FannieMae

HECM

Turn your home's value into a source of ready cash

Home Equity Conversion Mortgage (HECM) Consumer Fact Sheet

August 2004

To provide additional housing finance options for homeowners age 62 or older, the US Department of Housing and Urban Development (HUD) provides reverse mortgages under the Home Equity Conversion Mortgage (HECM) program. These mortgages are available from HUD-approved lending institutions and are insured under the government's Federal Housing Administration (FHA) insurance program.

Fannie Mae strongly supports the HECM program and provides funding for reverse mortgages. To help you learn more, we have provided the following answers to some of the most commonly asked questions about the program and Fannie Mae's participation in it.

Q: What is a HECM?

A: A HECM is a special type of mortgage that enables homeowners age 62 or older to tap the equity in their homes. It can provide the maximum amount of flexibility to address your particular financial needs — whether it is a lump sum to pay an unexpected hospital bill or a stream of regular payments to supplement your monthly income. Unlike traditional home equity loans, no repayment of the HECM loan is required until you no longer occupy the home as your principal residence. At that time, the lender, with HUD's permission, will declare the mortgage due and payable.

With a HECM, you borrow against the value of your home, and receive loan proceeds according to the payment plan that you select. These plans are described on the following pages. As a borrower, you are permitted to change payment plans at any time after origination. You may change payment plans as many times as you wish.

When you sell your home or vacate it for other reasons, the loan balance, which includes the total amount you borrowed plus accrued interest and mortgage insurance premiums, is due and payable, usually from the proceeds from the sale of your home. Any proceeds in excess of the amount owed the lender belong to you or to your estate.

Q: Who is eligible for a HECM?

A: You, and any co-borrowers, must be at least 62 years old and either own your home free and clear or have a very low outstanding mortgage balance that can be paid off at loan closing. The home must be your principal residence. Your home must be a single-family or two- to four-unit dwelling. Units in condominiums or Planned Unit Developments (PUDs) may be eligible if they are in FHA-approved developments. You also must agree to accept mortgage counseling from a HUD-approved counseling agency. Family members also are strongly encouraged to attend these counseling sessions.

Q: What are the minimum and maximum amounts that I can borrow?

A: The maximum amount you can borrow is based on a HUD formula that factors in the age of the youngest borrower, the interest rate, and the Maximum Claim Amount. The Maximum Claim Amount is the lesser of the appraised value of your house or the maximum principal amount for a one-family residence that can be insured by FHA in your area. The maximum mortgage amount insured by FHA varies by geographic area and changes frequently. Please check with your lender for the FHA maximum mortgage amount for your area, or visit HUD's website at www.hud.gov.

Q: What types of payment plans are available with the HECM loan?

A: In most states, a borrower with a HECM may choose among five payment plans: term, tenure, modified term, modified tenure, and a line of credit. You may change payment plans at any time and as often as you like for a small fee.

1) *Term option:* You will receive equal monthly payments for a fixed period of time selected by you.
2) *Tenure option:* You will receive equal monthly payments for as long as you occupy your home as a principal residence.
3) *Line of Credit option:* You may draw up to a maximum amount of cash at times and in amounts of your choosing, as long as you occupy your home as a principal residence. (Option not available in Texas.)
4) *Modified Tenure Plan:* Allows you to set aside a portion of loan proceeds as a line of credit and receive the rest in the form of equal monthly payments as long as you occupy your home as a principal residence.
5) *Modified Term Plan:* Allows you to set aside a portion of loan proceeds as a line of credit and receive the balance as equal monthly payments for a fixed time period as specified by you.

If you select either of the term plans, you can remain in your home after the end of the loan term without starting repayment. The same is true if you have withdrawn the maximum amount under a line of credit. Under the tenure payment plan, you will continue to receive monthly payments and need not repay your loan as long as you continue to use your home as your principal residence. Remember that repayment of a HECM does not begin until you no longer occupy your home as your principal residence.

Q: How will the amount of the monthly payment be calculated?

A: How much you can receive in monthly payments depends on the age of the youngest borrower, the interest rate and the Maximum Claim Amount defined above. The older you are, the larger your payments are likely to be. The following example shows monthly payments available under the **Tenure Option**:

Age	Maximum Claim Amount		
	$50,000	$75,000	$100,000
65	$ 90	$ 158	$ 226
75	154	255	355
85	272	433	594

(These figures are approximate and assume an 8.5 percent interest rate, financing of $2,000 in closing costs and the initial mortgage insurance premium, and the payment of a $30 monthly servicing fee.)

Q: Will HECM payments affect my Social Security, Medicare, Supplemental Security Income (SSI), or Medicaid benefits?

A: HECM payments do not affect your Social Security or Medicare benefits because those benefits are not based on the assets of the recipient. However, in the federal Supplemental Security Income program, beneficiaries must keep their liquid resources under certain limits. If you do not spend HECM advances in the month received, then such funds are considered part of your liquid resources and may adversely affect your eligibility for SSI.

Regulations vary for state-administered programs such as Medicaid, Aid for Dependent Children (AFDC), and food stamps. Therefore, we suggest that you consult a benefits specialist at your local Area Agency on Aging or the local offices for these programs to determine how HECM payments may affect your particular situation.

Q: Will I have to pay any fees to obtain a HECM?

A: Yes, you will have to pay an origination fee, other closing costs, and a mortgage insurance premium, which is divided into two parts: an up front premium of 2 percent of the Maximum Claim Amount, and an annual, ongoing fee of 1/2 percent on your mortgage balance. You may be able to finance the origination fee, other closing costs, and the up front 2 percent mortgage insurance premium - that is, these items may be included in your loan balance so that you do not have to pay for them in cash. In addition to the yearly insurance premium, a servicing fee is charged to your loan balance each month. The lender charges this fee to administer your loan. HECMs are different from many loans in that some of the fees are charged up front rather than added to the interest rate.

Q: Can I be forced to sell or vacate my home if the money I owe on the loan exceeds the value of my home?

A: No, not as long as you continue to occupy the property as a principal residence and continue to make timely homeowner's insurance and property tax payments. You cannot be forced to sell or vacate the property, even if your loan balance, the total of the mortgage payments to you plus interest and mortgage insurance premiums over the life of the loan, exceeds the value of the property. FHA insurance covers any further financial obligation to the lender.

Q: Will my heirs owe anything to the mortgage lender if I die?

A: Upon your death, the loan balance, consisting of payments made to you or on your behalf plus accrued interest, becomes due and payable. Your heirs may repay the loan balance by selling the home or by paying off the HECM loan so that they may keep the home. If the loan balance exceeds the value of your property, your heirs will owe no more than the value of the property. FHA insurance will cover any balance due the lender. No additional financial claims may be made against your heirs or estate.

Q: If my home appreciates in value during the mortgage term, who will be entitled to that money?

A: With a HECM you are legally required to pay back to the lender only the outstanding balance. Any money remaining after the mortgage is paid goes to you or, upon your death, to your heirs.

Q What if I decide to sell my home?

A: If you choose to sell your home, the outstanding loan balance becomes due and payable to the mortgage lender. You can pay the loan balance with proceeds from the sale of your home, and you or your estate will receive any proceeds exceeding the loan balance.

Q: Can I sell my home to my children and continue to live in it?

A: If you sell your home to your children or any other individual, the HECM will be due and payable at settlement. After the loan is repaid, any arrangement for your continued occupancy of the property must be made with the new owners.

Q: What are some of my responsibilities as a homeowner with a reverse mortgage?

A: To keep your real estate taxes and homeowners insurance current. And to properly maintain your home so that it's value does not diminish.

Q: Where can I apply for a HECM?

A: Any HUD-approved lender can participate in the HECM program. A list of HECM lenders in your area is available by calling Fannie Mae at 1-800-7FANNIE.

About Fannie Mae

Fannie Mae provides this information so you can learn more about your home finance options. Fannie Mae is a privately managed, stockholder-owned company. It has been chartered by Congress to fulfill the public mission of providing low-cost mortgage funds to Americans with low, moderate, or middle incomes. Fannie Mae does not lend money to consumers, but buys mortgages from a national network of about 3,000 approved lenders who do originate mortgage loans. By selling their loans to Fannie Mae, or pooling them to issue Mortgage-Backed Securities, lenders replenish their supply of capital so they can make more mortgage loans to American home buyers.

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892