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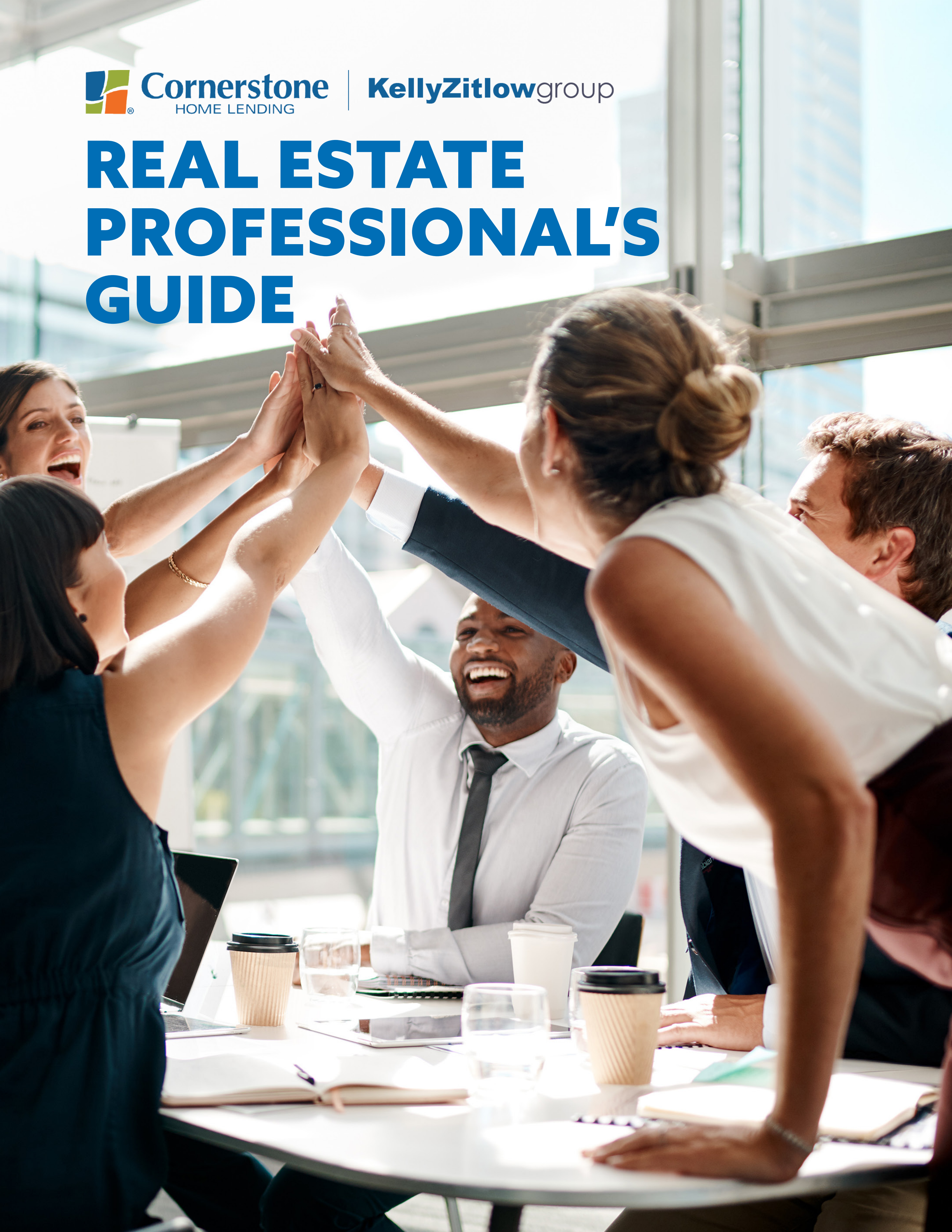
REAL ESTATE PROFESSIONAL'S GUIDE



Many of today's seniors are living in homes that no longer fit their lifestyles: multi-level homes with stairs, big yards that require too much maintenance, or homes that are simply too far away from family and friends. What they want is a new home, but they don't need a new monthly mortgage payment at this stage of their lives.

The Home Equity Conversion Mortgage (HECM) for Purchase could be the solution!

THE HECM FOR PURCHASE MARKETPLACE

CLOSER TO FAMILY

Whether moving closer to children and grandchildren or maintaining relationships with siblings or other relatives, many retirees are searching for the perfect location.

LOW MAINTENANCE LIVING

Many older homeowners are ready to give up the hassle of yard work, exterior home repairs, and other necessary maintenance in favor of a community that provides these services.

QUALITY HOUSING

Quality may mean a better floor plan, such as a single-story residence that eliminates stairs, or simply enjoying the benefits of a more high-end, energy-efficient home.

MORE PURCHASING POWER

By utilizing the HECM for Purchase program, senior homebuyers have found that they can buy more home with less cash out of pocket!

The Golden Opportunity

- Grow to a record more than 13 trillion in Q2*
- Over 10,000 baby boomers turn 62 every day
- By 2030, 20% of the U.S. population will be 65 or older
- Today 1/4 of all homebuyers are above age 60

*Source is deemed reliable but is not guaranteed: NRMLA/Risk Span Reverse Mortgage Market Index

Program ADVANTAGES

- Increased purchasing power, allowing buyers to purchase more home using less money up front
- Additional funds can be used for upgrades or more square footage
- Clients keep retirement assets in place for other important needs
- Establish a tax-free growing line of credit that can be accessed and used as needed, such as paying for increasing taxes and insurance, property maintenance, and unexpected expenses
- Secure a HECM on the existing primary residence to pay cash for a second home or investment property
- Relocate to a home more suitable for retirement and get a nicer home for the money
- FHA-insured, non-recourse loan – the HECM borrower (or his/her estate) will never owe more than the loan balance or value of the property (whichever is less); no assets other than the home will be used to repay the HECM
- Property and title remain in the borrower's name, and they retain full ownership
- Limited income and credit requirements can make it easier to qualify
- The HECM cannot go into foreclosure as long as the borrowers adhere to HUD loan guidelines and fulfill requirements of the loan (must maintain the home and remain current on property taxes, homeowners insurance, and HOA dues)
- Although not required, borrowers can make monthly payments to pay down the loan balance, and there are no pre-payment penalties for paying off the loan in advance

Realtor Benefits

- Sell more homes to the senior segment
  - ◊ Improve your market reach
  - ◊ Attract and capture a new and rapidly growing market of homebuyers
- More shoppers can become buyers
- Buyers can get additional spending power

Note: A real estate agent's commission structure should not be impacted by a client opting to finance a home purchase via HECM for Purchase (rather than traditional financing).

SCENARIO 1

(For illustrative purposes only)

A 70-year-old couple sells their home for $500,000 and purchases a new home for **$350,000** and does not want monthly mortgage payments.

Downsizing without the HECM for Purchase

Sale Price (Old Home)	$500,000
Minus 8% Closing Costs Net Proceeds	$40,000
Net Proceeds	$460,000
New Home Price	$350,000
FUNDS REMAINING	$110,000

Downsizing with the HECM for Purchase

Sale Price (Old Home)	$500,000
Minus 8% Closing Costs	$40,000
Net Proceeds	$460,000
HECM for Purchase Funds	$153,783
FUNDS REMAINING	$263,783

SCENARIO 2

(For illustrative purposes only)

A 70-year-old couple sells their home for $500,000 and purchases a new home for **$700,000** and does not want monthly mortgage payments.

Upsizing without the HECM for Purchase

Sale Price (Old Home)	$500,000
Minus 8% Closing Costs	$40,000
Net Proceeds	$460,000
New Home Price	$700,000
FUNDS REMAINING	$240,000

Upsizing with the HECM for Purchase

Sale Price (Old Home)	$500,000
Minus 8% Closing Costs	$40,000
Net Proceeds	$460,000
New Home Price	$700,000
HECM for Purchase Funds	$305,573
FUNDS REMAINING	$65,573

HECM for Purchase:

QUICK REFERENCE GUIDE

What are the ongoing obligations of the HECM borrower? Making monthly principal and interest payments is NOT an ongoing obligation for the HECM for Purchase borrowers. However, failure to keep up with the required homeowner obligations could cause them to be in default on the loan. The critical borrower obligations and loan requirements include:

- Occupying the home as their primary residence
- Maintaining the property in good repair
- Payment of property taxes
- Payment of homeowners insurance
- Payment of other property charges including, but not limited to, flood insurance, HOA dues, condo dues, etc.

What is the HECM occupancy certification? The Home Equity Conversion Mortgage is ONLY offered for primary residences. Therefore, the homeowners will be required to certify their occupancy of the property (via mail) one year after closing and every year thereafter. This is not an inspection of the property, and the homeowner should not feel that this is a violation of their privacy. The homeowner simply returns the signed certification indicating they still meet the requirements of the program. If the letter is not returned, the servicer may be required to verify by following up with phone calls and visiting the property.

What properties are eligible for HECMs? The following is a list of eligible HECM for Purchase properties:

- Single-family residences
- Two-to-four-unit properties with one unit occupied by the owner
- Planned unit developments (PUDs)
- Townhomes
- FHA-approved condos

The following is a list of **ineligible** HECM for Purchase properties:

- Manufactured homes, modular homes, or mobile homes
- Cooperative units
- Commercial properties
- Working farms
- Investment properties
- Second homes

While most properties will be single-family residences, it would be beneficial for Realtors to memorize these lists. Asking clients up front about their property needs can save you and them time and frustration during the process. For example, being familiar with the approved properties may save borrowers from appraisal and HECM counseling costs if their condo is not FHA approved.

How are borrower principal limits calculated? The initial principal limit (PL) is defined as the maximum amount that is available to the HECM borrower at the time of closing. Keep in mind, access to the full PL may be restricted at closing (fixed rate) or in the first year of the loan (adjustable rate). The PL is calculated using tables, provided by HUD, that consider two factors: the age of the youngest borrower (or eligible non-borrowing spouse if applicable) and the expected average mortgage interest rate (expected rate). Higher ages generally result in higher principal limits. Higher expected rates generally result in lower principal limits. For example, a married couple, ages 76 and 75, with an expected rate that rounds to 5.00% will qualify for 49.2% of their home's value up to the current FHA loan limit amount.

HECM FOR PURCHASE: *Writing the Contract*

When reviewing the contract of sale, real estate agents should take time to review the following areas:

- Contract must include the FHA Amendatory Clause and Real Estate Certification
- Seller concessions are limited
- Regarding seller closing costs, sellers can pay for fees that are reasonable and customary for the market and usually include:
  - ◊ Fees required to be paid under state or local law (transfer taxes)
  - ◊ Fees typically paid by a seller in that locale (owner's policy settlement fee or escrow fee, deed prep, deed record)
  - ◊ Purchase of a home warranty policy by the seller
- The contract should not include personal property; HECM proceeds can only be used for purchasing real property
- The contract cannot contain any rent back options
- The contract cannot include real estate commission if the Realtor is also the buyer (their broker can earn commission; the broker must verify that the Realtor is not earning commission via a letter of engagement)
- When the appraisal is ordered, the final contract including all pages, amendments, the FHA Amendatory Clause, and the Real Estate Certification must be provided to the appraiser
- If the appraisal identifies any repair items, the seller must pay for and complete all repairs prior to the closing of the transaction
- Only primary residence transactions are allowed under the HECM program

THE HECM FOR PURCHASE OVERVIEW

What's different about the HECM for Purchase versus a Traditional Purchase?

HECM for Purchase: Exclusively for homebuyers age 62+

Traditional Purchase: No age restriction (except being of legal age to enter a contract)

HECM FOR PURCHASE ELIGIBILITY REQUIREMENTS & HIGHLIGHTS:

- Must be 62 years of age or older
- Home being purchased must be the borrower's primary residence
- Must maintain the property and remain current on property taxes, homeowners insurance, and HOA dues
- Competitive fixed and adjustable-rate mortgages available
- The amount of money qualified for depends on the borrower's age, home value, and interest rate at the time of the loan
- Limited income and credit requirements
- Borrowers will go through a Financial Assessment to ensure the HECM will be feasible for them and that they will be able to meet the mandatory requirement of maintaining the property and staying current on their property taxes, homeowners insurance, and any HOA dues
- Because the HECM is a non-recourse loan, borrowers will never be personally liable for more than the home's value at the time of sale and will not leave themselves or their families in debt

REPAYMENT REQUIREMENTS:

- **HECM for Purchase:** Using the flexible repayment feature, borrowers can choose to repay as much or as little as they like each month or make no monthly principal and interest payments. The flexible repayment feature makes it easier for a buyer to afford the home they really want, preserve more savings and retirement assets, and improve cash flow. The loan obligations require borrowers to maintain the property and remain current on their property taxes, homeowners insurance, and HOA dues. Loan repayment is required once borrowers no longer live in the home as their primary residence, such as selling the home, passing away or moving into an assisted living facility, or failing to meet the loan obligations.
- **Traditional Mortgage:** Monthly principal and interest payments are required. This builds equity as the loan is paid down.

ELIGIBLE PROPERTIES

- **HECM for Purchase:** Single-family homes; FHA-approved condominiums; townhouses or planned unit developments (PUDs); and two-to-four-unit homes with one owner-occupied unit
- **Traditional Mortgage:** Single-family homes; condominiums; townhouses or planned unit developments (PUDs); two-to-four-unit homes with one owner-occupied unit; manufactured housing; second homes; vacation homes; and investment properties.

PROTECTION AGAINST OWING MORE THAN THE HOME IS WORTH

HECM FOR PURCHASE: Insured by the Federal Housing Administration (FHA), the HECM for Purchase has a non-recourse feature, which means borrowers or their heirs will never owe more than the home is worth when the loan is repaid. The home is the only source of repayment regardless of the loan balance at maturity.

TRADITIONAL MORTGAGE: Most traditional mortgages do not have a non-recourse feature. Since home values can decline, borrowers could owe more than the home is worth.

HECM FOR PURCHASE: BUYER PROFILE

Who is best suited to utilize HECM for Purchase?

HECM for Purchase is best for those who are age 62+ and:

- Are ready to downsize or upsize, move closer to family, move to a low-maintenance community, or finally buy their dream home – and they don't want to take on a required monthly mortgage payment.
- Live on a fixed income; are concerned about being able to afford a new home via a cash purchase or traditional financing; and/or want to avoid tapping into their retirement nest egg.
- Their current home no longer fits their lifestyle – too much maintenance, multi-level living situation, etc. – and they want a new home that's a better fit for this stage of life.
- They want to increase their purchasing power to buy the home they really want and with the amenities they need or desire.
- They want to preserve proceeds from the sale of their home for a cash reserve or other retirement savings.

HECM FOR PURCHASE: QUESTIONS AND ANSWERS

Do older borrowers prefer to purchase single-story homes?
Yes, according to the National Association of Home Builders (NAHB) survey of Housing Preferences of the Boomer Generation, 75% of boomers and 88% of seniors prefer a single-story home.

What accessibility features do older borrowers prefer?
They prefer a home that meets their physical needs. This includes homes that feature: single-story living, ramps, wider doorways, universal design features, etc.

Do older borrowers want to be close to amenities, public transport, etc.? Yes, they typically want to be closer to retail space, a park area, walking/jogging trails, medical care, and public transportation.

Where can I find these buyers?
Most older homebuyers are not aware of the HECM for Purchase financing option. There's a great opportunity for real estate agents to educate clients and potential clients age 62+ on the HECM for Purchase financing option – a strategy that could potentially lead to increased sales and meeting the needs of an underserved market.

Cornerstone HOME LENDING

Call me to discuss your clients' HECM for Purchase options!

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