Home Equity Conversion Mortgages
"Reverse Mortgages"

The reverse mortgage program of the Federal Housing Administration (FHA) of the U. S. Department of Housing and Urban Development (HUD) is known as the Home Equity Conversion Mortgage HECM), and is a way for older people to use the equity in their owned home for daily living expenses. By participating in the program, people can receive money from the built-up equity accumulated by making years of mortgage payments. Borrowers do not have to repay the HECM loan until the home is sold. Several restrictions apply, including those listed below. The borrower must meet each of these requirements:

- Own the home or have a mortgage low enough that the sale of the home would pay it off
- Live in the home and be age 62 or older
- Receive counseling from a HUD-certified HECM counselor
- Have the resources to pay ongoing property taxes and insurance

http://portal.hud.gov/hudportal/HUD?src=/hudprograms/hecm

The Family Bank for Home Mortgages

Intra-Family Loans are loans from one or more family members to others in the family. Written properly, they have been used as a tool to transfer wealth free of gift and estate taxes. Intra-family loans have seen a resurgence in the area of housing finance. Parents and family members with assets can make a loan to younger people at better rates than conventional mortgages or market lending, to buy a first home, make home renovations, etc. Younger family members may make reverse-mortgage-type loans to provide adequate monthly income to aging parents while keeping the home asset in the family.

This type of loan can benefit both the family lender and the family borrower. The borrower can get a lower interest rate loan than from other lenders. These loans offer flexibility in paying back the money since the repayment terms are agreed upon between family members. Loans can be arranged with various re-payment options, such as interest-only payments in the beginning or the ability to temporarily cease payments in the event of a borrower's unforeseen major financial emergency.

Family loans can qualify for the federal tax deduction for home loan interest paid. The lender also gains benefits. Family lenders often can get a better rate of return on their loan then some other investment vehicles, while still staying below the loan interest rate that banks or mortgage lenders charge. Re-payments can offer a steady rate of income over the course of the loan.

Participants in family loans should make sure the home's value is enough to repay the debt if it must be sold. In addition, to get the tax benefits of a normal mortgage and avoid tax consequences, the family loan must include an interest rate that is at least what the government's federal rates are at the time the loan is created. Various types of loans, like short-term loans (e.g. to pay off credit debt), intermediate-term loans (e.g. car loans) and long-term loans (e.g. mortgages) have various rates set by the Internal Revenue Service. If the loan does not include an interest rate at least as high as the applicable federal rate, the IRS may consider the loan a gift requiring gift tax.

Current Applicable Federal Rates for short-term, mid-term, and long-term, with various periods for compounding are available online.
http://www.irs.gov/pub/irs-drop/rr-15-08.pdf

A family loan should be handled like a bank would, with a signed formal promissory note, a deed of trust, and preferably a re-payment schedule. The mortgage or deed of trust is a legal document that provides collateral for the promissory note, and is signed by the borrower promising to repay the loan under certain conditions. Terms in the document may include the interest rate, payment dates and frequency, and penalties for failure of the borrower to meet the terms of the agreement.

A written repayment schedule is way to keep everything on a more formal level and often helps maintain good relations between the family borrower and lender. If the borrower doesn't pay back the loan with interest and fees as agreed upon, the family member lender can foreclose on the property and use the money to pay off the loan. The mortgage should specify the current owner, the property description, and the borrower's responsibility to perform the following:

- Pay principal, interest, taxes, and insurance on time
- Maintain insurance on the property
- Maintain the property

Helping Family Members Buy a Home

Older family members can use the family loan arrangement to help younger members. Experts agree that the best candidates are children who could probably qualify for a regular mortgage. However, by using an intra-family loan the borrowers save on traditional expenses like closing costs, and may be able to have a lower down payment than typical with regular mortgages. With current tighter lending standards, some responsible borrowers cannot get loans because they are self-employed or get commissions and do not have a predictable income, or they do not have a credit history yet.

There are other benefits to family loans, such as lending to family members a bad credit score and the ability to provide loans up to 100% of the purchase price without a down payment. The loan could be a variety of housing needs: a home purchase, refinancing, renovation, or a lien against the

house. For example, the younger family members might use a traditional mortgage for up to 80% of the purchase price, and get a family loan for the down payment as a second lien on the residence.

Millions of Baby Boomers are entering their after-retirement years and many of them own their homes, but do not have enough regular income to maintain them and also buy the necessities of everyday life. Research has shown that most U. S. elders want to stay in their homes – to *age in place*. However, many exist on low fixed incomes like Social Security.

One way to finance their monthly needs is to get a government-insured reverse mortgage that can give them an income in exchange for the estate's repayment with interest after they die, move out or sell. Some seniors take out a home equity line of credit from a bank.   Potential problems with these solutions are high up-front fees, mortgage insurance premiums, and new tighter lending standards. Home equity credit can be hard for seniors to qualify for due to tighter lending standards such as debt-to-income ratio.

Caregiver loans are one name for loans from adult children to parents. A caregiver loan is a reverse mortgage using money from family members, without the bank or mortgage company's costs and rules cited above. The house ownership stays in the family who can ultimately make decisions about the disposition of the house as part of the elders' estate. To be recognized by the IRS as a true family loan it really must be a loan and not a gift. Over the years, the tax code and case law have been woven together to develop guidelines about how to manage an intra-family loan.

Caregiver loans can benefit all family participants. The people making the loan can give the elders a lower interest rate than is current in the loan market, benefitting the elders, but is higher than family members would earn on bank deposits or money market funds. In addition, there could be no up-front fees.

Caregiver loans also offer greater flexibility of disbursements than traditional reverse mortgages, by allowing family lenders and borrowers to send and receive disbursements whenever they want for the life of the loan.

Family members are repaid, depending on their decision about what to do with the property in the event of their parent's death, whether that means choosing to liquidate the home by selling it or assuming an ownership share of the residence.

Often, family members disagree about aspects of caring for aging parents, including medical care, financial matters and responsibility, and living arrangements. Family members may want to or need to drop out of a loan arrangement due to unforeseen circumstances, and someone must oversee the financial aspects such as monthly distribution, paying property taxes, etc.   A formal loan

arrangement can help the borrower respect the need for repayment while still getting better loan terms than from a bank and keeping the loan interest in the family.

The reverse-mortgage type of loans has become so prevalent that one company has recently begun offering assistance to families wanting to set up a caregiver loan. Boston-based National Family Mortgage is an online lending service for loans among between family members. The company specializes in helping families structure, document and register mortgage loans properly. It has specialized in helping parents properly structure loans to family members to buy a home, but because of increasing demand the company has begun offering services for loans from children to aging parents.

Families that are considering Intra-family loans should consult a qualified financial counselor who is familiar with these arrangements.

http://money.usnews.com/money/personal-finance/articles/2011/11/04/borrowing-from-the-family-bank

Additional information is available online.

http://www.nolo.com/legal-encyclopedia/borrowing-from-family-friends-buy-29649.html

http://www.learnvest.com/knowledge-center/whats-an-intra-family-loan-and-is-it-a-good-idea/

https://www.kitces.com/blog/an-efficient-solution-to-implement-intra-family-mortgage-loan-strategies/

http://www.learnvest.com/knowledge-center/whats-an-intra-family-loan-and-is-it-a-good-idea/

http://reversemortgagedaily.com/2015/05/04/lender-launches-caregiver-loan-as-new-reverse-mortgage-alternative/

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/rmtopten
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmhome

https://www.nationalfamilymortgage.com/