HECM — Home Equity Conversion Mortgage

Congress authorized the original version of the federally insured **HECM (Home Equity Conversion Mortgage)** program in 1987. Over the past four decades, the program has undergone significant changes and improvements. We refer to today's programs as the **"New Reverse Mortgages."**

Many of the concerns people still have about Reverse Mortgages are based on outdated information and are no longer applicable to today's programs. Unfortunately, these misconceptions can prevent seniors from taking advantage of these options that could help them make the most of their golden years.

The information below is provided for general reference. At **The Golden Age Lending Team**, an important part of our service is a comprehensive assessment of each borrower's individual needs, priorities, and circumstances. This helps us determine **whether a Reverse Mortgage is the right solution** and, if so, **which product and structure best meets their needs.**

What makes HECM the most popular Reverse Mortgage Option in America? ***Please note: HECM products vary. References to a line of credit apply only to HECM line-of-credit options.***	
Government Insured	Although HECM Reverse Mortgages require mortgage insurance, this insurance provides important protections and benefits, including: • Competitive rates compared with many proprietary programs. • Protections for an eligible non-borrowing spouse. • Heirs may satisfy the loan for the lesser of the balance or 95% of the home's value. • A line of credit that cannot be frozen because property values decline. • Growth of the unused line of credit over time.

Government Regulated	Although all Reverse Mortgage products including the Proprietary options are highly regulated, the HECM program has additional protections like the spousal protections and Credit Lines that cannot be frozen regardless of housing market dynamics.
Funds Disbursement Options	Available funds may be received through term payments, tenure payments, lump sums, or certain combinations. Tenure payments can continue as long as the loan remains in good standing.
Equity Preservation	HECM borrowing limits restrict how much home equity can initially be accessed, which can help preserve equity for the borrower, their heirs, and/or a cause of their choosing.
Payment Flexibility	Monthly principal-and-interest payments are not required, but borrowers may make them at any time they choose. They can pay interest only, reduce part or all of the balance, or make no monthly payment. With line-of-credit options, repaid funds may be re-accessed as available.
Credit Line Dependability	Unlike a traditional HELOC, a HECM line of credit cannot be frozen because of declining property values, like the event between 2008 and 2012. Available funds remain accessible as long as the loan remains in good standing.
Line of Credit Growth	Unused HECM line-of-credit funds grow over time at the same rate applied to the loan balance. For example, at 6%, $100,000 of available credit would grow to approximately $106,000 after one year. Growth is not tied to the home's value.
Discounted Payoff for Heirs	If the loan balance exceeds the home's value when the borrower passes away, heirs who want to keep the home may satisfy the loan for 95% of the current property value, with the remaining balance forgiven.
Non-Recourse	Although this is also the case with our proprietary products, I feel like it is worth mentioning here. HECMs are non-recourse loans. Neither the borrower nor their heirs are personally liable for a balance that exceeds the home's value, and the lender cannot pursue their other assets for the difference.
Flexibility for Heirs	If a borrower passes away, their heirs have no obligations to the lender, but they do have options. The heirs may:

	• Allow the home to satisfy the loan with no personal obligation to the lender. • Pay off or refinance the Reverse Mortgage and keep the home. • If the loan balance exceeds the home's value, keep the home by paying 95% of its current value. See our **Important Considerations with Reverse Mortgages** section for additional information about transferring property to heirs.
LESA	A financial Assessment is completed for HECM borrowers to confirm their ability to meet property tax and insurance obligations. When neccessary, a LESA (Life Expectancy Set-Aside) reserves part of the loan proceeds so the servicer can pay these expenses on the borrower's behalf.
No Set Term	A HECM has no set maturity date. The loan does not become due simply because the borrower reaches a certain age or a set amount of time has elapsed. The loan can continue as long as the loan terms continue to be met.

When are the Proprietary Products a better option?

Proprietary Reverse Mortgages are newer alternatives to the government-insured HECM. Although they are not government insured, they are still subject to lending and consumer protection laws. For some borrowers, they may offer advantages to the HECM programs.

Although I have included some of the things we consider when we are advising clients, we always do a thorough evaluation with them to determine the best option to meet their individual needs, objectives, and circumstances.

Ages 55 to 62	HECMs require borrowers to be at least 62. Many proprietary Reverse Mortgage programs we offer are available to borrowers down to the age of 55.
Access to Funds	HECMs limit first-year access to loan proceeds. Proprietary programs may allow borrowers to access all available funds without that first-year restriction.
Second Loans	The HECM products are only available as first position loans. This means that any current mortgages are absorbed into the HECM loan. If a homeowner has a current first mortgage at favorable rates and terms, and they do not need or want to pay that off, our Proprietary Reverse Second may be a much better option for them.
Higher Loan Amounts	Proprietary programs generally allow borrowers to access a larger percentage of their home equity than a HECM.
Higher Loan Limits	HECM loan calculations are based on a maximum property value cap of $1,249,125. This results in much lower allowable loan amounts on higher value properties than what can be achieved with our proprietary programs. Allowable loan amounts are calculated on the actual home value with our proprietary programs. Some of these products allow loan amounts up to $4,000,000.
Less Focus on Preserving Equity	Proprietary programs may provide greater access to equity, but higher loan amounts and interest rates can cause the balance to grow faster. They may be a better fit for borrowers focused on maximizing available funds rather than preserving equity for heirs.

HECM Mandatory Obligations

HECM rules limit the funds a borrower can access during the first year to the greater of:

- **60% of the total loan amount, or**
- ***Mandatory Obligations* plus 10% of the total loan amount.**

For HECM line-of-credit products, the remaining available funds can be accessed after the first year.

Mandatory Obligations include:
Existing mortgages, HELOCs, and other liens on the property
Initial FHA mortgage insurance premium
Loan origination fee
Appraisal, title, recording, credit-report and other permitted closing costs
Delinquent federal debts that must be paid
Delinquent property taxes, homeowners' insurance and flood-insurance premiums
Required property-repair set-asides
A required Life Expectancy Set-Aside (LESA) for future property taxes and insurance
Other liens, judgments or assessments that must be cleared for the HECM to hold the required first-lien position

HECM Loan Terms

There are many misunderstandings when it comes to what can trigger a Reverse Mortgage to be called. I have received some heartbreaking calls on this including a call from an elderly woman who was in need of a surgery that would require her to be in an assisted living facility for a couple of months while she recovered. She was refusing the procedure because she didn't want to have her house foreclosed on. I was able to reassure her that wasn't going to happen.

Here is the real list of requirements on homes with a Reverse Mortgage:

Death of the last borrower	The loan generally becomes due when the last borrower passes away. An eligible non-borrowing spouse may qualify to remain in the home under HUD's deferral provisions but cannot receive additional loan proceeds.

Sale or transfer of the property	Repayment is required when the borrower sells the home or transfers all ownership. Certain transfers into a qualifying trust or between borrowers may be permitted and should be reviewed with the servicer first.
The home is no longer a borrower's principal residence	The loan may become due if every borrower permanently moves to another residence.
Extended absence	If all borrowers are absent from the home for more than 12 consecutive months because of physical or mental illness, for example living in a nursing facility, the loan may become due.
Failure to pay property charges	The loan may be called due if the borrower fails to pay required expenses, including: ◦ Property taxes ◦ Homeowners insurance ◦ Required flood insurance ◦ HOA charges or assessments when applicable ◦ Other property-related charges required by the loan
Failure to maintain the property	The borrower must keep the home in reasonably good condition and complete repairs required by the servicer or HUD.
Violation of another loan obligation	Examples can include failing to complete the annual occupancy certification, allowing a prohibited lien to be placed on the property, or failing to maintain required insurance.

When Does a HECM Become Due?

Many borrowers misunderstand what can cause a Reverse Mortgage to become due. A temporary stay in a hospital, rehabilitation center, or assisted living facility does not by itself trigger repayment. A HECM generally only becomes due under the following circumstances:	
Death of the last borrower	The loan generally becomes due when the last borrower dies. An eligible non-borrowing spouse may qualify to remain in the home without repayment requirements under HUD deferral rules but cannot receive additional loan proceeds.
Sale or transfer of the property	The loan becomes due when the home is sold or all ownership is transferred. Certain transfers, such as to a qualifying trust or between borrowers, may be permitted; check with the servicer first.
The home is no longer a borrower's principal residence	The loan may become due if all borrowers permanently move out and the home is no longer a borrower's principal residence.
Extended absence	The loan may become due if all borrowers are absent for more than 12 consecutive months because of physical or mental illness, such as living in a nursing facility.
Failure to pay property charges	Borrowers must keep required property charges current, including property taxes, homeowners' insurance, required flood insurance, HOA charges or assessments, and other required property-related charges.
Failure to maintain the property	The borrower must keep the home in reasonably good condition and complete repairs required by the servicer or HUD.
Violation of another loan obligation	The loan may become due if other loan requirements are violated, such as failing to complete the annual occupancy certification, allowing a prohibited lien, or failing to maintain required insurance.