REVERSE MORTGAGES

THE OVERVIEW

GRAND AVENUE REALTY & LENDING

LOANGATE

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Overview: Reverse Mortgage

For many homeowners age 62 and over, a reverse mortgage could be an important option for financial flexibility. It can provide a way to access part of your home equity to use loan proceeds for what you want or need, while you retain ownership and continue living in your home. These loans can provide long-term funds to help to meet your ongoing expenses.

A reverse mortgage may not be right for everyone. Your age, the value of your home, and your estate plans are among the factors that can help you determine if this product is right for you. If you are considering a reverse mortgage, it is advisable to consult with a knowledgeable financial advisor or a certified U.S. Department of Housing and Urban Development (HUD) reverse mortgage counselor. The HUD reverse mortgage counseling program and how to find a counselor in your area are addressed later in this guide. You may also want to discuss this decision with family members who can help you weigh your options.

This educational guide—prepared in cooperation with the National Council on Aging (NCOA)—is a general introduction to reverse mortgages. It explains the terminology associated with these loans, presents some basic issues you need to consider, and provides answers to some frequently asked questions. We trust you will find it helpful.

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General Information

Q. What Is a Reverse Mortgage?

A. A reverse mortgage loan is a financial option that lets you tap into the equity you have built in your home. These loans allow you to receive money for the things you need or want, while still living in and owning your home. A reverse mortgage is the opposite of a regular, or forward, mortgage. With a regular mortgage, you take on debt to buy your home. As you make monthly payments and pay off the loan, you can build up equity.

A reverse mortgage allows you to access funds from your home equity by taking on debt while reducing the equity in your home. With a reverse mortgage, there are no monthly mortgage payments. You are responsible for paying property taxes, required insurance premiums, and any home maintenance.

A reverse mortgage also differs from a home equity loan. With a home equity loan you also take on debt. However, with a home equity loan you make ongoing payments to reduce the debt and rebuild your equity through a series of ongoing payments. With a reverse mortgage you do not make monthly payments and therefore you take on debt without rebuilding the equity in your home. Interest accrues on the portion of the loan that is disbursed.

Q. Are There Different Types of Reverse Mortgages?

A. Yes. A Home Equity Conversion Mortgage (HECM) is the most common type of reverse mortgage. HECMs are insured by the Federal Housing Administration (FHA), a part of the U.S. Department of Housing and Urban Development (HUD). They account for 95% of reverse mortgages.[1] HECMs are available with either a fixed rate or an adjustable rate. There are two HECM products, the HECM Standard and the HECM Saver. The HECM Standard has a 2% upfront Mortgage Insurance Premium (MIP) and provides the highest benefit (loan amount). The HECM Saver has a minimal (0.01%) upfront Mortgage Insurance Premium but provides a lower benefit (loan amount).

Occasionally lenders offer other types of reverse mortgages, often referred to as Proprietary Loans. They are not FHA insured. Some may have lower fees but higher interest rates. Others may allow you to borrow a higher initial amount than a HECM mortgage. It is important to compare the costs and features of these loans with HECM loans to decide which is most appropriate for your situation. This guide will primarily focus on the features of HECM loans.

Q. Who Is Eligible for a Reverse Mortgage?

A. To be eligible for a reverse mortgage, you and all borrowers who are co-owners of the home must be age 62 or older. The home must be your principle residence to qualify for a reverse mortgage. Eligible properties include single-family homes, multi-family homes (up to four living units) townhouses, most condominium units, and some mobile homes.

You may need to make repairs to ensure that the house meets minimum property standards. You may be able to use the proceeds from your reverse mortgage to pay for these repairs.

Q. Do I Need to Meet Any Financial Guidelines to Qualify for a Reverse Mortgage?

A. Your lender may conduct a financial assessment to ensure that you are willing and able to meet the obligations of a Home Equity Conversion Mortgage (HECM) loan, including general home maintenance and paying ongoing property taxes and homeowners insurance. The U.S. Department of Housing and Urban Development (HUD) does not have specific income requirements for HECM reverse mortgage borrowers. However, HUD has stated that HECM lenders may now conduct a financial assessment of the applicant as part of the process of qualifying them for these loans. This assessment could include a review of their credit history, income, debts, and cash flow situation. Applicants who do not meet the lender's requirements may have their loan application denied by the lender. This assessment can vary among lenders, depending on the different reverse mortgage products that they offer.

Q. If I Still Owe Money on a First or Second Mortgage, Can I Qualify for a Reverse Mortgage?

A. You may still be eligible for a reverse mortgage depending on the amount you owe on your current mortgage and the value of your home. The funds from the reverse mortgage would first be used to pay off any existing debt you have on the property.

Financials

Q. How Much Can I Borrow?

A. The amount you can borrow depends on:

- Your age
- Type of reverse mortgage you select
- Current interest rates
- Value of your home
- FHA lending limits

There are no limits on the value of a home that would qualify for a reverse mortgage. However, for HECM loans, HUD limits how much you will be able to borrow. The maximum amount is currently set at $766,550 in most areas.[2] These limits are subject to change annually. Typically, increased age, higher home values, and lower interest rates will allow you to borrow more. If there is more than one owner, the age of the younger owner will determine the amount you can borrow.

Q. How Can I Take the Proceeds from a Reverse Mortgage?

A. There are a number of options available to borrowers. Depending upon the loan you choose, you may be able to receive your loan fund as:

- A lump sum payment, where the cash will be available to you immediately
- Equal monthly payments for as long as one borrower lives in the home (Tenure payment plan)
- Equal monthly payments for a fixed number of months (Term payment plan)
- A line of credit that will allow you to draw funds when you need them
- Any combination of these options

It is important to consider which method of payment or combination may be best suited to your situation. In many cases, you can change your payment plan for a fee of $20 at a later time.[3] Your lender will assist you in understanding your options for changing the loan payment plan.

Q. Is There Any Way to Protect Against Rising Costs?

A. If you select a monthly payment plan, the amount you will receive each month will remain constant over time. If you select a line of credit payment plan, the unused portion in your line of credit may increase annually depending on your interest rate at the time.

Q. What Are the Costs Involved in a Reverse Mortgage?

A. The costs associated with taking out a reverse mortgage may include an origination fee, other closing costs, and for HECM loans, an upfront mortgage insurance premium. These upfront costs can be included in the loan, and paid (with interest) when the reverse mortgage becomes due. Borrowers also may pay a monthly servicing fee, and for HECM loans, a monthly mortgage insurance premium on the amount they have borrowed. As of January 2011, borrowers can expect to incur some or all of the following costs when obtaining a HECM reverse mortgage:[4]

TYPE	COST
Origination Fee (if applicable)	Homes worth up to $125,000—flat fee of $2,500. Homes worth more than $125,000—calculation based on 2% of the first $200,000 of your home's value plus 1% of the amount over $200,000. There is a cap on these fees. Currently, HECM origination fees cannot be more than $6,000.
Closing Costs	These third-party costs can include an appraisal, title search and insurance, surveys, inspections, recording fees, mortgage taxes, credit checks, and other fees. On average they may range from $2,000–$3,000.[5]
Mortgage Insurance Premium (MIP)— Guarantees you will receive expected loan advances, and that if you or your heirs sell the home to repay the loan, you will never owe more than the sale price of the home.	Upfront MIP—2% of the value of your home up to the FHA lending limit. (0.01% required on the HECM Saver) Ongoing monthly MIP—the annual rate of 0.5% of the outstanding loan balance.
Lender's Servicing Fee—(if charged) This fee covers the cost of sending account statements, distributing the proceeds, and making sure you adhere to loan requirements such as paying taxes and insurance.	No more than $30 monthly for loans with a fixed rate or with an annually adjusted interest rate. No more than $35 monthly for loans where the interest rate adjusts monthly.

Q. How Does the Interest Work?

A. Interest rates for most reverse mortgages are tied to a financial index and will vary according to market conditions. Some financial institutions offer both fixed- and variable-rate reverse mortgages. With an adjustable rate you may choose to have the rate adjust monthly or annually.[6] Your lender should provide you with the interest rates for the various options and discuss the potential implications of these rates based on your individual circumstances. You may also want to consult with a tax professional to help you decide which option could work best for you.

Interest is charged only on the money you receive. It will accrue based on the time of your withdrawals. For instance, if you take a single lump sum at the start of your loan, all of those funds will accrue interest over the life of the loan. On the other hand, if you have a credit line, interest will accrue for each withdrawal beginning at the time you make the withdrawal. The same would hold true for regular monthly payments.

Q. Are There Any Restrictions on What I Can Do with the Money?

A. You can use the money from your reverse mortgage any way you choose. This could include covering monthly living expenses, making home repairs, or using it to help pay for health care or long-term care expenses. Some of the proceeds of your reverse mortgage can be used to repay any existing mortgage and fees associated with obtaining the reverse mortgage itself. Please consult your personal legal or tax advisor before using the proceeds for the purchase of any financial product.

Q. Am I Able to Use a Reverse Mortgage to Purchase a Home?

A. Yes. The Federal Housing Administration (FHA) has recently approved the use of the proceeds of a reverse mortgage to purchase a home. It works like any other reverse mortgage. Your credit history and current income do not affect whether you will qualify. The amount you may borrow is based on the lower of the sales price or the appraised value of the home, your age, and the interest rates at the time. The option of using a reverse mortgage could provide an answer if you wish to move to a new location or find a home that better meets your current needs. Your lender can explain the details and give you an estimate as to how this might work in your particular situation.

Q. Will the Lender Own My Home?

A. No. The lender issuing the reverse mortgage will not own your home. You retain ownership and can continue to live in your home as long as you meet your borrower responsibilities. You must continue to pay property taxes, maintain and repair your home, and keep your home insured. The lender can require repayment at any time if you do not comply with these requirements.

Q. When Do I Have to Pay Back the Loan?

A. Unlike a traditional forward mortgage or home-equity loan, there are no monthly mortgage payments. The reverse mortgage becomes due when you (or the last borrower):

- Die
- Sell the house or move permanently to a new residence
- Fail to live in the home for 12 consecutive months (e.g., you need to go to a nursing home for extended care)

If there are co-borrowers and one dies, changes permanent residence, or leaves the home for 12 consecutive months or more, the other borrowers can continue to live in and own the home.

Q. What Is the Most I Can Owe?

A. When the reverse mortgage becomes due you will need to pay the amount you borrowed plus interest charges and any service fees. The payment can be made by selling the home, refinancing through a conventional mortgage, or by using other assets.

If you sell the house to pay the loan, any proceeds in excess of what is due on the loan would belong to you. If the house is sold for less than what is due on the reverse mortgage, the FHA will make up the difference to the lender for HECM loans. For example, if your total loan due at the time of payment was $200,000 and your home sold for $175,000, FHA would pay the additional $25,000 to the lender. However, if you do not sell the home and decide to pay the loan with other assets, you will owe the total amount due on the loan even if it is higher than the potential sale price of the house.

Important Considerations

Q. Will This Affect Any of My Other Benefits?

A. The money from a reverse mortgage is not considered taxable income. Payments from a reverse mortgage do not affect regular Social Security or Medicare benefits. However, extra cash from a reverse mortgage may affect your eligibility for needs-based public programs such as Medicaid and Supplemental Security Income (SSI). Your lender and your HUD counselor can help you assess your specific situation. The Web-based service Benefits Checkup (www.benefitscheckup.org) can help older individuals with limited income and resources find out if they may be eligible for benefits programs. Please consult a professional advisor regarding the impact of SSI to your personal situation.

Q. Is the Interest Accrued on the Reverse Mortgage Tax-Deductible?

A. The interest accrues over time and is deductible only at the time that the loan is repaid. Your tax advisor can provide more specific information.

Q. How Will This Affect the Estate I Leave to My Heirs?

A. A reverse mortgage reduces the equity in your home. If you die and there is no other co-borrower, the reverse mortgage becomes due. Your estate will need to contact the lender to determine the time frame they allow for repayment. Your estate must repay the amount of money received, plus interest and service fees. If the home is sold, any proceeds in excess of the loan balance belong to your heirs. If the home is sold for less than the total due on the loan, the FHA will pay the remainder due to the lender. Your heirs will not be responsible for making up the shortfall. However, if the home is retained by your heirs, the full amount of the loan due must be paid, even if it is higher than the potential sale price of the house.

Q. How Do I Know Whether a Reverse Mortgage Is Right for Me?

A. As with any financial product, it is important to educate yourself on how a reverse mortgage works and how it would compare to other options available to meet your personal financial goals. You should also consider issues such as how long you plan to stay in your current home, your ability to maintain the home, and whether you will be able to obtain help at home should you need it at some future time. Reading this guide is a good first step to starting the process of deciding whether a reverse mortgage is right for you.

Continue to get educated about the different types of reverse mortgages, their costs, features, and benefits. A HUD-certified reverse mortgage counselor can also be an important source of information. These independent counselors are not connected to lenders and can help you weigh the pros and cons of a reverse mortgage and its features based on your situation. See the "Additional Resources" section of this guide for additional ways to learn more. Also, consider involving friends or family members in the education and evaluation process. It is helpful to have someone you trust help you to evaluate your options.

A reverse mortgage can be a valuable option for many people, but it is not for everyone. The more you learn, the more you will be able to decide whether it is right for you.

Q. How Can I Compare Products and Features?

A. Once you decide that a reverse mortgage may meet your needs, you can meet with one or more reverse mortgage lenders to learn about the different product features and how they work. You can obtain a listing of lenders in your area that are approved to sell HECM reverse mortgages by visiting the HUD Web site at http://www.hud.gov/ll/code/llslcrit.cfm. You can enter your city or state, check the box marked "HECM," and click on "Submit" to obtain this list.

The government requires that anyone seeking a HECM reverse mortgage receives HUD-approved counseling on the product before submitting an application. You can call FHA at (800) 569-4287 to be referred to a HUD-approved counseling agency in your area that can provide counseling related to reverse mortgages. They can also give you a list of approved lenders upon your request. There may be a charge for HUD-approved counseling.

Q. How Can I Estimate What My Costs May Be?

A. HECM reverse mortgage costs can vary from lender to lender, and change based on the payment options you select. There are several online tools that you can use to estimate how much you may be able to borrow, how long funds may last depending on different payment options, and how much the closing costs of the loan may be. See the "Additional Resources" section of this guide. Your lender and HUD counselor should provide you with charts that will help you make comparisons based on a variety of factors including the loan amount, the payment option you select, interest rates, fees, and how long you stay in the home.

Additional Resources

AARP Foundation

The AARP Foundation provides a great deal of information for consumers related to reverse mortgages. Its Web site, www.aarp.org/revmort, covers many aspects of the topic and includes helpful calculators and a downloadable, 36-page consumer guide entitled *Reverse Mortgage Loans—Borrowing Against Your Home.* You may also order a hard copy of the guide by calling (800) 209-8085.

National Council on Aging (NCOA)

NCOA, www.ncoa.org, is a non-profit service organization committed to advocacy to improve the lives of older Americans. Its Use Your Home to Stay at Home™ initiative is a public-private partnership that encourages the appropriate use of home equity to help older people live at home. Their Web site includes research on trends in the use of reverse mortgages and how their use could be expanded. NCOA's consumer guide: *Use Your Home to Stay at Home: A Guide for Homeowners Who Need Help Now* details the pros and cons of reverse mortgages as tools to help people remain at home, even if they require assistance.

National Reverse Mortgage Lenders Association (NRMLA)

NRMLA's mission is to educate consumers about reverse mortgages and enforce its "Code of Conduct and Best Practices" among lenders. In addition to providing information and guidance to its member lenders, it has established a consumer Web site at www.reversemortgage.org. The site includes a calculator for consumers to estimate the amount they would be eligible to receive from a reverse mortgage, a listing of those lenders that are members of the organization, consumer information and guides related to reverse mortgages, and profiles of buyers of reverse mortgages, with commentaries about their experience.

U.S. Department of Housing and Urban Development (HUD)

The HUD Web site provides helpful information about multiple aspects of reverse mortgages, including a Top Ten HECM FAQs section at: www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm. The site also allows you to search for both reverse mortgage lenders and HUD counselors in your local area: You may also call FHA at (800) 569-4287 toll-free, for the name and location of a HUD-approved HECM counseling agency near you.

Endnotes

[1] "Home Equity Conversion Mortgage: The Most Popular Choice for Reverse Mortgages," Reverse Mortgage Information.org., accessed March 2011 via Internet at: http://www.reverse-mortgage-information.org/99/home-equity-conversion-mortgage-%E2%80%93-the-most-popular-choice-for-reverse-mortgages.php

[2] "FHA Reverse Mortgages (HECMs) for Consumers," U.S. Department of Housing and Urban Development, accessed March 2011 via Internet at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou

[3] Ibid.

[4] Ibid.

[5] *Reverse Mortgage Loans—Borrowing Against Your Home,* AARP Foundation, 2008, http://assets.aarp.org/www.aarp.org_/articles/money/financial_pdfs/hmm_hires_nocrops.pdf

[6] "FHA Reverse Mortgages (HECMs) for Consumers," U.S. Department of Housing and Urban Development, accessed March 2011 via Internet at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou

This guide offers general information and is not a substitute for consultation with an appropriate professional.

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