HECM: Home Equity Conversion Mortgage: "Reverse Mortgage"

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Common Misconceptions about HECMs

The Home Equity Conversion Mortgage (HECM) product is commonly misunderstood. The following is a list of the most common misconceptions along with an explanation:

The lender will own the home

Homeowners retain title and ownership of their home and can choose to sell it at any time. They must simply continue to pay their property charges as well as occupy and maintain the home. When the last borrower dies, the heirs would have the opportunity to sell the home as well.

Only the poor and desperate get reverse mortgages

There is still a perception that this is a “last resort” option. Although a HECM may be effective at preventing a financial crisis, some simply wish to eliminate monthly payments. Others may be able to retire or improve the quality of their retirement by accessing home equity.

The borrower will owe more than the value of their home

The non-recourse feature prevents this from ever happening. FHA’s mortgage insurance ensures that homeowners will not owe more than the value of the home at the time it is sold. In fact, upon the death of the last borrower, the maximum payoff may be 5% less than the home’s value.

The children will be stuck with the bill

The non-recourse provisions also extend to the heirs, meaning they too will not owe more than the home’s value. There’s no recourse for any deficiency, and the heirs can sell or refinance the home if they wish. FHA takes the risk of the loan balance exceeding the home’s value.

Lenders pressure seniors to buy other products

Reverse mortgage professionals are in the business of improving lives through access to home equity. However, loan originators cannot require the purchase of other products. In addition, there are consumer protections aimed at protecting homeowners from unscrupulous lending practices.

The homeowner can’t qualify because of credit and income

The lender uses a financial assessment to determine if FHA will require us to set-aside funds for property taxes and Insurance. Many homeowners who do not qualify for traditional financing because of their income or credit are good candidates for a reverse mortgage.

If the borrower outlives life expectancy, they will lose the home

Foreclosure can happen, often for reasons unrelated to the mortgage, like delinquent property taxes. But there is no term limit on reverse mortgages. The borrower still owns the home, and the reverse mortgage continues regardless of age, property value, or loan balance.