



# Myths and Realities: Home Equity Conversion Mortgage

As with many financial products, Home Equity Conversion Mortgage (HECM) loans can be complicated and there may be a number of misconceptions about how the product works. Do you know the myths vs. the realities?

## **Myth No. 1: The lender owns the home.**

You will retain the title and ownership during the life of the loan, and you can sell your home at any time (at which time the loan becomes due and payable). The loan will not become due and subject to repayment as long as you continue to meet loan obligations such as living in the home as your primary residence, maintaining the home according to the Federal Housing Administration (FHA) requirements, and paying property taxes and homeowners insurance.<sup>1</sup>

## **Myth No. 2: The home must be free and clear of any existing mortgages.**

Actually, many borrowers use the HECM loan to pay off an existing mortgage and eliminate monthly mortgage payments.<sup>1,2</sup>

## **Myth No. 3: Once loan proceeds are received, you pay taxes on them.**

HECM loan proceeds are not taxed as income or otherwise (though you must continue to pay required property taxes). However, it is recommended that you consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.

**Learn more, call:**

# 800.218.1415

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<sup>1</sup> You must still live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to Federal Housing Administration requirement. Failure to meet these requirements can trigger a loan default that results in foreclosure.

<sup>2</sup> Your HECM loan will accrue interest that together with principal will need to be repaid when the loan becomes due.

## **Myth No. 4: The borrower is restricted on how to use the loan proceeds.**

Once any existing mortgage or lien has been paid off, the net loan proceeds from your HECM loan can be used for any reason. Many borrowers use it to supplement their retirement income, defer receiving Social Security benefits, pay off other debt(s), pay for medical expenses, remodel their home, or help their adult children. You worked hard for this asset and prudence, along with budgeting, should be the proper approach to enjoying proceeds received from your HECM loan.

## **Myth No. 5: Only poor people need HECM loans.**

The perception of the HECM loan as an assist for the “poor” borrower is changing - many affluent senior borrowers with multi-million dollar homes and healthy retirement assets are using HECM loans as part of their financial and estate planning, and are working closely in conjunction with financial professionals and estate attorneys to enhance the overall quality and enjoyment of life.



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