Understanding Home Equity Conversion Mortgages

Discover how to unlock
the equity in your home

Explore Your Options

Retirement Funding Options	Pros	Cons
Delay retirement or return to work	You continue earning income to pay your financial obligations.	You may be unable or unwilling to continue working because of poor health or other reasons.
Sell your house and downsize	You eliminate or reduce your current mortgage payment and maintenance.[1]	You may want to stay in your current home. You may still have a mortgage. Closing costs add to the financial burden.
Obtain a home equity loan or refinance your existing mortgage	You remain in your home. You may be able to lower your monthly mortgage payments and even pay off other debts.	You must still pay your monthly mortgage, plus closing costs for the equity loan.
Decrease expenses and modify your lifestyle	You eliminate unnecessary expenses and reduce your monthly cash outflow.	It may be difficult to cut back if you are already living frugally, or you may not want to sacrifice some comforts.
Obtain a Home Equity Conversion Mortgage (HECM)	You remain in your home. You eliminate your monthly mortgage payment and may have additional funds for expenses or financial goals.[1]	The loan balance grows over time and the value of your estate may decrease over time. Closing costs add to your financial burden.

1 Your current mortgage(s) and any other existing liens against the property must be paid off at or before closing. You must live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure.

A HECM Loan Defined?

A Home Equity Conversion Mortgage (HECM), commonly known as a reverse mortgage, is a Federal Housing Administration (FHA) insured loan[1] which enables you to access a portion of your home's equity without having to make monthly mortgage payments.[2] If you are 62 years of age or older and have sufficient home equity, you may be able to get the cash you need to:

- **Pay off your existing mortgage[2]**
- **Continue to live in your home and maintain the title[2]**
- **Pay off medical bills, vehicle loans or other debts**
- **Improve your monthly cash flow**
- **Fund necessary home repairs or renovations**
- **Build a "safety net" for unplanned expenses**

1 As required by the Federal Housing Administration (FHA), you will be charged an up-front mortgage insurance premium (MIP) at closing and, over the life of the loan, you will be charged an annual MIP based on the loan balance.

2 Your current mortgage, if any, must be paid off using the proceeds from your HECM loan. You must still live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure.

A Few of the Loan Benefits

- **Eliminates your existing monthly mortgage payments[1]**
- **You can stay in your home and maintain the title**
- **Loan proceeds are not taxed as income as otherwise can be used any way you choose[2]**
- **Heirs inherit any remaining equity after paying off the HECM loan**
- **The HECM loan is FHA insured[3]**

1 Your current mortgage, if any, must be paid off using the proceeds from your HECM loan. You must still live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure.

2 Generally, money received is not considered income and should be tax free, though you must continue to pay required property taxes. Consult your financial advisor and appropriate government agencies for any affect on taxes or government benefits.

3 As required by the Federal Housing Administration (FHA), you will be charged an up-front mortgage insurance premium (MIP) at closing and, over the life of the loan, you will be charged an annual MIP based on the loan balance.

Eligibility

To be eligible for a HECM loan, some key requirements are:

- The youngest borrower must be at least 62 years of age
- You must live in your home as your primary residence and have sufficient equity
- You cannot be delinquent on any federal debt
- Property must be a single family residence, an owner occupied 2-4 unit home, a condominium approved by the Department of Housing and Urban Development (HUD), or a manufactured home that meets FHA guidelines
- Must meet financial assessment requirements as established by HUD

Requirements

Once you obtain your HECM loan, you must continue to meet the following conditions to maintain your loan in good standing.

- Maintain your home according to FHA requirements
- Continue to pay property taxes and homeowners insurance
- Continue to own and live in your home as your primary residence

The loan becomes due and payable if you fail to meet any of the above obligations or the last borrower or non-borrowing spouse passes away. The heirs must repay the loan in order to inherit the property. Failure repay the loan may result in foreclosure.

Safeguards

Federal Housing Administration (FHA) Insured[1]

HECM loans are FHA insured.[1] You are always protected against lender insolvency and will continue to have access to your available equity.[2]

Mandatory Mortgage Insurance

One of the requirements for FHA insurance, is that the borrower is charged an up-front mortgage insurance premium (MIP) fee at closing and, over the life of the loan, is charged an annual MIP fee on the loan balance. This insurance protects the borrower and their heirs in the event the loan balance is higher than the home's value when the loan becomes due and payable.

Independent Counseling

Independent counselors which are approved by HUD provide you with objective information, and help you understand the process.

Capped Interest Rates

If your loan has an adjustable interest rate, there is a limit on how much the interest rates can change each time it adjusts, as well as over the life of the loan.

No Prepayment Penalty

The HECM loan can be repaid at any time in part or in full, without penalty.

Eligible Non-Borrowing Spouse Protection

Upon passing of the last remaining borrower, an eligible non-borrowing spouse may be able to have the repayment of the reverse mortgage deferred if certain requirements are met.[3]

1 As required by the Federal Housing Administration (FHA), you will be charged an up-front mortgage insurance premium (MIP) at closing and, over the life of the loan, you will be charged an annual MIP based on the loan balance.
2 Access to available equity after closing only applies to adjustable rate HECMs loans.
3 A spouse must meet the following requirements to be considered eligible: 1) Be the spouse of the reverse mortgage borrower at the time of loan closing and remain the spouse of the borrower for the duration of the borrower's lifetime. 2) Be properly disclosed to the lender at origination and specifically named as a Non-Borrowing Spouse in the loan documents. 3) Occupy, and continue to occupy, the property securing the reverse mortgage as the principal residence.

Loan Options

There are two types of Home Equity Conversion Mortgage (HECM) loans. It is important to select the one that best meets your needs.

Liberty offers fixed and adjustable rate HECM options. Either option can be used to access equity on a home you already own or to purchase a new home. If you have an existing lien on the property, it must be paid off as part of the HECM transaction. Both options eliminate monthly mortgage payments and do not require repayment as long as the loan obligations[1] are met.

1 You must live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure.

Disbursement Options

With a fixed-rate HECM loan, you can receive the cash in a lump sum.

With an adjustable-rate HECM loan, you can select:

- **Tenure**
- **Term**
- **Line of Credit**
- **Modified Tenure**
- **Modified Term**

The amount that can be disbursed at closing (fixed- and adjustable rate) and during the first 12 months (adjustable-rate only) is limited to the greater of 60% of the principal limit amount or the sum of mandatory obligations plus 10% of the principal limit. Consult a reverse mortgage advisor for further details.

Questions & Answers