



An Introduction to Home Equity Conversion Mortgage (HECM) for Purchase Loan

Home Buying in Reverse



What is a HECM for Purchase Loan?

A Home Equity Conversion Mortgage (HECM) for Purchase is an innovative reverse mortgage loan which enables seniors to buy a new home using equity from the sale of their previous home and other assets.



What Are Its Special Features?

- It is a Federal Housing Administration (FHA) insured, non-recourse loan
- Requires no monthly mortgage payments¹
- For homebuyers age 62+ years
- For primary home purchases

¹The borrower(s) must live in the home as their primary residence, continue to pay required property taxes, homeowners insurance and maintain the home according to FHA requirements.



What About Credit Qualifications?

- Qualifying may be easier than a traditional mortgage
- Typically, the older the borrower is, the more funds they may receive
- Generally, there are no credit score requirements



What Are The Benefits For Your Clients?



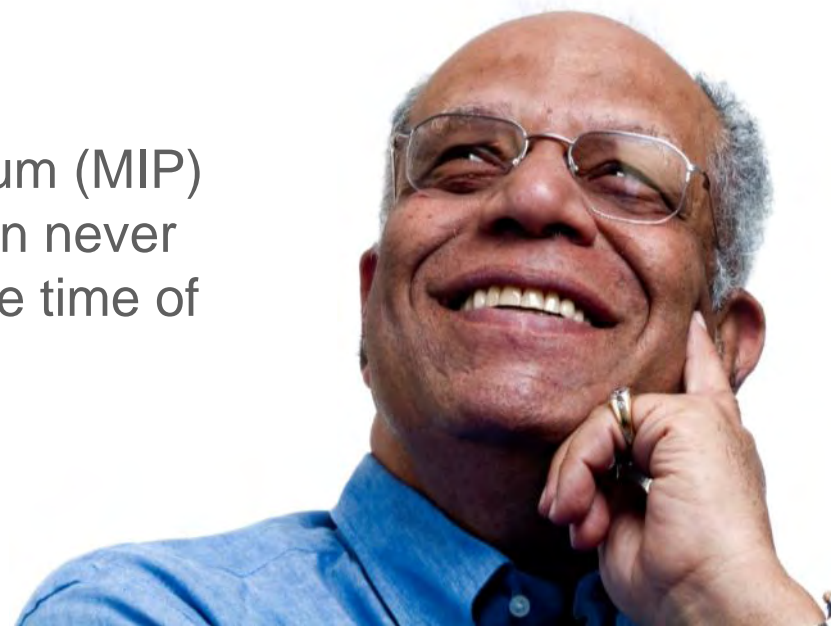
- Affordability –no monthly mortgage payments required.¹
- Purchasing Power – lower upfront investment than a cash purchase.
- Accessibility – it may be easier to qualify for credit than with a traditional mortgage.

¹The borrower(s) must live in the home as their primary residence, continue to pay required property taxes, homeowners insurance and maintain the home according to FHA requirements.

Other Unique Benefits



- Peace of Mind – one time initial investment made upfront on the HECM loan
- Control – borrower retains home title
- Safeguards - Mortgage Insurance Premium (MIP) ensures the amount owed on the loan can never be more than the value of the home at the time of sale
- Education – HUD required counseling



HECM for Purchase May Help You:



- Sell more homes to the senior segment
- Make home buying more affordable
- Convert seniors from renters to home buyers
- Improve your marketing reach

How Can Your Clients Use a HECM for Purchase?

With \$140,543 Investment, they can buy

OR

\$140,543
Home in Cash

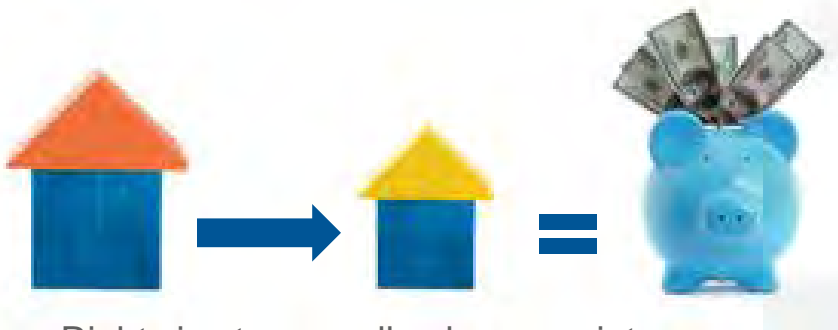


\$300,000
Home

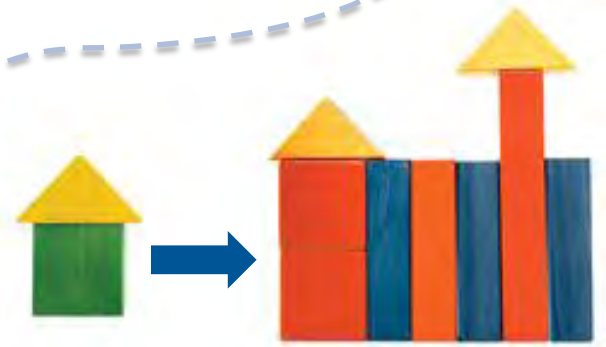
With HECM for
Purchase Loan¹

¹ This example is based on the youngest borrower, who is 71 years old, a variable rate HECM for Purchase loan with an initial interest rate of 2.406% (which consists of a Libor index rate of 0.156% and a margin of 2.250%). It is based on a purchase price of \$300,000, origination charges of \$5,000, a mortgage insurance premium of \$7,500, other settlement costs of \$2,943; amortized over 168 months, with total finance charges of \$129,951.87 and an annual percentage rate of 4.30%. Interest rates may vary and the stated rate may change or not be available at the time of loan commitment or lock-in.

Help Your Clients...



Right size to a smaller, lower maintenance home and save for retirement



Purchase a retirement dream home



Afford to own two homes by renting out the existing home and purchasing a new home

Help Your Clients...



Sell their home and purchase the next home closer to family or friends

Enjoy carefree living in a senior housing community

For Example

Don who is 71 years old, wants to move closer to family. The value of his current home is \$300,000. The purchase price of his next home is also \$300,000. However, he wants to eliminate his monthly mortgage payments.

Don may use the proceeds from a HECM for Purchase Loan of \$174,900 and a cash investment of \$140,543 to purchase his next home. Eliminating monthly mortgage payments¹ and moving closer to family.

Home Purchase Price	\$300,000
Available Loan Amount (Available Principal Limit)	\$174,900
Total Settlement Costs	\$(15,443)
Available Loan Proceeds	\$159,457
Cash Required To Close	\$140,543
Monthly Mortgage Payment	\$ 0

Since the initial disbursement at closing is greater than 60% of the principal limit the mortgage insurance premium is based on a rate of 2.50%, which is a percentage of the lesser of the appraisal value, the purchase price or the maximum lending limit.

¹The borrower will be responsible for paying property charges including homeowners insurance, taxes, and maintenance of home for the term of the loan. Interest will accrue on loan balance.

² This example is based on the youngest borrower, who is 71 years old, a variable rate HECM for Purchase loan with an initial interest rate of 2.406% (which consists of a Libor index rate of 0.156% and a margin of 2.250%). It is based on a purchase price of \$300,000, origination charges of \$5,000, a mortgage insurance premium of \$7,500, other settlement costs of \$2,943; amortized over 168 months, with total finance charges of \$129,951.87 and an annual percentage rate of 4.30%. Interest rates may vary and the stated rate may change or not be available at the time of loan commitment or lock-in.



What Are The Eligibility Requirements?

Borrower:

- Youngest titleholder must be 62+ years old
- Purchased home must be a primary residence occupied within 60 days of closing
- No other mortgage loan can be used to buy home (HECM for Purchase must be the only home loan)

Property:

- One-to-four unit properties
- HUD-Approved condominium
- Planned unit development (PUD)
- Must meet FHA property guidelines



How Do You Get Started?



1. **Learn** about the HECM Loan Program
2. **Refer** your clients to a qualified reverse mortgage specialist
3. **Shop for New Home** with your client
4. **Buyer applies for a HECM for Purchase loan**
(after an accepted purchase offer between buyer and seller)
5. **Close on new home** using proceeds from HECM for Purchase and customer down payment

HECM for Purchase

HUD Questions and Answers

Why Was The HECM Program Created?

The program was introduced by HUD in 2009 to allow seniors to purchase a new principal residence and obtain a Home Equity Conversion Mortgage (HECM) loan within a single transaction.

The program was also designed to enable senior homeowners to relocate to other geographical areas to be closer to family members or downsize to homes that meet their physical needs, i.e., handrails, one level properties, ramps, wider doorways, etc.



HUD FAQ – Property Related

Can a HECM for purchase be used to satisfy outstanding payment obligations associated with a land contract?

Yes, if the property will be used as collateral for the HECM and the mortgage will be held in fee simple, or on a leasehold under a lease for not less than 99 years which is renewable, or under a lease having the remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

Can a lender take application on a property that is under construction and not habitable?

No. The lender may only take application once the Certificate of Occupancy or its equivalent has been issued.



HUD FAQ - Property

Are set asides for property charges allowed (i.e., ground rent, tax, insurance, Homeowner Association fees, etc.)?

Yes. Mortgagors will continue to have the option of electing to have the lender withhold funds from their monthly payments or by charging such funds to the line of credit.

Are set asides for repairs allowed?

To be eligible for federal insurance, the property must meet FHA minimum property requirements. All repairs to correct major property deficiencies that threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the property must be completed by the seller prior to closing. Appraisers must complete the appraisal report as "Subject To" the completion of these repairs

Major Property Deficiency Examples:

No running water, Leaking roof, No primary heating source, Inadequate electrical system (including lighting), Inoperable doors and windows (inhibited ingress and egress), State or local code violations

Is the Amendatory Clause required?

Yes. An appraisal is required for all HECM transactions, including purchase transactions. The execution of the Amendatory Clause does not negate federal and state mandates on providing a copy of the appraisal to the consumer.



HUD FAQ - Funding

What would be an "allowable FHA funding source" for gap financing of the equity portion?

A withdrawal from the mortgagor's savings or retirement account would be an acceptable funding source.

How is the maximum claim amount and principal limit calculated?

For HECM purchase transactions only, the maximum claim amount will be the least of: 1) the appraised value; 2) sale price; or 3) FHA mortgage limit for a one family residence. The principal limit is determined by multiplying the maximum claim amount by the factor corresponding to the age of the youngest borrower and the expected rate.

Are gifts an acceptable source of funding?

Prospective mortgagors may use their own money. The monetary investment requirement can also be met by the use of approved funding sources as defined in [HUD Handbook 4155.1 REV-5](#), section [2-10](#), with the exception of the following funding sources which may not be used: Sweat Equity, Trade Equity, Rent Credit, Cash or its equivalent, in whole or in part, from the following parties, before, during or after loan closing:

- The seller or any other person or entity that financially benefits from the transactions, or
- Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in the previous bullet.

HUD FAQ - Funding

Can prospective mortgagors apply credit card cash advances towards the required monetary investment or closing costs?

No. This would be a violation of 24 Code of Federal Regulations 206.32(a), which requires all outstanding obligations connected to the HECM transaction, purchase or otherwise, to be satisfied prior to or on the date of closing.

Are seller concessions allowed?

No. Seller concessions are applicable to forward mortgages only.

Is seller financing permitted?

No.

Is the Real Estate Certification required?

Yes.



FAQ - Funding

When purchasing a new principal residence, if the HECM proceeds do not cover the sales price, can part or all of the property's indebtedness be subordinated behind the first and second HECM liens if the existing lien holder is willing to execute a subordinate agreement?

No. All existing liens must be satisfied at the HECM closing.

If the source of funds comes from the sale of the homeowner's principal residence or other owned property, and the sale is occurring the same day as the closing on the HECM, can a copy of the executed HUD-1 and cashier's or certified check, evidencing the sale, be used to verify the funding source?

Yes. In addition to the HUD-1, a copy of the sales contract executed by all parties and a copy of the cashier's or certified check bearing the name of the seller can be used to verify the funding source.

Can prospective mortgagors obtain a secured or non-secured loan from another asset (i.e., car, home equity line of credit, or investment property or second home) to satisfy the monetary investment or closing costs?

No. Consistent with existing policy, bridge loans and other interim financing methods associated with HECM transactions are prohibited, unless the unpaid or outstanding obligation can be satisfied prior to or on the day of closing.



Please call Tim Rigby, Vice President at 814-254-4332 today and experience the Unifirst difference.



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