments (PUDs)
- Townhomes
- Approved condominiums

#### Generally Ineligible

- Mobile homes
- Cooperative units
- Commercial properties
- Working farms
- Investment or 2nd homes
- Condo projects less than 2 units
- Condos not on approved list
- Properties on Indian reservations







### Credit

The borrower must meet minimum credit requirements and not be delinquent on any federal debt. Credit matters because the H4P loan must be a sustainable solution. Even though an H4P loan doesn't require monthly principal and interest payments, the borrower must have the ability to pay the ongoing property-related bills and dues, such as taxes and insurance. Failure to meet those mandatory obligations may cause the borrower to default on the mortgage.

That said, an H4P loan is generally easier for an older-adult homebuyer to qualify for — as compared to a conventional mortgage. **With an H4P loan, there is no minimum credit score requirement;** however, the lender will conduct a financial assessment of your credit history, property charge history, and monthly residual income when deciding whether to approve your loan.

### Down Payment

The borrower using an H4P loan must make a minimum required down payment (a certain percentage of the sales price per the loan terms — usually 40 to 65 percent of the sales price) at closing from a qualifying source(s), such as from proceeds from the sale of their home.

### Attend a Financial Counseling Session

The borrower must attend a counseling session. The main objectives of the counseling session are to make sure you fully understand the loan program and to help you determine if it is a good fit for you. Counseling is conducted by U.S. Department of Housing and Urban Development (HUD)-approved independent third parties. The session can be done in person or over the phone.

All borrowers and co-borrowers must attend the session — and there are other situations where others must attend as well, such as a Power of Attorney for an incompetent borrower. The borrower's family members are also encouraged to attend.





## Frequently Asked

# Questions.

### Do I own my home with an H4P loan?

Many seniors believe the bank gets the home in the transaction. The borrower still retains ownership of the home over the life of the loan. The H4P loan is simply secured with a lien, just like a traditional mortgage or a home equity line of credit.

### Can I make voluntary prepayments toward the H4P loan balance?

Yes, prepayments can be made to the loan balance at any time. There may be certain tax advantages for making prepayments. That said, we are not tax advisors nor financial planners, and you should consult one for guidance on tax matters.

### What source of funds (money) are allowed when you purchase a home with an H4P loan?

The money must come from your liquid assets (e.g., bank accounts, CDs, retirement accounts) or from the documented sale of other assets you may have (your present home for example).

### Can I buy a flipped home with an H4P loan?

The sales contract must be signed more than 90 days from the seller's purchase of the property.

### What are my responsibilities as the borrower?

- Occupy the home as your primary residence
- Maintain the home to FHA standards,
- Pay your property taxes, and
- Pay your property insurance (and any other applicable property-related charges, like homeowner association dues or condo dues)

### Is there a Mortgage Insurance Premium (MIP)?

Similar to a traditional FHA mortgage, you will be required to pay upfront and ongoing mortgage insurance premiums. This premium is usually financed into the loan and not paid out of pocket – its purpose is to fund the non-recourse feature, which protects you or your heirs from being stuck with a bill if your loan balance is higher than what your home sells for when the loan matures and is due and payable.

### I want to buy a new construction home — can I start the application before the home is completed?

Yes, you can complete the H4P application and begin the process of securing the loan, but the appraisal, and consequently the loan closing, cannot happen until the Certificate of Occupancy has been issued.

### Why is my down payment higher with an H4P loan compared to a conventional mortgage?

Your down payment is higher initially because you will not be required to make monthly mortgage payments (except for taxes and insurance). With a traditional mortgage, you could potentially lose more in cash flow over the years because of the consistently required payments.

## Next Steps



**1** **Schedule a meeting with a Fairway Retirement Mortgage Specialist.** He or she will go over the program with you and answer any questions you may have.



**2** Get your **pre-approval letter.**



**3** Complete your counseling session to **obtain your certificate.**



**4** Find your ideal home.



**5** Work with your Fairway Retirement Mortgage Specialist and your real estate agent to complete the purchase agreement requirements and other tasks.



**6** Close on your loan and begin enjoying your new housing lifestyle.

## Fairway

# at a Glance.

Since

# 1996



**of Service, Speed  
& Satisfaction**

Licensed in  
all 50 states

At Fairway Independent Mortgage Corporation, customer service is a way of life. We are dedicated to finding great rates and loan options for our customers, while offering some of the fastest turn times in the industry. Our goal is to act as a trusted advisor, providing highly personalized service and helping you through every step of the loan process — from application to closing and beyond. It's all designed to exceed expectation, provide satisfaction, and earn trust. Since opening our doors more than 20 years ago, our team has helped thousands of Americans achieve their dream of home ownership. Ranked as one of the top 10 mortgage companies by Mortgage Executive Magazine, we have funded more than \$72 billion in 2021 alone.







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