



## Home Equity Conversion Mortgage Program

### Summary:

The Home Equity Conversion Mortgage program enables older homeowners to withdraw some of the equity in their home in the form of monthly payments for life or a fixed term, or in a lump sum, or through a line of credit.

### Purpose:

The Home Equity Conversion Mortgage Program (HECM) can enable an older home owning family to stay in their home while using some of its built up equity. The program allows such a household to get an insured reverse mortgage—a mortgage that converts equity into income. Because older persons can be vulnerable to fraudulent practices, the program requires that persons receive free reverse mortgage housing counseling from a HUD-approved reverse mortgage counseling agency before applying for a reverse mortgage. FHA insures HECM loans to protect lenders against loss if amounts withdrawn exceed equity when the property is sold.

### Type of Assistance:

HECM can be used by homeowners who are 62 years of age and older. The total income that an owner can receive through HECM is the maximum claim amount, which is calculated with a formula including the age of the owner(s), the interest rate, and the value of the home. For example, on the basis of a loan at recent interest rates, a 65-year-old could borrow up to 26 percent of the home's value, a 75-year-old could borrow up to 39 percent, and an 85-year-old could borrow up to 56 percent.

Borrowers may choose one of five payment options: (1) tenure, which gives the borrower a monthly payment from the lender for as long as the borrower lives and continues to occupy the home as a principal residence; (2) term, which gives the borrower monthly payments for a fixed period selected by the borrower; (3) line of credit, which allows the borrower to make withdrawals up to a maximum amount, at times and in amounts of the borrower's choosing; (4) modified tenure, which combines the tenure option with a line of credit; and (5) modified term, which combines the term option with a line of credit.

The borrower remains the owner of the home and may sell it and move at any time, keeping the sales proceeds that exceed the mortgage balance. A borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property. A HECM loan need not be repaid until the borrower moves, sells, or dies. When the loan must be paid, if it exceeds the value of the property, the borrower (or the heirs) will owe no more than the value of the property. FHA insurance will cover any balance due the lender.

Two mortgage insurance premiums are collected to pay for HECM: an up front premium (2 percent of the home's value), which can be financed by the lender, and a monthly premium (which equals 0.5 percent per year of the mortgage balance). The lender's loan origination charge can vary, but only up to \$1,800 in such charges may be financed by HECM. Borrowers may be charged appraisal and inspection fees set by HUD; these charges can also be financed.

As part of the HECM program, HUD has provided for free reverse mortgage counseling (with training for the counselors) for persons considering using such an instrument, and a toll-free information line.

**Eligible Grantees:**

Any lender authorized to make HUD-insured loans- such as banks, mortgage companies, and savings and loan associations-can participate in the HECM program.

**Eligible Customers:**

To be eligible for HECM, a homeowner must (1) be 62 years of age or older, (2) have a very low outstanding mortgage balance or own their home free and clear, and (3) have received HUD-approved reverse mortgage counseling to learn about the program.

An eligible property must be a principal residence, but it can be a single-family residence, a one- to four-unit building with one unit occupied by the borrower, a manufactured home (mobile home), a unit in an FHA-approved condominium, or a unit in a planned unit development. The property must meet FHA standards, but the owner can pay for repairs using the reverse mortgage.

**Application:**

Homeowners who meet the eligibility criteria above can apply through an FHA-approved lending institution, which in turn submits the application to the local HUD Field Office for approval. Borrowers can locate FHA-approved lenders through HUD's searchable listing.

Because there has been a problem of some senior citizens being charged thousands of dollars for information on HECM that is available free, HUD recently directed HECM lenders to stop doing business with companies that charge such fees.

**Funding Status:**

In FY 1996, the HECM program insured 3,604 homes with a value of \$369 million. Through September 30, 1996, approximately 16,000 HECM loans had been made.

**Technical Guidance:**

**TECHNICAL GUIDANCE:** This program is authorized by the Housing and Community Development Act of 1987, Section 417, Public Law 100-242 (12 U.S.C. 1715z-20). Program regulations are in 24 CFR 200 and 206. This program is administered by the Office of Single-Family Housing in HUD's Office of Housing-Federal Housing Administration.

**For More Information:**

Homeowners who want to learn more about this program, or who were charged for HUD approved reverse mortgage counseling should call HUD's toll-free housing counseling information line, 1-800 569-4287 or see the searchable list of HUD approved reverse mortgage housing counseling agencies.

Additional information is available from two nonprofit organizations: the American Association of Retired Persons' (AARP) Home Equity Conversion Information Center (202-434-6044) and the National Center for Home Equity Conversion (NCHCEC) at 7373 147th St., Room 115, Apple Valley MN 55124.