

Just the FAQs: Answers to Common Questions About Reverse Mortgages

From the National Reverse Mortgage Lenders Association®



Published by



THE NATIONAL REVERSE MORTGAGE LENDERS ASSOCIATION®

The National Reverse Mortgage Lenders Association is a nonprofit trade association, based in Washington, DC, whose mission is to support the continued evolution of reverse mortgages as an important financial option for senior homeowners while educating consumers and lenders about the varied applications of this type of loan. Members sign a Code of Ethics and Professional Responsibility pledging to abide by guidelines that assure fair, ethical, and respectful practices in offering and making reverse mortgages to seniors. You can borrow with confidence from a NRMLA member. Details on NRMLA and reverse mortgages and a state-by-state list of reverse mortgage lenders may be found on NRMLA's Web site at <http://www.reversemortgage.org>.

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Introduction

Consumers are recognizing that traditional retirement tools, such as Social Security, pensions, IRAs and 401(k)s, are not providing sufficient income to help fund everyday living expenses. At the same time, income from dividends is diminishing, and savings accounts and Certificates of Deposit are yielding lower returns. More retirees are recognizing that the home they have lived in for so many years can now take care of them through the use of a reverse mortgage, which allows them to access accumulated equity to fund retirement needs.

Consumers are using reverse mortgages to supplement retirement income, to pay off existing mortgages, to pay for health care expenses, to make home modifications, or simply to establish a cash reserve for emergencies.

Recognizing the value of reverse mortgages, the U.S. Department of Housing and Urban Development, which administers the federally insured Home Equity Conversion Mortgage, recently implemented stronger counseling safeguards and introduced a product called HECM Saver that dramatically lowers upfront costs for consumers.

Despite increased popularity, even some of the most basic facts about reverse mortgages are still misunderstood. A relatively short industry history and rapid product evolution have deluged consumers with information that at times is confusing or inaccurate.

The most common misconception we hear is, 'A reverse mortgage is where the bank gives you some money and then takes your house.' That couldn't be further from the truth. Our mission is to inform consumers about the benefits of reverse mortgages so they can make informed decisions about whether this product makes sense for their own particular situation.

This guide provides answers to the most common questions asked by consumers. The questions are broken into three categories: those appropriate to ask before getting a reverse mortgage; those applicable after getting a reverse mortgage; and those applicable when a reverse mortgage needs to be repaid. Additional information may be viewed on our consumer Web site (<http://www.reversemortgage.org>), which also includes a state-by-state listing of reversemortgage lenders and a calculator that can help estimate how large a reverse mortgage you might qualify for.

A reverse mortgage is a loan that enables older homeowners 62 or older to convert part of the equity in their homes into tax-free cash without having to sell the home, give up title, or take on a new monthly mortgage payment.



Before Getting A Reverse Mortgage

Am I eligible for a reverse mortgage?

To qualify for a reverse mortgage, you must:

- Be at least 62 years old. In the case of a couple or co-owners, both must be 62 if their names appear on the title to the home.
- Own as your primary residence a single-family home, qualified condominium, townhouse, manufactured home, or 1- to 4-family owner-occupied property.

How much money can I get?

This depends on a few factors, including your age, the value of your home, the amount of built-up home equity, and interest rates at the time of origination. Other factors are the type of

reverse mortgage product and particular payment option you select. A calculator that can help estimate how much you can receive under different products and payment options is available at NRMLA's web site (<http://www.reversemortgage.org>), and from most reverse mortgage lenders and counselors.



What are my payment options?

You decide how to receive the money generated by a reverse mortgage. Your payment options are:

- An upfront lump sum payment;
- Line of credit;
- Fixed monthly payments for as long as you remain in your home (or a predetermined, shorter period); or, if you choose,
- A combination of monthly income and line of credit.

Misconception #1

REVERSE MORTGAGES ARE ONLY FOR DESPERATE SENIORS, OR FOR THE "HOUSE RICH, CASH POOR."

INCORRECT.

The reverse mortgage is an excellent financial planning tool that is used by homeowners from all walks of life to enhance their retirement years.

While some have needed a reverse mortgage more than others, the growing popularity of this product is evidence of its benefit in a wide array of financial circumstances.

How much does a reverse mortgage cost? What are the upfront and closing fees?

Many of the same costs that someone pays to obtain a traditional mortgage, or to refinance, apply to reverse mortgages too.

However, in today's reverse mortgage marketplace, many of these fees are being waived or dramatically lowered by lenders. On top of the savings that lenders are passing on to consumers, there is now a lower-cost version of the federally insured Home Equity Conversion Mortgage, called HECM Saver.

Fees typically charged by lenders may include an origination fee, mortgage insurance premium (HECM only), appraisal fee, and certain other standard closing costs, most of which can be financed as part of the reverse mortgage.

What is the Difference Between a HECM Saver and HECM Standard?

HECM Standard refers to the traditional HECM product offered since 1990, whereas HECM Saver was introduced in October 2010. A HECM Standard offers the most money. A HECM Saver offers the lowest costs.

Under the HECM Standard, borrowers are charged a mortgage insurance premium (MIP), equal to 2 percent of the maximum

Misconception #2

YOUR HOME MUST BE DEBT-FREE TO QUALIFY FOR A REVERSE MORTGAGE.

INCORRECT.

Even seniors with an outstanding first mortgage or other debt on their home may qualify for a reverse mortgage. The proceeds of the reverse mortgage, though, must first be used to pay off such debts.

claim amount (lesser of the home value or national lending limit) plus an annual premium thereafter equal to 1.25 percent of the loan balance.

With HECM Saver, the amount of MIP collected by the FHA is must less – 0.01 – plus the annual premium of 1.25%. On a \$250,000 home, potential borrowers pay \$25 in MIP under Saver, instead of \$5,000, which is still what would still be charged under HECM Standard.

However, there is a catch. While HECM Saver has lower upfront costs, a consumer won't get as much money.

Do I need to get an appraisal of my home to get a reverse mortgage?

Yes. Since the value of your home is a factor that determines how much money you can get from a reverse mortgage, an appraisal is required. Normally the lender will order the appraisal, which is paid for by the borrower at the time of application.

Do I need a lawyer to apply for a reverse mortgage?

Legal counsel is not required. However, NRMLA encourages you to seek the advice of a legal, tax, or financial advisor before committing to a reverse mortgage.

Consumer Safeguards

- *Advance counseling by an independent counselor whose job is to review the transaction, answer any questions you may have about reverse mortgages and suggest alternative options.*
- *Limits on the interest rate and origination fee.*
- *A ceiling on the repayment YOU owe—it can never exceed the value of the home, when the property is sold to pay back the reverse mortgage.*
- *Advance disclosure so that you are made fully aware of the cost incurred in obtaining a reverse mortgage.*

Am I required to receive counseling before I get a reverse mortgage?

Yes. Counseling is a very important consumer protection required by law for the federally insured Home Equity Conversion Mortgage. The purpose of counseling is for you to meet with an independent third-party who can review your circumstances and recommend whether a reverse mortgage is the best option, or if there is a better one.

You can be counseled face-to-face or over the telephone from a local HUD-approved counseling agency, or by telephone from a national counseling agency, such as National Foundation for Credit Counseling (866-698-6322), Money Management International (877-908-2227), CredAbility (866-616-3716) and National Council on Aging (800-510-0301). Lenders must provide you with a list of nine counseling options.

Since 2010, HUD has required counselors to pass an exam before they are eligible to meet with prospective borrowers and to meet continuing education requirements, so that they are kept informed about industry developments and product changes. Counselors must also follow a strict set of protocols, which dictate what must be covered during the counseling session and prohibit certain practices.

Misconception #3

THE BANK OWNS THE HOME
AFTER YOU GET A
REVERSE MORTGAGE.

INCORRECT.

You own your home and retain title throughout the life of the reverse mortgage. Once you permanently move out of your home or pass it to your estate, the loan must be repaid.

Are reverse mortgage proceeds taxable income, and can they affect my Social Security or government benefits?

Funds from a reverse mortgage are tax-free; it's your money, not additional income. A reverse mortgage does not affect Medicare or Social Security, but can impact eligibility for Medicaid and Supplemental Security Income (SSI). If you receive a lump sum payment from a reverse mortgage, any amount retained the month after you get it would count as a resource and could affect SSI or Medicaid coverage. To be safe, consult a tax advisor or benefits expert.

Under What Circumstances Should I Not Consider a Reverse Mortgage?

Like any product, a reverse mortgage is not appropriate for everyone. There may be other less expensive options to consider. If you have sufficient income, then a home equity loan or line of credit may be something to consider. If you need to make home repairs, your city or county government may offer special grants or low-interest financing. If you're having problems paying property taxes, check whether a tax deferral program is offered.

Also, if you want to leave your home to your children, then you should consider other options, because in many cases, the home is sold to pay back a reverse mortgage.





After Getting a Reverse Mortgage

Who owns title to my home while my reverse mortgage is outstanding – the bank or me?

You retain title to your home during the period when you have a reverse mortgage, just the same as with a regular home purchase mortgage.

Am I required to pay anything during the course of the reverse mortgage loan?

No. The flow of payments is reversed during the term of the reverse mortgage – the lender pays you. Principal and interest are repaid after the borrower permanently vacates the property. However, you are responsible for keeping up payments on

your homeowner's insurance and property taxes, and maintaining the condition of your home.

Are there any limits on how I can use the funds from a reverse mortgage?

No. Borrowers have used reverse mortgages for a variety of purposes, such as paying health care expenses, supplementing retirement income, financing home repairs or modifications, or visiting friends and family. Others have used reverse mortgages to eliminate expenses by paying off mortgages and credit card debt. Please consider your financial goals and objectives.

What is the interest rate on a reverse mortgage and how is it determined?

With a reverse mortgage, you are charged interest only on the proceeds that you receive. Interest rates are generally calculated from one of two indexes, either the U.S. Treasury Constant Maturity Rate or the London Interbank Offered Rate (LIBOR) depending on the consumer's preference, and priced at a set margin above the index. Historically, interest rates were variable only, but now fixed rate loans are widely available. On variable rate loans, there are caps on interest rate increases. Interest is not paid out of your available loan proceeds, but instead compounds over the life of the loan until repayment occurs.

Misconception #4

WHEN A REVERSE MORTGAGE COMES DUE, THE BANK SELLS THE HOME.

INCORRECT.

When the loan must be repaid, you or your heirs can either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage.



Repayment of the Reverse Mortgage

How much will be owed when my reverse mortgage comes due?

What must be paid at the conclusion of the reverse mortgage is the sum of funds advanced, accrued interest, plus any fees.



In no event will the repayment amount exceed the value of the home, as long as the property is sold to pay back the reverse mortgage. If a decision is made to keep the home, then the pay-off amount would equal the total balance on the account.

What happens if I move out of my house after I get a reverse mortgage?

You may live outside your home for up to 12 consecutive months before the loan must be repaid. In general, a reverse mortgage comes due when the borrower dies, permanently moves out, or sells the home.

What happens when my house gets passed to my heirs?

Once your home passes to your heirs, the reverse mortgage comes due. Your heirs may either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, they get to keep any excess sales proceeds. However, if your heirs choose to keep the home, and pay back the loan using private funds, they will be responsible for paying the full balance, regardless of whether that amount exceeds the home's value.

And most important – Where can I get a reverse mortgage?

Reverse mortgages are offered mostly by private, specialized lenders. We urge consumers to meet only with lenders that are members of NRMLA and subscribe to our Code of Ethics and Professional Responsibility. You can be confident that a NRMLA member will treat you fairly and respectfully.



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