Using a Reverse Mortgage to Buy a Home

A Toolkit for Real Estate Agents

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About NRMLA

The National Reverse Mortgage Lenders Association (NRMLA) is the national trade association of the reverse mortgage industry, serving as an educational resource, policy advocate and public affairs center for lenders and related professionals. NRMLA was established in 1997 to enhance the professionalism of the reverse mortgage industry.

NRMLA is a trade association of lenders, mortgage loan originators and vendors that support lenders and originators. NRMLA is not a lender or originator, and does not make, offer or arrange loans.

Our mission is to educate consumers about the pros and cons of reverse mortgages, to train lenders to be sensitive to clients' needs, to enforce our Code of Ethics and Professional Responsibility, and to advise policy makers on reverse mortgage issues.

For more information visit www.nrmlaonline.org and our consumer education website www.reversemortgage.org.

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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 home buyers 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 buyer 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 45% and 62% of the purchase price, depending on buyer's age or Eligible Non-Borrowing Spouse's age, if applicable. (This range assumes closing costs will be financed.) The rest of the funds for purchase come from the HECM loan. This allows the buyers 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 minimum required down payment examples on the next page.

- **Traditional mortgage:** Typically requires a smaller down payment.

Eligible properties

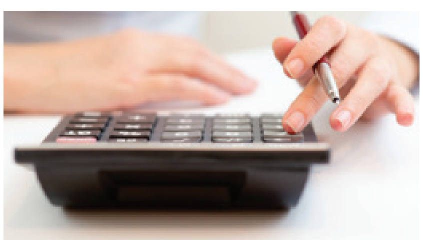
- **HECM for Purchase:** Single-family homes; FHA-approved condominiums; townhouses or Planned Unit Developments (PUDs); two- to four-family homes that are owner-occupied; and manufactured homes meeting HUD guidelines.
- **Traditional mortgage:** Single-family homes; condominiums; townhouses or Planned Unit Developments (PUDs); two-to four-family homes that are owner-occupied; manufactured housing; second homes; vacation homes; and investment properties.

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.

Note: A real estate agent's commission structure should not be impacted by a client opting to finance a home purchase via HECM for Purchase (rather than traditional financing).

How Are Loan Amounts Calculated?



The buyer's minimum required down payment generally works out to be about 45% to 62%.* of the sale price. This calculation is determined by the Department of Housing and Urban Development (HUD).† These are age-based loans that allow older borrowers to qualify for more in loan proceeds (see chart below).

HECM for Purchase minimum required down payment amount examples

	Purchase Price	$200,000	$350,000	$500,000	$765,600
		Down Payment Required*	Down Payment Required*	Down Payment Required*	Down Payment Required*
AGE	62	$119,800	$205,900	$292,000	$444,450
	67	$112,800	$193,650	$274,500	$417,670
	71	$110,200	$189,100	$268,000	$407,710
	75	$104,000	$178,250	$252,500	$383,970

*Example shown is for illustrative purposes only. Actual down payment amounts vary based on interest rate, borrower age and other factors. This range assumes closing costs will be financed into the loan. Closing costs include an up-front mortgage premium of 2% of the property value and can include other lender and third party closing costs such as an origination fee, title insurance, appraisal fee, credit report fee and recording costs, among other costs. In addition to initial MIP, closing costs typically range from $10,000 to $15,000. Ask your lender or mortgage originator for more details.

†This material has not been reviewed, approved or issued by HUD, FHA or any government agency. NRMLA is not affiliated with or acting on behalf of or at the direction of HUD/FHA or any other government agency.

HECM for Purchase: Buyer Profile

Who is best suited to utilize HECM for Purchase?

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

- 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; 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 proceeds from the sale of their home for a cash reserve or other retirement savings.

HECM for Purchase Buyer 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 transport, 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 buyers?*
  Most home buyers are not aware of the HECM for Purchase financing option. There's a great opportunity for real estate agents to educate clients and potential clients 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 homeowner. However, failure to keep up with the required homeowner obligations could cause a homeowner 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 homeowner 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 homeowners 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 homeowner should not feel that this is a violation of their privacy. The homeowner 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
- Manufactured Homes titled and taxed as real property under local law
- 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, and properties on reservations.

While most properties will be single family residences, it would be best to memorize these lists, as this can save you time by asking property questions up-front that may be an issue for HECM for Purchase financing. For example, being familiar with the approved property list may save the borrower the costs of an appraisal and HECM counseling if their condominium is not on the approved condo project list.

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.

For example, **a married couple, age 76 and 75, with an expected rate that rounds to 4.56% will qualify for 50% of their home's value up to $1,089,300.**

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 Closing Costs – Sellers can 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 should not include personal property. HECM proceeds are for the purchase of Real Property.
- The contract cannot contain any rent back options.
- The contract may include real estate commission if the Realtor is also the Buyer, but any realty commission paid to the buyer cannot be a funding source of the H4P.
- When the appraisal is ordered, 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.

How to Find a Qualified Reverse Mortgage Professional

Members of the National Reverse Mortgage Lenders Association must adhere to a strict Code of Ethics & Professional Responsibility that requires the ethical treatment of reverse mortgage customers before, during, and after they receive their loans. NRMLA members receive industry updates and continuing education through weekly e-newsletters, a bimonthly magazine, webinars, and in-person conferences held throughout the year.

In addition, NRMLA sponsors a Certified Reverse Mortgage Professional designation program that provides participating members' with the opportunity to affirm a commitment to further education. NRMLA is not a lender or originator, and does not make, offer or arrange loans. NRMLA does not recommend any loans, lenders or originators. For more information, contact participating lenders or originators.

What questions should I ask a lender on behalf of my clients?

Below is a list of questions that real estate agents should ask on behalf of their clients.

- Tell me about your experience with HECM for Purchase loans and clients.
- Can you provide resources about HECM for Purchase that I can share with my clients?
- Why is this type of loan beneficial for senior clients?
- What are some typical challenges that HECM for Purchase buyers may experience during this process?

Conclusion

Older Americans are buying homes. In fact, 25% of all home buyers 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[1]. But less than one percent of home buyers 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 home buyers and real estate agents, there's a great opportunity to gain a competitive advantage by learning how to educate your clients about this financing option. When a buyer uses 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. This can bring new opportunity for you to sell more homes to an expanding market of home buyers.

[1] 2017 National Association of REALTORS® Home Buyer and Seller Generational Trends