

## HOME EQUITY CONVERSION PLANS

### Introduction

The purpose of this Program Circular is to remind the field of policies in the Supplemental Security Income (SSI) program which apply when an individual receives proceeds from a home equity conversion (HEC) plan. An earlier Program Circular on this topic was issued in August 1984 (No 09-84-0SSI). We are reissuing this information because of a pilot program developed by the Department of Housing and Urban Development (HUD) to encourage lending institutions to offer "reverse mortgages" (a type of HEC). Because of the continuing interest in these plans, we wish to bring the field up-to-date on developments in this area.

HEC plans are designed to allow elderly homeowners to convert the value of their homes into cash, without being forced to leave their homes. Under these plans, the home is either mortgaged or sold to a financial institution (or an individual) in exchange for a regular cash payment or line of credit which the homeowner receives as long as he/she lives in the home. Following is a list of possible HEC arrangements and the SSI policies which apply.

### Reverse Mortgages

Description: Reverse mortgages allow a homeowner to borrow, via a mortgage contract, some percentage of the appraised value of his or her home. The homeowner then receives a periodic payment (or a line of credit) which does not have to be repaid as long as the borrower lives in the home. Some reverse mortgage arrangements involve the purchase of an annuity and are called reverse annuity mortgages (RAM). In most reverse mortgages, the original loan does not need to be repaid until the homeowner dies, sells the home, or moves. The HEC plans connected with HUD through the Federal Housing Authority are reverse mortgages.

Policy: Proceeds from a reverse mortgage are loan proceeds which do not meet the definition of income (SI 00815.350). However, if loan proceeds are retained into the following month, they are evaluated under the resource rules (SI 01110.600). Annuity payments from a RAM are unearned income (SI 00830.160).

### Sale-Leaseback

Description: Under a sale-leaseback, the homeowner transfers title of the home to a buyer (e.g., an individual or financial institution) in exchange for an installment note satisfied by monthly payments. The installment note may bear interest. The buyer, in turn, allows the former homeowner to remain in the home for life (or until the arrangement is terminated) in exchange for rent. The difference between payments on the installment note and the rental cost provides the former homeowner with cash. Under this arrangement, the buyer is responsible for the payment of real estate taxes, major maintenance, and casualty insurance. Some sale-leaseback arrangements involve the purchase of an annuity.

Policy: Proceeds from a sale-leaseback arrangement are treated as the conversion of a resource which do not meet the definition of income (SI 00815.200). However, if the installment note bears interest, the interest is treated under the normal income-counting rules (SI 00830.500). Proceeds from this type of HEC arrangement which are retained into the following month are evaluated under the resource rules (SI 01110.600). If the buyer pays for taxes, insurance, or repairs on the home, the value of these items is not in-kind support and maintenance to the former homeowner. Annuity payments are unearned income (SI 00830.160).

### Time-Sale

Description: Under a time sale arrangement, the homeowner signs a contract to sell his/her home at death, but maintains title to and continues to live in the home. The buyer pays a monthly cash payment to the homeowner and agrees to pay property insurance, taxes, and some

maintenance costs. The contract may call for payment of interest and/or the purchase of an annuity.

Policy: Cash or in-kind proceeds from a time sale contract are treated as conversion of a resource and are not income (SI 00815.200). However, proceeds retained into the following month are evaluated under the resource rules (SI 01110.600). Interest received is unearned income (SI 00830.500) as is an annuity payment (SI 00830.160).

#### Deferred Payment Loans

Description: Deferred payment loans (DPL's) are one-time lump sum loans used to repair or improve a house or to pay property taxes. They are usually offered by a local government housing or community development departments with no repayment due until the homeowner dies, sells the home, or moves.

Policy: Proceeds from a DPL are loans and not income (SI 00815.350). If the cash is retained into the following month, it is evaluated under the resource rules (SI 01110.600).

#### Property Tax Deferral

Description: Under a property tax deferral (PTD) program, a State or local government allows the homeowner to postpone payment of property taxes until the homeowner dies, sells the home, or moves. In effect, the program provides loan advances to pay property taxes. States with a PTD program include California, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Massachusetts, New Hampshire, Oregon, Tennessee, Texas, Utah, Virginia, Washington, and Wisconsin.

Policy: The payment of an individual's property taxes under a PTD program is a loan and not income (SI 00815.350).

#### Use of this Program Circular to Answer Inquiries

You may receive inquiries from individuals and organizations who want to know how receipt of monies through a HEC plan affect an SSI recipient. Copies of this Program Circular may be given to any party interested in the SSI policies which apply when an individual receives HEC proceeds.