Myths & Realities of HECM Loans

As with many financial products, Home Equity Conversion Mortgage (HECM) loans can seem complicated and there are a number of misconceptions about how the product works. Do you know the myths vs. the realities?

Myth No. 1

The lender owns the home.

- Like all mortgage loans, the HECM loan is secured by a lien and you will not lose your home as long as you continue to meet the loan obligations. The loan obligations include: living in the home, maintaining the home according to the Federal Housing Administration requirements, paying property taxes and paying the homeowners insurance.

Myth No. 2

The borrower is restricted on how to use the loan proceeds.

- The proceeds from a HECM loan can be used for almost any purpose. Many borrowers use them to supplement their retirement income, delay receiving social security benefits, pay off high–interest credit cards, pay for medical expenses, remodel their home, or help their adult children. Prudence along with budgeting should be the proper approach to enjoying proceeds received from your HECM loan.

Myth No. 3

Once loan proceeds are received, you pay taxes on them.

- Like any loan, HECM proceeds are paid out tax–free as they are not considered income. However, it is recommended that you consult your financial advisor and appropriate government agencies for any effect on taxes.

Myth No. 4

The home must be free and clear of any existing mortgages.

- Actually, many borrowers use the HECM loan to pay off an existing mortgage and eliminate monthly mortgage payments. Paying off the existing mortgage and any other liens is required as part of the loan. It is the borrower's responsibility to continue to pay for property taxes, homeowners insurance and home maintenance.

Myth No. 5

Only people with financial hardships need HECM loans.

- The perception that HECM loans are only for "financially strapped" borrowers is changing – affluent senior borrowers with multi-million dollar homes and healthy retirement assets are using HECMs as part of their financial and estate planning, and are working closely in conjunction with financial professionals and estate attorneys to enhance their overall quality and enjoyment of life.

For more information call today.

FAQs About HECMs

Am I eligible?

As a government-insured loan, there are several important requirements borrowers must meet to qualify.

- You must be at least 62 years old
- You must own your home
- The home must be your primary residence

What happens if I leave the home before I receive the full amount of the loan?

A reverse mortgage is repaid when the last borrower (or the last eligible non-borrowing spouse) leaves the house or passes away. Typically, the home is sold and the proceeds from the sale are used to pay back the loan. The heirs will receive any remaining equity. If your heirs decide to keep the home, they can pay back the loan in other ways such as by refinancing into a conventional loan.

If you pass away while you have a reverse mortgage loan, any funds that have not been accessed will be applied to your estate (they remain as equity in the home). When a borrower dies, heirs are given six months to either repay the loan or agree to the sale of the home. The proceeds from the sale are used to repay the loan and any remaining funds belong to the heirs.

How much money can I qualify for?

The amount of money you can receive from a reverse mortgage depends on four factors:

- Your age
- Your home value (based on an appraisal that will be part of the loan process)
- The interest rate of your loan
- Your current mortgage balance (You must use the proceeds to pay off your existing mortgage.)

Reverse mortgage loan funds can be disbursed in a full or partial lump sum, as a line of credit, through monthly payments, or as a combination of any of these.

Are there restrictions as to how I use the money from a HECM?

You can use the proceeds of your reverse mortgage loan for almost anything. Common uses include:

- Paying off an existing mortgage (a requirement of the loan)
- Paying medical bills
- Paying off a large bill
- Financing home repairs and renovations
- Paying for in-home care
- Visiting friends and family

Is there any risk of losing my home with a HECM?

Not if you fulfill the obligations of the loan, which include paying your property taxes and homeowners insurance and keeping up with basic maintenance and repairs. If you do not uphold these responsibilities, the loan may become due, and the house may be sold to pay off the loan. If you fulfill these obligations, your loan remains in good standing.

Call today for additional information.

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