

Home Equity Conversion Mortgage for Purchase Frequently Asked Questions

1. What is HECM for Purchase?

HECM for Purchase allows seniors, age 62 or older, to purchase a new principal residence using loan proceeds from the reverse mortgage.

2. What is the purpose of the program?

The program was designed to allow seniors to purchase a new principal residence and obtain a reverse mortgage within a single transaction by eliminating the need for a second closing. The program was also designed to enable senior homeowners to relocate to other geographical areas to be closer to family members or downsize to homes that meet their physical needs, i.e., handrails, one level properties, ramps, wider doorways, etc.

3. What activities can be performed prior to January 1, 2009?

Lenders may take application but they may not process or perform services that would result in a charge to a prospective mortgagor.

4. Can lenders refer clients, who are interested in a HECM for purchase transaction, to a HUD-approved housing counseling agency before January 1, 2009?

No. Counseling on HECM for purchase transactions will become available January 1, 2009. Counselors need time to adjust to the new provisions

5. Can a lender lock-in the expected average mortgage interest rate on applications that are taken prior to January 1, 2009?

Yes. Lenders choosing to lock-in at initial application will do so at their own risk of knowing that the 120-day clock begins on the day the FHA case number is issued January 1st or later.

6. What property types are eligible?

Existing one-to-four unit properties where construction has been completed and the property is habitable. See ML 2007-06

7. Can a HECM for purchase be used to satisfy outstanding payment obligations associated with a land contract?

Yes, if the property will be used as collateral for the HECM and the mortgage will be held in fee simple, or on a leasehold under a lease for not less than 99 years which is renewable, or under a lease having the remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

8. Can a lender take application on a property that is under construction and not habitable?

No. The lender may only take application once the Certificate of Occupancy or its equivalent has been issued.

9. What property types are ineligible?

- Cooperative units;
- Newly constructed residence where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority;
- Boarding houses;
- Bed and breakfast establishments;
- Existing manufactured homes built before June 15, 1976; and
- Existing manufactured homes built after June 15, 1976 that fail to conform to the Manufactured Home Construction Safety Standards, as evidenced by affixed certification labels (e.g., data plate and HUD certification label) and/or lack a permanent foundation as required in HUD's Permanent Foundations for Manufactured Housing Guide.

10. Are set asides for property charges (i.e., tax and insurance) allowed? Yes
11. If the lender suspects the senior has become involved in a property flipping scam, who should be contacted?

If a lender suspects a senior has become a victim to a property flipping scam, the Processing and Underwriting Division of the local HOC should be contacted.

Complaints may be reported to HUD's Inspector General Hotline at:

HUD Office of Inspector General Hotline, GFI
451 7th Street, SW
Washington, DC 20410
Toll free: 1-800-347-3735
TDD: (202) 708-2451

12. Are gifts an acceptable source of funding?

No. Prospective mortgagors may only use their own money or money obtained from the sale of assets. FHA prohibits the use of loan discount points, interest rate buy downs, closing cost assistance, builder incentives, gifts or personal property given by the seller or any other party.

13. What would be an "allowable FHA funding source" for gap financing of the equity portion?

A withdrawal from the mortgagor's savings or retirement account would be an acceptable funding source.

14. Can prospective mortgagors apply credit card cash advances towards the required monetary investment or closing costs?

No. This would be a violation of 24 Code of Federal Regulations 206.32(a), which requires all outstanding obligations connected to the HECM transaction, purchase or otherwise, to be satisfied prior to or on the date of closing.

15. Are seller concessions allowed?

No. Seller concessions are applicable to forward mortgages only.

16. Is seller financing permitted? No

17. Is the Real Estate Certification required? Yes

18. When purchasing a new principal residence, if the HECM proceeds do not cover the sales price, can part or all of the property's indebtedness be subordinated behind the first and second HECM liens if the existing lien holder is willing to execute a subordinate agreement?

No. All existing liens must be satisfied at the HECM closing.

19. Can prospective mortgagors obtain a secured or non-secured loan from another asset (i.e., car, home equity line of credit, or investment property or second home) to satisfy the monetary investment or closing costs?

No. Consistent with existing policy, bridge loans and other interim financing methods associated with HECM transactions are prohibited, unless the unpaid or outstanding obligation can be satisfied prior to or on the day of closing.

20. Should the lender obtain a credit report for non-borrowing spouses?

Yes. Although one spouse will become the HECM mortgagor, the lender must obtain the credit report for a review of financial obligations, monetary judgments and liens that could jeopardize the HECM lien status/clear and marketable title.

21. Under what conditions may a senior cancel the purchase transaction?

The senior may decide to cancel the purchase transaction at any time prior to the date of closing. If the senior decides to cancel

the transaction, he/she must notify all parties in writing. Where earnest money has been provided, the senior should review the sales contract to determine if the earnest money is refundable. The Federal Reserve Board of Governors should be contacted for right of rescission and Truth in Lending Act guidance.

22. Can the HECM mortgage participate in a rent back/leaseback agreement with the seller?

No. When purchasing a new principal residence, the HECM mortgagor has 60 days to occupy the home. Unlike a forward mortgage, there is an increased risk to FHA when the home is not occupied by the HECM mortgagor. Prior to closing, the HECM mortgagor and seller should agree to a date for physical occupancy of the property and the lender should confirm occupancy prior to their submission of the case binder to the local HOC for endorsement.

23. Are the mortgage proceeds paid to the seller through escrow?

The title company (settlement agent) is responsible for disbursing funds in accordance with State law.

24. Are there special procedures for foreclosure homes that will serve as collateral for a purchase transaction?

No. FHA has sufficient valuation guidelines related to comparable sales and declining markets to address the resale of foreclosed properties. HUD has imposed a standard of accountability to which lenders, sponsor lenders, and loan correspondents will be held is the same as the standard used to impose civil money penalties for program violations, and that standard is one of knowing (actual knowledge) or had reason to know.

25. Does FHA have special eligibility requirements for first-time homebuyers?

No. FHA encourages all first-time homebuyers to meet with a reverse mortgage counselor that offers pre-purchase counseling

to educate themselves on the responsibilities of becoming a homeowner. Prior to signing a sales contract, FHA encourages a home inspection of all properties that will serve as collateral for HECM for purchase transactions. The inspection serves two purposes, to determine the magnitude, if any, of repairs and/or rehabilitation the home as well as helps the buyer to negotiate the purchase price in situation where a home requires repair or rehabilitation.