NewRetirement

Is A Reverse Mortgage Right for You?

NewRetirement's Guide to Reverse Mortgages

www.NewRetirement.com
888-411-RETIRE (7384)

Table of Contents

What is a Reverse Mortgage?	3
Are You Eligible For a Reverse Mortgage?	4
A Case Study in Reverse Mortgages	5-6
Finding a Licensed and Reputable Reverse Mortgage Lender	7
Pros and Cons of a Reverse Mortgage and Special Considerations	8-9
Purchasing a Home Using a Reverse Mortgage	10
Frequently Asked Questions	11

About NewRetirement

NewRetirement is a leading destination site dedicated to helping people who are concerned about retirement find the information they need to create a secure future for themselves.

We offer unbiased authoritative information about products and services that can enhance your financial well being. In addition, we can match you to prescreened service providers like reverse mortgage lenders, insurance brokers, mortgage refinance lenders, certified financial planners and other retirement experts.

What is a Reverse Mortgage?

A Reverse Mortgage is a type of loan for homeowners over the age of 62 that eliminates your existing mortgage and turns other equity from your home into cash.

When you secure a Reverse Mortgage, you can use the money from your own home equity while still living in and retaining ownership of your home.

In some ways, a Reverse Mortgage is kind of like borrowing against your retirement savings account or securing an advance on your paycheck. You are borrowing your own money – your own home equity.

However, with a Reverse Mortgage all interest, fees and loan payments are accrued against the home's equity, meaning there are no ongoing out of pocket costs associated with the loan. (Although home upkeep, property taxes and homeowner's insurance must be maintained.)

NO MORE MONTHLY MORTGAGE PAYMENTS

For most people, the biggest benefit of a Reverse Mortgage is that the loan pays off your existing mortgage and eliminates all ongoing monthly mortgage payments.

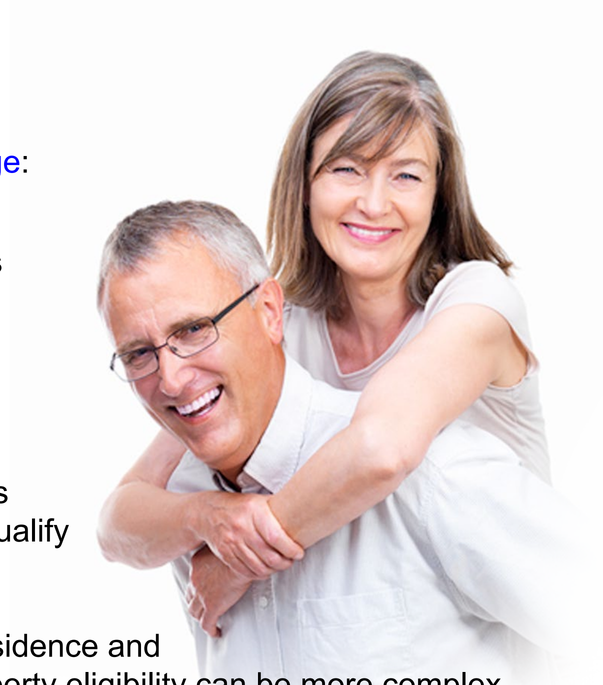
Reverse Mortgage borrowers are not required to make any monthly payments on a Reverse Mortgage as long as they reside in the home and the property taxes and homeowner's insurance remain current. When the borrowers move out of the home or pass away, they or their heirs generally have 6-12 months to sell the home or pay back the Reverse Mortgage.

Additionally, any proceeds from the sale of the home beyond the amount owed on the Reverse Mortgage may be kept by the borrowers or their heirs. Also, since Reverse Mortgage loans are non-recourse, if the home sells for less than the Reverse Mortgage is worth, the borrower isn't responsible for the remainder of the money—the lender takes the loss.

Official Definition
The US Department of Housing and Urban Development offers this definition of a Reverse Mortgage (HECM):

> "The reverse mortgage is used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. A lending institution such as a mortgage lender, bank, credit union or savings and loan association funds the FHA insured loan, commonly known as HECM."

Are You Eligible for a Reverse Mortgage?



There are specific borrower requirements for a Reverse Mortgage:

1. Age Requirements: The primary borrower must be 62 years of age or older
2. Equity Requirements: The property must qualify for enough proceeds to eliminate your mandatory obligations (existing mortgages, liens, or other debt secured by your property) using the Reverse Mortgage. At age 62 this generally means you must have at least 50% equity in the home in order to qualify (the percentage you qualify for increases as you get older).
3. Property Requirements: The home must be your primary residence and of a type approved by the FHA for Reverse Mortgages. Property eligibility can be more complex than age. Reverse Mortgages are currently not available on co-ops, for example, though a change in that requirement is anticipated. Bed & breakfasts and working farms are also ineligible, as are condominiums and manufactured homes that do not meet FHA requirements. As there are many quirks in determining property eligibility, it is best to speak with a loan officer licensed in your state before embarking on the process to make sure that your home is eligible.
4. Other Requirements: Borrowers cannot be delinquent on any federal debt, must successfully complete a HUD HECM counseling session, and be subject to a financial assessment to verify ability to continue to make timely payments on ongoing property charges like property taxes, HOA fees, and homeowner's insurances that are required.

How Much Money Can You Access with a Reverse Mortgage?

The amount of money you can get from a Reverse Mortgage is determined using a calculation that takes into account:

- The age of the youngest borrower or younger spouse if you are married
- Current interest rates
- The value of your property
- Any outstanding mortgages or other liens on your property
- Maximum loan limits as determined by HUD and the FHA

To immediately estimate how much money you might be eligible to receive from your home, you can use NewRetirement's Reverse Mortgage Calculator.

The proceeds from a Reverse Mortgage can be used in any way the borrower chooses.

Some popular uses for the proceeds of a Reverse Mortgage include:

- Improving the monthly household budget
- Health care
- Home repairs
- Outstanding bills
- Paying off debt
- Travel
- Large purchases (car, appliances)
- Long Term Care costs

A Case Study in Reverse Mortgages

Like many retirees, Warren (71) and Carol (67) Foster are facing tough times. Their fixed income is falling behind their expenses – especially as their medical costs rise. They are exploring a Reverse Mortgage on their single family home in Littleton, Colorado.

While every Reverse Mortgage loan will be different, the Fosters offer a fairly typical scenario.

- The current appraised value of the Fosters' home is $230,000.
- They owe $35,000 on their existing mortgage and also $20,000 on a Home Equity Line of Credit, equaling $55,000 in debt against the home.
- They are paying $850 a month on their mortgage and HELOC. Using the fixed rate lump sum option under the current Reverse Mortgage program, the Fosters total loan principle limit is approximately $127,000.
- However, the Fosters can not access the full $127,000. (The liens on the home must be paid with this money and fees are also subtracted.)
- On these amounts, the fees are approximately 6.15% of the loan amount, or $7,800 However, the Fosters can not access the full $151,000. (The liens on the home must be paid with this money and fees are also subtracted.)
- Also, with the current program, the amount the Fosters can access using the lump sum option is restricted to around 60% of their principle limit unless they have mandatory obligations that exceed this.

  After paying the fees and all mortgage obligations, the lump sum fixed rate Reverse Mortgage option enables the Fosters to:

  - Eliminate house payments, reducing expenses by $850 a month

  Access an additional lump sum of cash of approximately $13,700. Another option is to utilize the variable interest Reverse Mortgage line of credit or monthly tenure option. Doing this will enable the Fosters to:

  - Eliminate house payments, reducing expenses by $850 a month
  - Establish a $60,000 line of credit that grows over time

  The amount of this line of credit would be restricted in the first 12 months to approximately $11,000, and the remaining would be available after the first year.

And What About Interest on the Fosters' Reverse Mortgage Loan?

Interest accrues on a Reverse Mortgage loan over time. However, rather than being paid monthly, it is not paid until the Reverse Mortgage is due – which is when you no longer live in your home.

Fixed Rate Interest

With a fixed rate Reverse Mortgage, you must take any available proceeds that remains after paying off the mortgage and fees in cash.

You therefore accrue interest on the total loan amount starting at the very outset of the loan – usually resulting in a larger amount of interest being owed over time

- If the Fosters choose the fixed rate option at a 5 percent interest rate, and then vacate their home in 10 years, then they would have accumulated approximately $38,000 in interest over those years.

- They would therefore owe a total of: $114,750 ($55,000 + $13,700 + $7,800 + $38,000) OR the value of the home at that time – whichever is less.

Adjustable Rate Interest

An adjustable rate Reverse Mortgage offers you the option of taking available money as cash, a line of credit or as lifetime income payments.

If you take a line of credit or monthly income payments, then you only accrue interest on the money that is actually used.

- As all Reverse Mortgages have either annually or monthly-adjustable interest rates, if the Fosters choose the adjustable rate option, then the amount of interest they will owe in 10 years will depend on a number of factors, including interest rate fluctuations and how much of the additional available line of credit proceeds they end up using (initial line of credit $60,000 which grows over time) plus the sum of their original mortgage payoff, closing costs and other fees which would be accruing interest.

Finding a Licensed and Reputable Reverse Mortgage Lender

Here are a few ways to protect yourself from fraud:

- Be sure you are working with a lender who is licensed by The Department of Housing and Urban Development (HUD) and is a member of the National Reverse Mortgage Lenders Association (NRMLA). No other distinction – no matter how official sounding -- is important if they lack these two.

- Secure Reverse Mortgage offers from multiple lenders and be suspicious of any sizable discrepancy in interest rates, fees, loan payments and total costs.

- Be wary of any lender who pressures you to secure a loan.

- Lenders are not supposed to encourage you to use your Reverse Mortgage proceeds to buy annuities, investments, home repair or other services – in some states this practice is illegal.

NEWRETIREMENT PRESCREENS LENDERS FOR YOU

NewRetirement has always scrupulously checked the licensing, business practices and memberships of Reverse Mortgage lenders.

We only refer potential borrowers to brokers who:

- Are licensed by the Department of Housing and Urban Development (HUD)
- Adhere to the National Reverse Mortgage Lender Association (NRMLA) guidelines for best practices
- Have a clean record with the Better Business Bureau
- Are verified as reputable by at least two industry references

For More Information
For more information, please see NewRetirement's Reverse Mortgage Section.

You can also call us toll free at
888-411-RETIRE (7384)
or visit our Contact Us Page.

Pros and Cons of a Reverse Mortgage and Special Considerations

Key Benefits of a Reverse Mortgage

A Reverse Mortgage can offer many benefits to a homeowner.

The main advantage of Reverse Mortgages is their extreme flexibility. Reverse Mortgages have very few restrictions on how you receive and use the money.

With a Reverse Mortgage you:

- Stay in Your Own Home: A Reverse Mortgage enables you to live in your home for the rest of your life – no matter how long you live -- without having to deal with the financial burden of monthly mortgage payments. Upkeep, property taxes and homeowner's insurance must be maintained on the home.

- Eliminate All Monthly Mortgage Payments: A Reverse Mortgage eliminates all existing monthly mortgage payments

- Have Options for Accessing Your Equity: If you have sufficient equity, you can choose to receive the money from a Reverse Mortgage in a lump sum, as a line of credit, or in a series of monthly payments for as long as you live in the home.

- Are Insured: Reverse Mortgages are insured by the federal government, which guarantees that you will continue to receive your money even if the lending institution you set the Reverse Mortgage up with goes out of business.

- Can Use Proceeds in any Way: There are no restrictions on how you use the money from you Reverse Mortgage.

- Will Not Owe Additional Funds: With a Reverse Mortgage you will never have to payback more that the home's value at the time the loan is repaid, even if the amount of money you have received from the Reverse Mortgage is greater than the home's current value.

Pros and Cons of a Reverse Mortgage and Special Considerations

Disadvantages of a Reverse Mortgage

Like any product, a Reverse Mortgage is not without its disadvantages.

- Fees: Reverse Mortgage fees are generally higher than those in a traditional mortgage, in part due to the required FHA mortgage insurance premium, which protects the bank from losses should the home sell for less than the Reverse Mortgage is worth.

- Fees on a Reverse Mortgage generally average about 6.1% of the maximum loan amount. However, most fees come out of the Reverse Mortgage proceeds. The only out of pocket fees are the mandatory Reverse Mortgage counseling and FHA appraisal costs, the amounts for which vary based on your location.

- Estate Issues: Many potential Reverse Mortgage borrowers are also concerned about reducing the size of their estate. With a Reverse Mortgage you are using money that was stored as home equity in much the same way you might use money from savings.

- However, you can still leave your home to your heirs and they will have the option of keeping the home and refinancing or paying off the Reverse Mortgage or selling the home if the home is worth more than the amount owed on it.

- Special Considerations: You will also want to be careful about a Reverse Mortgage if you are currently eligible for Medicaid or other government assistance program or fit other criteria discussed below.

SPECIAL CONSIDERATIONS

It is important to note that potential borrowers in certain situations are likely to be poor candidates for a Reverse Mortgage. Evaluate a Reverse Mortgage particularly carefully if:

- You plan to move in the next two years: Selling the home in less than two years will generally give the borrower insufficient proceeds to make the Reverse Mortgage worthwhile.

- Your spouse is not on the title: If one spouse is not on the title and the titleholder were to suddenly pass away or need to move to an assisted living facility, the Reverse Mortgage would immediately come due, and the surviving spouse would be forced to immediately repay the Reverse Mortgage, refinance into a traditional mortgage, or sell the home.

- The proceeds are simply for one large purchase: Because Reverse Mortgage fees can be high, it may be advisable to consider more traditional sources of financing if you only want to use the proceeds for one large purchase (such as a car).

- You wish to purchase an annuity product: The money from a Reverse Mortgage can be annuitized -- taken in the form of lifetime monthly payments. As such, borrowers are generally advised against purchasing other annuity products with their Reverse Mortgage proceeds since this can result in duplication of fees and closing costs.

- You depend on or plan to apply for Medicaid: While it is possible to take out a Reverse Mortgage without losing your Medicaid eligibility, the distribution of the proceeds must be closely controlled. Talk to your loan officer to make sure that a Reverse Mortgage will not cause you to lose your eligibility for Medicaid or other needs-based financial assistance you benefit from.

Purchasing a Home Using a Reverse Mortgage

HECM FOR PURCHASE:

A HECM FOR PURCHASE allows the borrower to use a Reverse Mortgage to purchase a home using a Reverse Mortgage instead of a more traditional mortgage. The borrower still makes no mortgage payments for as long as they remain in the home. A HECM FOR PURCHASE is a great way for seniors to purchase a new home without the need to qualify for or make the payments on a traditional mortgage. Downsides, however, include a large down payment on the new home relative to other types of traditional mortgages. Please contact a loan officer for more information

WAYS TO ACCESS YOUR REVERSE MORTGAGE MONEY

- **Payoff Your Existing Mortgage:** If you owe anything on your home, then a Reverse Mortgage must be used to pay off your existing mortgage. This is a key benefit to a Reverse Mortgage since it eliminates your traditional monthly mortgage payments.
- **Cash:** The HECM Fixed Rate Reverse Mortgage enables eligible home owners to take out some cash, in a lump sum, from their home equity.

  This cash can be used for ANY purpose. Although you make no payments, interest charges accrue to the total loan amount every month you carry the Reverse Mortgage. Therefore, total size of your loan will increase over time, though the total amount owed can never exceed the value of your home.
- **Monthly Income:** Opting to receive monthly income from a Reverse Mortgage is similar to purchasing an annuity.

  You can usually opt for "Tenure" or lifetime option for the monthly income. However, some lenders can also offer "term" options. A term option means that you will receive monthly income for a predetermined amount of time. With the term option you would likely receive a higher sum of money each month than you would receive with a lifetime or tenure option. To determine what income you could receive with a term option, contact a lender.
- **Home Equity Line of Credit:** A credit line is money that you have available for use on anything at anytime. A credit line differs from cash in that you only accrue interest charges on the money that you use, not on the amount available to you.

  For example, if you had $50,000 available to you with the cash option on a Reverse Mortgage, you will have $50,000 available to you as a line of credit. The difference is that if you only wanted to spend $10,000 during the first year of your Reverse Mortgage, you would only accrue interest on the $10,000, not on the $50,000 available to you. The total loan would grow more slowly than a lump sum option. In addition, the credit balance available should increase monthly for the life of the loan since it will be earning interest.

  A credit line is the most popular and in most cases the most cost efficient option for receiving a Reverse Mortgage loan because you choose how much money to take and when you want it. Interest is only paid on the costs of the loan and the amount you've taken out while the balance available continues to grow.

  You cannot establish a line of credit on a Fixed Rate reverse Mortgage.

Frequently Asked Questions

Who is eligible for a Reverse Mortgage?
Anyone who owns an FHA approved home in the United States who is over the age of 62 is eligible for a Reverse Mortgage if they have enough equity in the property to qualify.

I am 65, but my wife is 55. Can we still take out a Reverse Mortgage?
Yes. However, your loan amount will be determined by the age of the youngest spouse which may mean that less money is available to you.

So the bank owns my home, right?
No. At no point in a Reverse Mortgage does the bank or lending institution own the home. Instead, the bank will hold a lien on the home, just as if you had gotten a traditional mortgage. When the borrower passes away or otherwise terminates the Reverse Mortgage, the heirs or estate generally have a year to pay back the Reverse Mortgage plus the interest accrued.

Do my heirs have to sell the home when the Reverse Mortgage is due?
No. Heirs to a home in a Reverse Mortgage have several options, including paying off the Reverse Mortgage in cash, refinancing the Reverse Mortgage into a traditional mortgage, and selling the home. In addition, if the home is sold for more than is owed on the Reverse Mortgage, the proceeds go to the heirs.

If my home sells for less than the Reverse Mortgage is worth, will the bank go after my heirs?
No. A Reverse Mortgage is a non-recourse lien on the property, not on the borrower. As such, if the home is sold for less than the Reverse Mortgage is worth, the bank will take the loss. The borrower's heirs are not responsible.

For more frequently asked questions, please see the NewRetirement Frequently Asked Questions page

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NewRetirement Inc.
1933 Davis Street, Suite 205
San Leandro, CA 94577

www.NewRetirement.com
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