Norcom Mortgage NMLS ID # 71655

Breaking Down HECM Myths

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There are many misunderstandings about Home Equity Conversion Mortgages (HECMs). Something everyone can agree on is that HECMs offer an avenue for older homeowners to use a portion of the equity in their homes to supplement their income in retirement.

You may have heard some other things about HECMs that are misleading. Let's separate fact from fiction.

Myth #1: I won't own my home.

Fact: Just like a regular mortgage, you keep the title to your home. The lender's interest in your property extends only to the balance of your HECM loan.

Myth #2: I won't have anything to leave my children.

Fact: The loan is not due until the last borrower dies, moves out, or sells the home. If you pass away, your heirs can either sell the home or refinance. The HECM lender will receive the amount owed on the loan. In addition, you cannot borrow the full appraised value of your home, and home values have risen steadily in recent years. This creates two ways in which there may be equity for your heirs after the home is sold and the loan is repaid. Please note there is no guarantee that your home's value will stay the same or increase.

Myth #3: I can't sell my home.

Fact: You can sell your home just as you would if you had a regular mortgage. The HECM will be paid off with the proceeds from the sale, and you will receive the remaining funds.

Myth #4: I'll have to pay taxes on the funds I receive from the loan.

Fact: Proceeds from a HECM are usually tax-free, but you should always consult your tax advisor to make sure you understand any tax consequences.

Myth #5: I have to pay off my current home loan before I can apply for a HECM.

Fact: The HECM will pay off your existing mortgage, and then the funds available to you will be based on the equity in your home and amount the program allows you to borrow.

Myth #6: There are restrictions on the way I can use the funds from the loan.

Fact: You can use the proceeds from a HECM any way you wish. Your home may well be your greatest asset, and wise use of these funds can give you greater security in retirement.

Myth#7: I should only consider a HECM as a last resort.

Fact: Rather than considering a HECM as a last-ditch effort to raise retirement funds, financial planners are making it part of comprehensive retirement planning. Uses for HECM funds include paying for long term care, improving cash flow, remodeling your home to allow aging in place, paying off higher interest consumer debt, and delaying the start of Social Security so the monthly benefit amount can grow.

If you have additional questions about HECMs, I'm here to help. Call mme today for more information about this retirement income option.