

HECM for Purchase Updates – What You Can and Cannot Do

While still in the initial implementation phase, some of the benefits are available now and can be offered to existing Mutual clients – specifically:

- Interested Party Contributions up to (not exceeding) 6% of the Purchase Price to be applied to closing costs & prepaids.
- Sellers to continue to pay “common & customary” fees – independent of the 6% IPC
- Sellers to satisfy PACE Liens at Closing – independent of the 6% IPC

Interested Party Contributions (IPC)

Interested parties refer to sellers, real estate agents, builders, developers, mortgagees (i.e. Lender of record – or Mutual), third party originators (i.e. TPO/Wholesale), or other parties with an interest in the transaction.

Interested party contributions (aka concessions or credits) may *only* be applied toward the Borrower’s origination fees, other closing costs including any items Paid Outside Closing (POC) or prepaid items.

Additionally, until the updated Exhibit II: Schedule of Closing Costs & Liens is updated, at Closing, there will be a manual addendum to the Exhibit II that itemizes interested party contributions – a sample is attached here.

Builder/Seller Paid Fees – Common and Customary

Sellers paying common and customary fees – where the cost is placed on/in the Seller side of the Fee screen and will be listed on the Seller side of the HUD on each specific line item.

The documentation requirements remain the same – email from title confirming common & customary.

Purchase Contracts CANNOT Include Inducements

Concessions or credits that tie directly to the purchase price—also known as inducements—are still not permitted. Interested party contributions (aka concessions or credits) may *only* be applied toward the Borrower’s origination fees, other closing costs including any items Paid Outside Closing (POC) or prepaid items.

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the Property.

The documentation requirements requiring amendments to eliminate inducements remains the same. The most commonly encountered is tied to design or upgrade credits/allowances.

Please reach out to your Account Executive with any questions.

Examples of Interested Party Contributions

- Origination Fee
- MIP
- All other closing costs (less counseling fee)
- Prepaid items

Examples of Inducements

- Design credit or decorating allowances;
- Upgrade allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Personal Property;
- Sales commission on the Borrower's present residence (aka departing residence);
- Contributions exceeding 6% of the purchase price;
- Paying off consumer debt;
- Contributions exceeding the closing costs.

Scenario:

If a sales contract lists a credit towards upgrades (flooring, kitchen, and bath upgrades, etc.), this would be considered an inducement, and the contract must be amended with the allowance for upgrades removed.

However, the seller would be permitted to provide an interested party contribution in the form of a credit towards closing costs and prepaids, including origination fee and MIP.