HOW A HECM CAN HELP WITH A PAST BANKRUPTCY

One potential area where a HECM can help is where a borrower has had a past bankruptcy but wishes to buy a home, refinance an existing home, or cash out some equity to live on (depending the court permits the borrower(s) to do this). In many circumstances, the use of a HECM may be easier than compared to a traditional forward mortgage.

Home Equity Conversion Mortgage (HECM)

- Home Equity Conversion Mortgages are a Federal Housing Authority loan program and are based on age of youngest borrower and prevailing qualifying interest rates. Depending on rates selected, advances are generally limited to between 45% and 70% of property values and maximum property values are restricted to $636,150.
- Allows access to the funds from a line of credit in a variety of ways
- Let's the borrower have the option to make or not make (for the life of the loan) any periodic mortgage repayment, with no impact on credit score. Annual property charges must always be paid or borrower(s) risk foreclosure
- Has its funds availability insured by the federal government
- Grows the unused line of credit grow annually at the effective borrowing cost
- Allows the borrower(s) to live in the home until the last borrower has left the house or passed away
- Always allows the borrower(s) to own the home and leave the home and any equity left in it to their heirs
- Never makes the borrower(s) owe more on the home than what it is worth, regardless of the size of the HECM. It's a fully non-recourse loan.
- Permit the borrower(s) to convert the line of credit into federally guaranteed monthly cash flow that will pay until last borrower leaves the home
- The proceeds of a HECM are tax free (though always check with your tax advisor!) and may be used for any purpose. The HECM also permits the deferral of any possible tax deduction of mortgage interest accrued on the loan until partial or full payment of the interest charges

	JUMBO	CONVENT'L	FHA	VA	USDA	HECM	HECM for PURCHASE
Waiting period after Chapter 7*	4 years	4 years	2 years	2 years	3 years	**None**	**2 years**
Extenuating Circumstances	Requirements vary	2 years (Death of primary earner)	1 year (Death of primary earner or long term illness)		1 year	**N/A**	**1 year**
Waiting period after Chapter 13*	4 years	2 years	1 year	After all payments	3 years	**None**	**None**
Extenuating Circumstances*	Varies	Varies	1 year of payments and Judge approves	1 year of payments and Judge approves		**1 year of payments and Judge approves**	**1 year of payments and Judge approves**
Reestablished Credit	Varies	At least 12 months of re-established credit and 3 traditional trade lines; some lenders want 3 trade lines of 12 months each. Job stability may be required.				**Underwriter discretion**	**Re-established good credit or no new credit obligations incurred**
Min. Credit Score		620	580	620	640	**N/A**	**N/A**
Income Requirements	Require at least 3-4 times monthly property charges and payments in verifiable income	Require at least 3-4 times monthly property charges and payments in verifiable income	Current limits for FHA debt-to-income ratios are 31% for housing-related debt, and 43% for total debt	Acceptable debt-to-income ratio for a VA loan is 41%	Current limits for USDA debt- to-income ratios are 29% for housing-related debt, and 41% for total debt	**After mortgage, property charges and other instalment debt, borrower must have the minimum VA Residual Income left over for living expenses. Monthly residual can range from $600 - $1,160 depending on region, and family size from 1 to 4+ dependents**	

***From date of discharge**