

HECM for Purchase Overview



What is HECM for Purchase?

A Home Equity Conversion Mortgage (HECM) for Purchase is a reverse mortgage that allows seniors, age 62 or older, to purchase a new principal residence using loan proceeds from the reverse mortgage.

What's different about HECM for Purchase versus a traditional mortgage?

Borrower age:

- **HECM for Purchase:** Exclusively for borrowers age 62+
- **Traditional mortgage:** No age restriction (except being legal age to enter a contract)

Repayment requirements

- **HECM for Purchase:** Flexible repayment feature—the borrower can choose to repay as much or as little as they like each month, or make no monthly principal and interest payments. The flexible repayment feature makes it easier for a borrower to afford the home they really want, preserve more savings and retirement assets, and improve cash flow. As with any mortgage, the borrower must keep current with property-related taxes, insurance and maintenance as part of their ongoing loan obligations. Repayment is generally required once they sell the home, pass away, move out or fail to meet their loan obligations.
- **Traditional mortgage:** Monthly principal and interest payment required; builds equity as the loan is paid down

Down payment amount

- **HECM for Purchase:** Required down payment between approximately 29% and 63% of the purchase price, depending on borrower's age or the age of an Eligible Non-Borrowing Spouse, if applicable. The rest of the funds for purchase come from the HECM loan. This allows the borrowers to keep more assets to use as they wish, as compared to paying all cash, while still having the flexibility of no required monthly mortgage payments. See some required down payment examples on the next page.
- **Traditional mortgage:** Typically allows for a smaller down payment

Eligible properties

- **HECM for Purchase:** Single-family homes; FHA-approved condominiums; townhouses or planned unit developments (PUDs); two- to four-family homes that are owner-occupied

Protection against owing more than home is worth

- **HECM for Purchase:** A Federal Housing Administration (FHA)-insured program, HECM for Purchase, has a non-recourse feature, which means the borrower can never owe more than the home is worth when the loan is repaid; the home is the only source of repayment, regardless of the loan balance at maturity
- **Traditional mortgage:** Most do not have a non-recourse feature; since home values can decline, the borrower could owe more than the home is worth

Would you like to finance this home without the worry of a monthly mortgage payment?

Using the table below, select a home value that is close to that of the home your borrower is looking to purchase, then match the column to the nearest

age of the borrower. The corresponding figure is a rough estimate of the seasoned funds your borrower would need to provide at closing. The balance would be financed with the proceeds from the HECM for Purchase loan.

| Client Age* | Purchase Price | | | | | |
|-------------|----------------|-----------|-----------|-----------|-----------|-----------|
| | \$200,000 | \$300,000 | \$400,000 | \$500,000 | \$600,000 | \$700,000 |
| 65 | \$118,500 | \$175,000 | \$230,000 | \$286,000 | \$341,000 | \$396,000 |
| 70 | \$111,500 | \$165,000 | \$217,000 | \$270,000 | \$320,000 | \$373,000 |
| 75 | \$106,000 | \$157,000 | \$207,000 | \$257,000 | \$306,000 | \$354,000 |
| 80 | \$98,000 | \$145,000 | \$192,000 | \$237,000 | \$282,000 | \$327,000 |

Values are based upon the HECM LIBOR and assume that there are no previous mortgages, liens or other mandatory obligations that would need to be paid off. Borrowers are responsible for all future property tax and homeowners insurance payments.

Expected Rate of 4.34% used to calculate potential loan amount and down payment.

*Always use youngest borrower's age.

HECM for Purchase: Borrower profile

Who is best suited to utilize HECM for Purchase?

HECM for Purchase is best for those who are age 62+ and:

- They are ready to downsize, upsize, move closer to family, move to a low-maintenance community, a more convenient neighborhood, or finally buy their “dream house”—and don’t want to take on a required monthly mortgage payment
- They live on a fixed income
- They are concerned about being able to afford a new home via a cash purchase or traditional financing; and/ or want to avoid tapping into their retirement nest egg
- Their current home no longer fits their lifestyle; for example, the washer and dryer are down in the basement; the yard is too big to take care of; they need or prefer a one-floor living situation; they want a new home that’s a better fit for their physical needs

- They want to increase their purchasing power to buy the home they really want, with the amenities they need or desire
- They want to preserve some of their cash proceeds from the sale of their home for a cash reserve or other retirement savings

HECM for purchase borrower Q&A

Do they typically stick to one-story homes?

Yes, according to the National Association of Home Builders (NAHB) 2016 survey of Housing Preferences of the Boomer Generation, 75% of Boomers and 88% of seniors prefer a single-story home

What accessibility features do they want?

They want a home that meets their physical needs, e.g., one-level properties, ramps, wider doorways, universal design features, etc.

Do they want to be close to amenities, public transportation, etc.?

Yes, they typically want to be closer to retail space, a park area, walking/jogging trails, medical care, and public transportation.

Where can I find these borrowers?

Most borrowers are not aware of the HECM for Purchase financing option. There's a great opportunity for real estate agents to educate borrowers and potential borrowers age 62+ on the HECM for Purchase financing option—a strategy that could potentially lead to selling more or higher-priced homes.

HECM for Purchase quick reference guide

What are the ongoing obligations of a HECM borrower?

Making monthly principal and interest payments is NOT an ongoing obligation for the borrower. However, failure to keep up with the required borrower obligations could cause a borrower to be in default on the mortgage. The critical borrower obligations and mortgage requirements include:

- Occupy the home as their primary residence
- Keep the property in good repair
- Payment of property taxes
- Payment of homeowners insurance
- Payment of other property charges including, but not limited to: flood insurance, HOA dues, condo dues, etc.

What is a HECM Occupancy Certification?

The Home Equity Conversion Mortgage is ONLY offered for primary residences. Therefore, the borrowers will be required to certify their occupancy of the property (via mail) one year after closing, and every year thereafter.

This is not an inspection of the property, and the borrower should not feel that this is a violation of their privacy. The borrower simply returns the signed certification indicating they still meet the requirements of the program. If the letter is not returned, the servicer may be required to follow up with phone calls and a visit to the property.

What properties are eligible for HECMs?

The following is a list of properties that are generally eligible for HECM financing:

- Single-family residence
- 2-4 unit properties
- Modular homes
- Planned unit developments
- Townhomes
- Approved condominiums

The following is a partial list of homes that may not be eligible:

- Mobile homes
- Cooperative units
- Commercial properties
- Working farms
- Investment properties
- Second homes
- Properties on reservations

How are borrower principal limits calculated?

The initial Principal Limit (PL) is defined as the maximum amount that is available to a HECM borrower at the time of closing. Keep in mind, access to the full PL may be restricted at closing (fixed rate), or in the first year of the loan (adjustable rate).

The PL is calculated using tables, provided by HUD, that consider two factors—the age of the youngest borrower (or Eligible Non-Borrowing Spouse, if applicable) and the expected average mortgage

interest rate (Expected Rate). Higher ages generally result in higher principal limits. Higher expected rates generally result in lower principal limits.

HECM for Purchase: Writing the contract

When reviewing the contract of sale, real estate agents should take time to review the following areas:

- Contract must include the FHA Amendatory Clause and Real Estate Certification
- Seller concessions are limited
 - Seller closing costs: Sellers can now pay for fees that are reasonable and customary for the market, and typically include:
 - Fees required to be paid under State or local law (Transfer taxes)
 - Fees typically paid by a seller in that locale (Owner’s Policy, Settlement fee or Escrow fee, deed prep, deed record)
- Purchase of a home warranty policy by the seller
- The contract must not include personal property; HECM proceeds are for the purchase of Real Property
- The contract cannot contain any rent back options
- When the appraisal is ordered, the final contract, including all pages and amendments, must be provided to the appraiser, including the FHA Amendatory Clause and Real Estate Certification
- If the appraisal identifies any repair items, the seller must pay for and complete all repairs prior to the closing of the transaction
- The HECM program is used in only a primary residence transaction

Conclusion

Older Americans are buying homes. In fact, 25% of all borrowers are age 60 or older, according to the National Association of Realtors®. Most of them (68% of those age 62 to 70 and 58% of those age 71+) finance the purchase of their home. But less than 1% of borrowers age 62+ are using the HECM for Purchase option, even though it may be a more suitable solution.

Because awareness of the HECM for Purchase is still relatively low among borrowers and real estate agents, there’s a great opportunity to gain a competitive advantage by learning how to educate your borrowers about this financing option. When borrowers use HECM for Purchase, they have more available funds to afford the home they really want in the location they desire, and they’re able to maintain greater financial control.