SOLANO MORTGAGE

A Division of American Pacific Mortgage Corporation NMLS 1850

H.E.C.M. Explained

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What is a H.E.C.M.?

A H.E.C.M. (Home Equity Conversion Mortgage) is a unique loan also referred to as a Reverse Mortgage. It is designed for borrowers that are 62 years of age and older. It allows you to access your home equity in the form of monthly income, a line of credit to draw on or immediate cash, tax-free, to use for any reason, without ever having to make a mortgage payment on the loan, as long as you live in your home (see “What are My Responsibilities”).

If you live in your home until your death, your heirs will have the choice to pay off the loan or sell your home and keep the remaining equity.

What a Concept!
The mortgage company pays you instead of you paying them!

Fables from Friends

- You turn Title over to the bank
- Debts from the H.E.C.M. pass to your heirs
- You will be forced to sell your home
- You pay taxes on the loan proceeds
- You can outlive the loan and will have to start making payments
- You cannot keep your home in a living trust
- There are restrictions about how you can use the money
- There are minimum credit scores
- The bank owns your home when you are gone

History of the H.E.C.M.

PRIOR TO 1987 - Bank Program

- No regulation
- Shared appreciation
- No client protections
- Heirs responsible for any balance

AFTER 1987 - FHA Program (H.E.C.M.)

- HUD Regulated
- Standardized Fees & Loan Calculation
- Required HUD Counseling/Client Protections
- Required FHA Mortgage Insurance

2009 FHA introduces the HECM for Purchase

This innovative loan program was designed to help qualifying buyers **PURCHASE** a new primary residence using a H.E.C.M. – all within a single transaction.

Why More Homeowners are Choosing a H.E.C.M.

- They want to eliminate monthly mortgage payments
- They want to maintain their dignity and independence
- They want to improve their quality of life
- They are living longer and outliving their income/assets
- Medical and prescription costs continue to increase at a staggering rate
- They want to protect themselves from lost social security and retirement income once the first spouse has passed away
- They want to have the ability to afford at-home healthcare and avoid nursing home costs
- They want to fix-up their homes or want cash for needed home repairs
- They want to buy a new car, truck or motor home to travel and enjoy life
- They would like to create a larger estate for their heirs with proper estate planning
- They do not want to be a financial burden on their children
- To avoid being forced to return to work because of losses in the stock market and/or lack of retirement fund performance

Is a H.E.C.M. Safe?

- **YES!** FHA insures the loan and protects the borrowers, heirs, estate, and lender from an “upside down” situation
- HUD participates in regulating the program and the industry to protect you, therefore, all H.E.C.M. applicants must complete a HUD-approved counseling session
- In 2001, Congress passed legislation making the H.E.C.M. an ongoing government program

What are Some of the Benefits of a H.E.C.M.?

- You keep title to your home
- You can keep your home in a living trust
- Proceeds are INCOME TAX-FREE!
- You choose how to use the funds to suit your needs
- Make no mortgage payments* while living in your home
- There are NO changes to your property taxes
- Insured by FHA (Federal Housing Administration)
- You can use it to purchase a new primary residence, and have no monthly principal and interest payments*

**See "What are my Responsibilities"*

What are My Responsibilities?

- Keep appropriate Homeowners Insurance and Property Taxes current on your home
- All property liens, if any, must be paid at closing of the H.E.C.M.
- Occupy your home as your primary residence
- Perform normal, required maintenance on the home
- Other ongoing property charges such as HOA fees or Flood Insurance (if required on the property) must be kept current as well

A Reverse Mortgage Loan is subject to foreclosure for failure to comply with loan terms.

How Do I Qualify?

- You or your spouse are age 62 and older*
- You have enough equity in your home or you have other assets that you can liquidate to bring to closing if the loan is short of funds
- You plan to keep your home as your Primary Residence
- You are able to pay your property taxes, homeowners insurance and home maintenance costs
- You meet the income and credit requirements of the loan

** There are protections available to eligible non-borrowing spouses, and they can be less than 62 years old. Conditions and restrictions apply. Loans with borrowers that are not spouses are eligible for a HECM as well, but there are no NBS protections (spouses only). Talk to your loan representative about your unique situation.*

How Much Money Will I be Eligible For?

- The government has set a national lending limit on appraised values. Currently there is a national limit to the home value of $765,600.
- From the appraised value (subject to the above lending limit), your age(s) and the current interest rates, we can determine how much you will be eligible to receive.* The older you are, the more money you may receive.

**All liens against the property (mortgages, equity lines, taxes, etc.) must be paid at closing out of the loan proceeds or money that you will contribute. The loan amount is a percentage of the value (subject to a maximum value of $765,600) based on the criteria above. FHA may require 2 appraisals and the lesser value is utilized to calculate the loan amount.*

How do I Receive the Money?

- If you choose, you can receive some (or all) of the net available funds as monthly payments to supplement your income
- If you leave some (or all) of the net available funds in the credit line*, you can take the funds when you need them, just like in a Home Equity Line of Credit
- You can take some or all net the available funds as a lump sum disbursement*, or
- A combination of the above

**The amount of funds available at closing, and after the first year, are subject to HECM loan guidelines. Your specific situation will be reviewed to determine those amounts and options. A Purchase transaction typically uses all available funds as a lump sum.*

What Will my Children/Heirs Think about a H.E.C.M.?

- Do they want to inherit the maximum equity from your home OR do they want you to enjoy the most financial security possible today?
- Do they want you to have the highest standard of living possible?
- Do they want you to maintain your dignity and independence?*
- Do they want to supplement your income instead?

**or are they willing to let you move in with them or write you monthly checks?*

Possible Uses of a H.E.C.M.

AS A REFINANCE

- Payoff existing mortgage to stay in home
- Create additional income or a “safety net”
- Gifted funds for family member’s benefit, like the purchase of a home
- Financial planning tool (i.e., delay drawing Social Security, additional pool of funds to use later in retirement, etc.)
- Rescue family members
- Purchase 2nd home or rental property*

**It may be advisable to season the loan 12 months to access the maximum funds, so planning may be a priority.*

Possible Uses of a H.E.C.M. for Purchase

- Downsizing
- Upsizing/Dreamhome
- Relocating near family members
- Divorce situations
- Move to a new neighborhood

H.E.C.M. Purchase:

How it works: A down payment is combined with the H.E.C.M. for Purchase loan proceeds to buy the home.

H.E.C.M. for Purchase Benefits:

- NO monthly mortgage payments
- NO prepayment penalty
- Credit history requirement - no minimum FICO
- Increased discretionary cash
- Can sell the home whenever you wish
- Remain on title and continue to own the home

Age:	72 Years Old
Purchase Price:	$600,000
Calculated Loan Amount: (approximately)	$265,000
Down Payment Required*:	$335,000
Monthly Mortgage Payment:	**$0**

** This is a loan that must be repaid. Usually comes from sale of a larger home in a "buying down" scenario. Example is for illustration purposes only. Rates can change without notice. Fixed rate 4.81% (APR 6.015%e).*

Tips for Reverse Purchase

- The client will have to income and credit qualify (Financial Assessment)
- Complete the counseling immediately (it is good for 6 months)
- Ask for “60 days or sooner” close date in the contract, if possible
- Do not ask for seller credit like 3% towards buyer closing costs
- Seller can pay reasonable and customary costs:
  - Their prorated share of taxes or HOA dues
  - Repair costs and cost for re-inspection of the repairs
  - Fees which are required to be paid by the Seller for the Seller’s benefit (i.e. release fee for Seller’s lien) Settlement Agent to confirm to lender
  - Title and escrow fees
  - Transfer/intangible taxes
- **The escrow company must provide a confirmation in writing that seller paid fees are reasonable and customary**

Tips for Reverse Purchase continued

- This is a FHA Loan, property condition counts
- **Title Company** is important! Negotiate for experienced Reverse Mortgage Title Company!(ask us if you need a source)
- Accommodation signings are a regular occurrence
- Proof of funds from 3 months of statements - all pages
- Copy of cancelled deposit check, front and back
- Flip Rules: No flips less than 90 days allowed; 91-365 days could require 2 appraisals
- No repairs after close, no repair/set aside allowed
- New Home Construction: We can accept an application

IF BUYER IS PAYING COSTS: NEGOTIATE PRICE!

End of H.E.C.M. Loan Q&A

The process and procedures for the “end of the loan” on the HECM is administered by the servicing banks in conjunction with FHA guidelines. The Welcome Package does refer to some of the “end of the loan” procedures.

We would like to share a general description of the process.

A. **End of loan event:** The last borrower or eligible non-borrowing spouse no longer lives in the home. Our conversation is around the passing away of the last borrower or eligible NBS.

B. **How does the lender know?:** The heirs are required to notify the servicing lender at the time the last borrower or eligible NBS passes. However, the servicing lenders have become less and less reliant on a notification from heirs and subscribe to various database services that notify them within days.

C. **What is the initial step by the servicing lender?** The servicing lender will send a notice to the estate. It says the estate has 30 days to decide the disposition of the property and also spells out eligible extensions to the time frame, the process to follow, and the contact information of the servicing lender. The intent is to encourage active involvement by the estate to move ahead (since any delays could represent a further loss to the FHA MMI pool and/or reduce equity for the heirs). The servicing lenders will walk through the process with the estate. The servicer wants good faith activity and communication from the estate.

End of H.E.C.M. Loan Q&A continued

D. **When does the clock start?** The date the last borrower or eligible NBS passes way, not the date the servicer becomes aware of it. In general, the estate can have up to 6 months as an initial time period to settle the reverse balance, and up to two, 3 month extensions (12 months total) as long as the estate demonstrates a good faith effort to complete the task.

E. **Is it in the best interest of the heirs to cooperate?:** Yes, because interest and MI is accruing on the loan and is reducing their equity, if applicable.

F. **What paperwork is required?:** The servicing lender will require a letter from the estate regarding the intent to keep the property or dispose of it, and other documentation that may include a death certificate, a copy of the Will and Probate documents and any other documentation that may be applicable. The time frame required is within 30 days from the date of death.

G. **What are the overall options for the Estate?**
   a. Keep the property and pay off the Reverse
   b. Sell the home (must have authority to do so)
   c. Deed-in-lieu of Foreclosure to Mortgagee (Servicing Lender)

While these questions do not cover all the possible elements of the process at the end of the HECM loan, they do give you the overall feel for the process.

What Do I Need to do Now?

1. Using the approved HUD Counseling list provided, contact a counseling agency of your choice to set up your HUD Counseling appointment; and review the counseling information prior to the session.
2. Provide the required documentation needed (see below) for the loan application once your HUD counseling appointment is complete.
3. Set up your application appointment.

Requested Documents for Application:

__ Originals: signed and dated (same date) HUD Counseling Certificate AND Addendum to the Certificate (CA property)

__ Driver's License or Government Issued Legal Photo ID

__ Social Security or Medicare Card with individual's Social Security Number

__ Homeowner's Insurance Policy information / last 12 months

__ Current Mortgage Statement and lien information (if applicable)

__ Certified Copy of Death Certificate (if applicable)

__ Original Power of Attorney (if applicable)

__ Property tax statement / 2 years proof of timely payments

__ Living Trust (if applicable)

__ Proof of income & assets (SS & pension, award letters, W-2s, 1099s, Tax Returns-last 2 years)

__ Asset documentation (Checkings, Savings, Investments, Retirement Accounts) 3 months all pages

__ HUD 1 from sale of current property as applicable

Is it Really that Simple?

Yes! Here are the steps:

- Meet with American Pacific Reverse Mortgage Group (APRMG)
- Complete the HUD Counseling Session - by phone or in person
- Have your application appointment with APRMG
- Sign your loan documents with a Notary (Signing Appointment)
- Your loan is funded and your CHECK IS ISSUED!
- The typical time frame is 45 days after we have a complete application package

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Questions?

Contact me for more information!

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EQUAL HOUSING OPPORTUNITY

Testimonials

"We used the H.E.C.M. to purchase our home and have no monthly payments! The team at American Pacific Reverse Mortgage Group walked us and our Realtor through the process - it was a little different than our previous purchases - and it was great to have knowledgeable people direct us through the process!We have already sent our friends to do the same thing!" *– C & D G, Auburn CA*

"The American Pacific Reverse Mortgage Group team was a life saver! I had lost an income when my husband passed away and the bank was going to foreclose on my home because I was very far behind on my payments. The H.E.C.M. paid off my old home loan so that I do not have monthly payments and have an affordable balanced financial life. Because my loan officer and his processing team were able to get my loan expedited and I avoided foreclosure, I got to stay at home and I am relieved of the financial stress! I can't say enough about them!" *– S.K., Portland OR*

"I wanted to hang onto my IRA accounts as my safety net for future needs like medical costs, travel, auto replacement, etc. When I was able to use the H.E.C.M. to pay off the existing home loan and eliminate the payment, I began to understand what a powerful financial tool it is. I am able to use the credit line to do home improvements and travel with my master's swim team to meets in countries all over the world! I haven't had to touch my IRA's and they are regaining their value as the market recovers. This has been one of the best decisions I ever made." *– B.D., Davis CA*

"My friend is a Realtor who was going through some hard times as the market had collapsed. It took me over a year to get him to talk to our Loan Officer at American Pacific Reverse Mortgage Group. He and his wife (the Realtor) ended up doing the loan and every time I see him he thanks me for suggesting this solution. Without it he would have lost his house. I was so happy to help my friend and always hear the "thank you" for my advice. *– J.Z., Woodland CA*

Reverse Mortgage Worksheet
Solano Mortgage Group

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Date: _____

Borrower's Name:_____

Birth Date: _____ Borrower SSN: _____

Co-Borrower's Name: _____

Birth Date: _____ Co-Borrower SSN: _____

Any others living in the household? Y / N # of people _____

Property Address: _____

City, State, Zip: _____

Phone: H) _____ W) _____ C) _____

Purchase? Y / N

Property Value		**Property Type**		**SqFt:**	

Current?

Liens	**1st Mtg**		**Monthly PMT**	**/mo**	**Taxes: /mo**	**Y / N**
	2nd Mtg		**Monthly PMT**	**/mo**	**Insur: /mo**	**Y / N**

Other: (HOA, Other Properties, Zoning, Revolving Accts?)_____

Income	Borrower	Co-Borrower
Soc Sec		
Pension		
Other		

Assets	Borrower	Co-Borrower
Check/Sav		
IRA/401(k)		
Other		

Permission to pull credit report YES / NO Date: _____

HUD Counseling Scheduled? YES / NO Date: _____ Time: _____

Goal:_____

_____

Notes:_____ Credit Issues? Y / N

Referred by: _____ Phone: _____
Verifying MLO Signature: _____ email: _____

To Borrower: I am filling out a worksheet, this is not a formal application.