A New Twist on an Old Product

The HECM for purchase can open the door to opportunity this year

By Joshua Shein

At the start of every new year, it is typical to take stock of the past year, evaluate what worked and what did not and, ultimately, put together a new and improved business plan for a successful and profitable new year — or stay the course if everything is working.

The first step when taking stock is to consider a series of questions about the industry: Is the refinance boom over? Is there room left for more? Will rates continue to rise and erode my refinance volume? Is now the right time to expand my area of focus? Should I cultivate and grow those Realtor relationships that slipped due to my refinance volume?

Only a crystal ball can accurately answer most of those questions, but the response to the last one should be "yes." Now is definitely the time to re-establish and grow your Realtor relationships and referral base. The problem is, with so much competition and so many relationships to cultivate, how do you set yourself apart?

Reaching out to agents with the standard lines about your great rates and fees, fast turn times and industry-best service may get you some attention, but it's doubtful. You are simply selling the same ingredients to the same pie as everyone else.

A new approach

To replace lost refinance business, you need a new pitch and a new opportunity that will get the attention of Realtors and referral partners who are being inundated by originators all looking for purchase business. That's where a Home Equity Conversion Mortgage (HECM) used as a purchase-loan product can help.

The HECM for purchase, or H4P, is a new and innovative way for homebuyers over the age of 62 to use a reverse mortgage to buy a home and help secure their ability to remain in their home and "age in place" well into their latter retirement years.

Chances are if you ask Realtors if they have done an HECM for purchase (or H4P) on any of their recent closings, their responses may range from "no" to "just a few." Either way, they will need a trusted professional to teach them about this new opportunity to help their elder clients. This is when you offer to be a resource, which is a proven way to gain trust, share your expertise and cultivate new referrals.

HECM basics

For those originators who don't know, the HECM is a new and improved Federal Housing Administration reverse mortgage that was revised and updated in 2015. To qualify, borrowers must be 62 years of age or older, the primary occupants of the home, have sufficient equity in their home and be able to afford their property taxes, insurance and normal monthly housing and personal monthly obligations and expenses.

Borrowers who cannot afford their property taxes and insurance, or those who have a history of late payments, may be required to create a Life Expectancy Set Aside (LESA), which will reduce the available equity they can access. The LESA is a reserve of the total annual amount of taxes and insurance for most of the expected life expectancy of the borrower, which then is paid automatically by the servicer.

As with other reverse mortgages, HECM borrowers never make payments as long as they remain in the home and maintain the property, regardless of the value of the home and regardless of the increase of the mortgage balance. A homeowner can remain in a home that is "upside down" and never be forced to leave nor be responsible for any shortfall or deficit on the loan. It is always a nonrecourse loan.

One of the biggest misconceptions about reverse mortgages is that people will lose their homes. The HECM, as it always has been, is simply a mortgage lien like any other. No one else ever owns the home or takes title to the home. Borrowers are simply borrowing money against their home, and instead of making payments each month and the balance going down, they never make a payment and the balance each month goes up.

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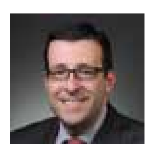

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Purchase with a twist

The H4P presents a unique twist on the traditional HECM reverse mortgage. Instead of senior home-owners needing to pay for their retirement home in cash by accessing large portions or perhaps all their savings and investments, they can put down 25 percent to 50 percent plus closing costs — no seller concessions are ever allowed — and ensure they never need to make another mortgage payment again.

The HECM for purchase is an excellent alternative to making a 20 percent downpayment on a traditional mortgage and making payments for another 30 years. By putting down more money — but still not the entire purchase price — borrowers get the benefit of controlling and guaranteeing their cash flow for housing for their entire retirement.

Consider a soon-to-be-retired couple in their late 60s who still live in the home where they raised their kids. If they have paid off the mortgage and are thinking it is time to downsize and plan for their retirement, and future, they can sell their home and move into a smaller townhouse to remain close to their children and grandchildren.

If this hypothetical couple clears $225,000 on the sale of their current home and purchases the townhouse for $225,000, their options are to use all the proceeds from their previous home and purchase the home in cash, obtain a traditional mortgage with a 10 percent to 20 percent downpayment, or get an H4P loan.

By choosing the H4P loan, they keep an extra $112,500 versus paying with cash. This money can allow them to supplement their retirement income and maintain additional padding for the future. If they budget an additional $500 per month from the extra savings, it will last almost 19 years. Clearly this is an advantage over spending all that money upfront on the home.

In both the all-cash and H4P scenario, there will never be a monthly mortgage payment. This couple can always be sure that this expense will not change no matter how long they live. This helps make their retirement plans stress free.

If these borrowers choose to use a traditional loan to purchase the home, making a 10 percent downpayment, they will pay about $1,000 per month for their mortgage payments for the next 30 years. The difference in savings will allow them to fund those payments for the first 17 years, but they will be responsible for paying the mortgage for another 13 years after that on their own.

Thus, this hypothetical couple will need to continue making mortgage payments, budgeting it into every month's expenses, and then, in their mid-80s, they will have to make sure they have sufficient savings or income to afford to pay the mortgage for more than a decade. An H4P would be less stress and less expense.

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More and more mortgage originators and Realtors around the country are realizing the unique benefits of the H4P for their clients over the age of 62. Many Realtors themselves have expressed interest in the product for their own future planning. If you start to learn how to originate HECM for purchases now, you become the local expert in your area. By adding a new product and a new approach to your marketing and referral conversations, you can increase your business and provide a great service to your clients. ■