HECM PROGRAM SUMMARY

Under the Home Equity Conversion Mortgage (HECM) program, homeowners aged 62 years and older may convert the equity in their homes to cash using a variety of payment options to address their specific financial needs. The program was designed by HUD and features FHA insurance.

With a HECM, the loan balance likely will increase over time. All payments made to the borrower are added to the loan balance as they occur. Interest, mortgage insurance premiums and servicing fees accrue and are added to the loan balance, which is increased by the following:

- **Payments**
- **Mortgage insurance premiums**
- **Interest**
- **Servicing fees (Currently N/A)**

Typically, the reverse mortgage is paid off by the estate or with the proceeds from the sale of the home. Unlike a traditional mortgage, a reverse mortgage is generally repaid in one payment rather than through periodic payments. A borrower **may choose** to make payments but the loan is generally not due and payable as long as the borrower occupies the subject property as their principal residence and does not violate any covenants of the mortgage. The HECM borrower may make a payment monthly or intermittently if they choose and if they are in a Libor Line of Credit, they may use and reuse funds as desired.

The HECM borrower will never owe more than the loan balance or the value of the subject property, whichever is less, and no assets other than the home are used to repay the debt.

The key components of the HECM loan include the following:

PRINCIPAL LIMIT

The HECM program manages the risk of loan loss by controlling the amount of cash borrowers may receive at any point in time. This is accomplished by calculating the principal limit for each loan. The principal limit is set at origination and is determined by multiplying the maximum claim amount by a factor prescribed by HUD based upon the Expected Average Mortgage Interest Rate and the age of the youngest borrower or their nonborrowing spouse.

The principal limit increases each month by 1/12th of the sum of the current interest rate and the annual mortgage insurance premium rate prescribed by HUD. Generally, once the outstanding balance of the loan equals the principal limit, the borrower will be unable to receive additional payments unless they have unused Line of Credit available. The available Line of Credit will increase at the same rate of the Principal Limit increase, providing a safety net for borrowers that choose to allow it to grow. Effectively, each year they can borrow more than the previous year regardless of the property value.

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MAXIMUM CLAIM AMOUNT

- **Refinance transactions**, the maximum claim amount is equal to the lesser of the appraised value of the home or the maximum mortgage amount FHA will insure for a single-family home for a given location at the time the loan is originated.
- **Purchase transactions** the maximum claim amount is equal to the lesser of the appraised value, the contract sales price or the applicable FHA lending limit.

EXPECTED AVERAGE INTEREST RATE

The Expected Average Interest Rate is the rate used in the calculation of the principal limit, and is based on either a fixed or adjustable rate, as follows:

- Fixed-rate loan, the expected rate is the fixed interest rate.
- Adjustable-rate loan, the expected rate is the sum of the margin and an index value. The expected rate and mortgage interest rate is set on the date of loan closing. **(Currently the 10-year swap)**

LOAN PRODUCTS

- HECM Fixed Rate Single Lump Sum Disbursement
- HECM Annual Libor
- HECM Monthly Libor

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PAYMENT PLANS

Six payment plans are available to HECM borrowers:

- **Single payment** at closing (lump sum).
- **Line of credit payment** plan provides for payment to be made to the borrower whenever the borrower requests a disbursement from the lender, until the principal limit has been reached.
- **Term payment plan** provides for equal monthly payments to the borrower over a fixed term agreed to by the lender and the borrower.
- **Modified term payment** plan combines the characteristics of term payment plan with a line of credit. This allows the borrower to set aside part of his/her principal limit at origination to establish a line of credit that can be drawn on at any time and then receive the balance of the principal limit in the form of equal monthly payment s over a fixed term.
- **Tenure payment plan** provides for equal monthly payments to the borrower for the life of the borrower or until he no longer occupies the home.
- **Modified tenure payment plan** combines the characteristic of a tenure payment plan with a line of credit payment plan. This allows the borrower to set aside part of his/her principal limit at origination to establish a line of credit that can be drawn on at any time and to receive the balance of the principal limit in the form of equal monthly payments.

The entire line of credit up to the limits on 1st 12 months distribution may be advanced at closing. Repayment of the loan is **not** required until the borrower no longer occupies the subject property as their principal residence (even if the term payment plan has expired).

At closing or within the first 12 months, borrowers are limited to 60% of the initial principal limit or mandatory obligations plus 10% of the principal limit. All remaining funds become available after the first 12 months.

Borrowers select a payment plan at closing. The borrower may change this payment plan at any time, and as many time as he/she wishes. When such requests are made, a new payment plan must be determined for any plan involving scheduled payment, and a new line of credit reserve determined for any plan involving a line of credit. A nominal fee of $20.00 to $25.00 is applicable with written notice to the lender.

The loan is closed when the borrower with a credit line pays the loan balance to zero (0) and title is re-conveyed. Open-end credit loans allow for the repayment of some or the entire principal, which the borrower may reborrow at some future date. Closed-end credit loans do not allow the borrower to re-borrower principal that is paid on the loan.

The borrower may also elect to have scheduled payments stopped for a period of time, and then restarted.

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MORTGAGE INSURANCE PREMIUMS

The borrower is charged a Mortgage Insurance Premium (MIP) to offset the risk that the outstanding loan balance may exceed the subject property value when the loan becomes due and payable. The borrower is charged an Initial Mortgage Insurance Premium (IMIP) as prescribed by HUD, which is a percentage of the maximum claim amount, and an Annual Mortgage Insurance Premium (AMIP) as prescribed by HUD, which is a percentage of the outstanding mortgage balance. The AMIP is paid to HUD and added to the mortgage loan balance monthly.

The IMIP is determined by the initial distribution amount: 2% of Maximum Claim Amount.

SERVICING FEE

The borrower may be charged a monthly servicing fee (at the lender's discretion), which may be added to the loan balance each month based on the loan product.

REPAIR SET-ASIDE

The program requires that funds intended for required repairs be set aside at the time the loan is originated. These set-aside funds are subtracted from the principal limit and are not available for scheduled payments or line of credit disbursements. If any set-aside funds remain after all required repairs are completed and paid for, they may be added to the loan balance or sent to the borrower at their request provided there is no history of tax or insurance default on the loan.

PROPERTY TAXES AND HAZARD INSURANCE

Although the HECM program does not require the monthly deposit of escrow funds for the payment of taxes, ground rents, special assessments or hazard insurance premiums, borrowers are responsible for the continued payment of these items.

A borrower's failure to pay these charges constitutes a default. A corporate advance by the lender is made to pay the charges if there is no net principal limit remaining on the loan. The lender must work with the borrower to bring the loan back into compliance by offing a repayment plan. The loan becomes due and payable after all loss mitigation options have been pursued. Any tax or insurance default must be cured **before** an existing HECM may be refinanced with a new HECM.

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