

HECM for Purchase Program

Training for HECM counselors

December 18, 2008

Background

- ✓ Allows seniors age 62 or older to buy a new home with HECM loan proceeds
- ✓ Benefits senior because transaction only involves one set of closing costs
- ✓ Created by the Housing and Economic Recovery Act of 2008

Highlights of HECM for Purchase Program

- ✓ Can purchase existing 1- to 4 unit property
- ✓ Property must serve as principal residence
- ✓ Only HECM first and second liens against property
- ✓ Must provide monetary investment at closing from allowable funding source
- ✓ Must occupy property within 60 days

What are eligible property types?

Eligible Properties

- ✓ Same as traditional HECM loans
- ✓ Newly constructed properties must have certificate of occupancy

Ineligible Properties

- ✓ Cooperative units
- ✓ Manufactured housing built before 1976 and lacking permanent foundation
- ✓ Bed and breakfast properties, boarding houses

What is the monetary investment requirement?

- The difference between principal limit and sales price for the property
- Also includes any HECM loan related fees that are not financed or offset by other allowable funding source
- Borrowers may provide larger investment amount in order to retain portion of HECM proceeds for future draws

What are allowable funding sources?

- Borrower may only use their own money or money obtained from sale of assets
- Withdrawal from borrower's savings or retirement account are acceptable.
- No gifts. No personal loans, cash withdrawal from credit cards, bridge loans, subordinate liens, seller financing or any other lending commitments
- Lenders are required to verify source of funds

What funding sources are ineligible?

- Gifts
- Loan discount points
- Interest rate buy downs
- Closing cost assistance
- Builder incentives
- Seller contributions or seller financing
- Credit card advances
- Secured or non-secured loans from another asset (car, home equity)

How to help the client avoid potential pitfalls

- Evaluate the client's financial situation
 - ✓ Does the client have resources for monetary investment?
 - ✓ Is it an allowable source?
- Educate client about homebuying process
- Educate client on obligations
 - ✓ Taxes and insurance
 - ✓ Homeowner association fees
 - ✓ Home maintenance costs

Role of Real Estate Agent

- Who is the agent working for?
 - ✓ Ask agent to disclose information about business relationships
 - ✓ Educate client on role of buyer's agent
 - ✓ Client should consider written agreement

Selecting a Home for Purchase

- Counsel clients to get a home inspection
 - ✓ Evaluates the physical condition: structure, construction, and mechanical systems
 - ✓ Identifies items that need to be repaired or replaced
 - ✓ Estimates the remaining useful life of the major systems, equipment, structure, and finishes
 - ✓ Buyers should be at the inspection to ask questions about the condition and maintenance

What if home needs repairs?

- Required Repairs
 - ✓ Health and safety or structural integrity issues
 - ✓ Must be completed prior to closing by seller
 - ✓ Include in purchase agreement
 - ✓ Buyer cannot put any money into repairs before they own the home

Writing an offer

- ✓ Must state *offer contingent on satisfactory inspection conducted by qualified inspector*
- ✓ Borrower may want attorney to review – increases costs but may be worth it
- ✓ Client may cancel transaction at any time prior to closing
- ✓ May affect earnest money deposit

Discuss closing costs

Standard HECM closing costs plus -

- ✓ Recordation fees
- ✓ Transfer taxes
- ✓ Varies from state-to-state

Other issues

- ✓ Educate client that there is no three day right of rescission unlike traditional HECM

Pay extra attention

- ✓ First time homebuyers
- ✓ Inappropriate source of funds
- ✓ Possible property flipping scam
- ✓ Client being rushed to closing

Questions?