Revision Date:
February 1, 2021

Background:
This section provides instructions for evaluating loans as property.

Purpose:
This section is updated for sunset review and information on the treatment of Lines of Credit has been added.

Policy:
A. Exemption Criteria
Loans are exempt and not counted in the property reserve in any month in which they are either:
- Exempt as income per MPG 10.02.03
- Counted as income in the month of receipt because they do not have to be repaid

B. Loans Requiring Repayment
Loans which must be repaid and are not exempt per the criteria above, are included in the property reserve beginning with the month of receipt.

Use the following information on the various loan types to determine if a loan must be repaid.

Commercial Loans
Commercial loans are usually negotiated between two or more individuals and financial institutions such as banks or finance companies and involve formal contracts. These formal contracts usually specify the borrower's promise to pay a designated amount at a specified time upon demand.

When only a portion of the loan must be repaid, for example certain nonexempt student loans, only the portion that must be repaid is considered property in the month of receipt. The remaining portion is considered income and is apportioned in accordance with MPG 10.4.

Personal Loans
Personal loans are negotiated between private parties and are often informal. They may involve verbal or written agreements.

To be considered property for Medi-Cal, a personal loan must be based on an agreement, which contains the following components:
a. The borrower's acknowledgement of an obligation to repay (with or without interest); and
b. Either:
   i. A timetable and plan for repayment (the borrower plans to repay the loan when they receive future income); or
   ii. The borrower's express intent to repay the loan by pledging real or personal property or anticipated income as collateral

Home Equity Conversion (HEC) Plans

HEC Plans allow homeowners to convert the equity in their homes into cash. Since these plans are loans requiring repayment, the proceeds are considered property.

Some HEC Plans may provide that part of the purchase price of the home be used to purchase an annuity payable to the homeowners for life. The payments from these are considered unearned income.

A summary of the most common HEC Plans is provided below. There are many variations of these plans so, each plan must be examined on an individual basis. A copy of the beneficiary's HEC Plan should be imaged in the case.

1. Reverse Annuity Mortgage (RAM)
   RAM HEC Plans allow a homeowner to borrow, through a formal mortgage contract, 60 to 80 percent of the appraised value of the home equity for a specified period. The homeowner receives funds periodically for the duration of the lending period. This type of loan must be repaid.

2. Deferred Payment Loan (DPL)
   The DPL is like a RAM but differs in the following ways:
   - Rather than being used as supplemental monthly income, the proceeds from the DPL are used for some specific purpose, such as payment of real estate taxes, home repairs, or major personal expenses
   - The DPL is received from the lender in one lump sum rather than in periodic payments
   - The DPL is secured by placing a lien on the property, which must be satisfied to sell the property
   - The amount of the loan may be recovered from the estate upon the death of the homeowner

3. Sale-Leaseback
   Sale-leaseback is an arrangement where an investor (buyer) purchases the home from an elderly person (seller) and as part of the sales agreement, leases the home back to the seller. The lease allows the seller to live in the home either for life or for a specified time.

   The buyer usually pays the seller a down payment and monthly installments on an interest-bearing promissory note. The interest on the note is considered unearned income in the month of receipt. If the note can be sold, it is counted as property under MPG 9.9. The buyer is responsible for payment of real estate taxes, major maintenance costs, and casualty insurance. The value of these items is not considered in-kind income because the seller is paying rent to the buyer.

   The seller pays the buyer rent. If the payments on the note are greater than the rental fee, the difference minus the interest portion of the monthly payment will be treated as cash on hand and included in the property reserve.

   Example:
   - Monthly note payment is $800
   - The rental fee is $500
   - The interest portion is $15.

- $800 minus $500 minus $15 = $285 cash on hand

4. Time Sale
   In a Time Sale, an elderly homeowner contracts to sell their home at death. In the meantime, they retain title and right of continued residence in the home. In effect, under this arrangement, the homeowner retains a life estate.

   The buyer usually agrees to pay property insurance, property taxes, and certain maintenance and repair costs, plus a monthly cash amount to the homeowner during their lifetime. Consider these proceeds property conversion whether paid in cash or in-kind.

   Line of Credit
   Line of Credit plans allow a property owner to obtain a certain amount of their current equity. The unused line of credit is not available property since it is still equity in the property and has not yet been separated and converted to cash. Cash proceeds can be withdrawn from the equity all at once, or in smaller amounts and would be considered property in the month received.

   If a line of credit exists against a principal residence, the principal residence remains exempt and the exempt equity would include any amount of the line of credit that has not been withdrawn.

   Example:
   - Principal Residence Market Value = $500,000 (exempt)
   - Line of Credit = $250,000 (remains exempt until withdrawn)
   - Withdrawn Cash Proceeds = $100,000 (property in month received)
   - Unused Line of Credit = $150,000 (remains equity in exempt principal residence)

   If a line of credit exists against nonexempt property, determine the net market value of the property used as security as well as the amount of proceeds drawn out of the equity and what was done with those proceeds.

   Example:
   - Other Real Property Market Value = $300,000 (otherwise countable property as not utilized)
   - Line of Credit = $300,000 (remains equity in the countable Other Real Property until withdrawn)
   - Withdrawal = $300,000 becomes an Encumbrance of Record and was spent on privately paying for LTC prior to application for Medi-Cal
   - $0 Net Market Value of Other Real Property remaining ($300,000 Market Value - $300,000 Line of Credit Withdrawn = $0 Net Market Value of Other Real Property)
   - $0 countable property remaining on proceeds received as it was spent on LTC

D. Verification of Loans

View the documentation to determine if a loan requires repayment. Verifications are:

- Written contracts - The actual formal contract that indicates the repayment arrangement and method of payment
- Verbal contracts - A statement from the borrower and the lender that documents the conditions of repayment existed when the loan occurred.

Verifications must be imaged.

Procedure:
Follow the policies above to determine if a loan is counted in the Medi-Cal property reserve.

References:
MEPM 9D
CCR 50169 and 50483
MEDIL I 20-34

Sunset Date:
This policy will be reviewed for continuance by January 31, 2024.

Approval for Release:

2-5-21

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