Your Reverse Mortgage Information Brochure

Is a Reverse Mortgage Right for You?

Reverse mortgages are a unique type of loan that lets you convert the accrued equity of your home into usable funds.

Home Equity Conversion Mortgages (or HECMs) are a reverse mortgage insured by the Federal Housing Administration (FHA) under the U.S. Department of Housing and Urban Development. Because HECM reverse mortgages are regulated by the government, they are subject to specific rules and limits, many of which are designed to protect the borrower, such as counseling, financial assessment and more.

A Reverse Mortgage Can Be a Golden Opportunity – And Assist With:

- **Healthcare Costs**
  Reverse mortgage funds can help you pay for your medical expenses.
- **No Monthly Mortgage Payments**
  Continue paying your taxes and insurance and eliminate your monthly mortgage payments for the life of your loan.
- **Home Improvement**
  A reverse mortgage can help fund improvements and repairs to your home.
- **Supplemental Funds**
  Find out how a reverse mortgage can supplement your retirement income.
- **Life's Extras**
  With a reverse mortgage, you can have the funds to enjoy your favorite hobbies.
- **Help for Family Members**
  A reverse mortgage can provide funds to help with other loved ones' needs.

What is a Reverse Mortgage?

A reverse mortgage enables homeowners 62 & older to convert home equity into tax-free cash without selling their home. A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The equity that you built up over years of making mortgage payments can be paid to you.

However, unlike a traditional home equity loan or second mortgage, HECM borrowers do not have to repay the HECM loan until the borrowers no longer use the home as their principal residence or fail to meet the obligations of the mortgage. You can also use a HECM to purchase a primary residence if you can use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

- You do not give up title to your home.
- You make no monthly mortgage payments if you occupy your home as your primary residence, maintain your property, and remain current on the property taxes, homeowner's insurance and HOA dues.
- No prepayment penalties.
- Although the loan is not due and payable until you permanently move out of the home, it can be paid off at any point without prepayment penalties.
- There is no time limit to how long the homeowner(s) may remain in the property. If one or both homeowners remain in the home as the primary residence and remain current on the property taxes, homeowner's insurance and HOA dues, neither you nor your spouse will be required to leave or sell the home.
  - Your home does not need to be free and clear. Elimination of the current mortgage is one of the most common reasons seniors apply for a reverse mortgage.
    - You, or your heirs, retain 100% of the remaining equity upon the sale of the home.

Qualifications

The concept of a reverse mortgage originated in the mid 1960's. In 1989, recognizing the incredible financial benefits this program offered, HUD was asked to take control of the program, eliminate some of the risks and insure the loans.

To be eligible for a reverse mortgage, borrowers must meet three essential requirements:

- Be at least 62 years of age
- You must live in the home as your primary residence. A reverse mortgage cannot be used for a second home or investment property.
- You must have paid off much or all your traditional mortgage.

In addition to the three essential requirements above, you'll also have to meet several other guidelines to qualify for a reverse mortgage.

- **The home maintenance must be up-to-date.** After you apply for a reverse mortgage, your home will be appraised. During this process, the appraiser will note any deficiencies in the condition of your home that require repair. Typical deficiencies identified in an appraisal include: peeling paint, roofing problems, inoperable heating/air-conditioning systems, broken windows, missing handrails and inadequate electrical systems. While most repairs (and all major repairs) will need to be completed prior to closing, sometimes the lender can allow a set-aside to help pay for the cost of repairs. With a set-aside, a portion of your loan proceeds will be held to cover these costs.
- **You must be financially capable of maintaining your home.** As the homeowner, you will still be responsible for paying your homeowner's insurance and real estate taxes and making home repairs.

The Federal Housing Administration (FHA) requires a financial assessment to determine homeowners' willingness and capability to remain current on their obligations and ensure they qualify. During this assessment, we will review your credit history, analyze your income and compare it with your expenses. Potential borrowers who come up short financially may be able to set money aside from their reverse mortgage to cover those future expenses.

- **Your type of home must be eligible.** Single family homes and two-to-four unit homes qualify if one unit is occupied by the borrower. Condominiums that meet the U.S. Department of Housing and Urban Development's FHA approval requirements also are eligible.

Home Equity Conversion Mortgage (HECM) For Purchase

1ST REVERSE MORTGAGE USA®

Home Equity Conversion Mortgage for Home Purchase

Did you know senior borrowers age 62 and older can use a Home Equity Conversion Mortgage (HECM) to purchase a home? Many senior borrowers have heard about the benefits of paying off an existing mortgage utilizing a reverse mortgage. However, many are still unaware that they can also purchase a new home by combining a reverse mortgage with a down payment. This enables senior borrowers to purchase a new home without having to worry about making monthly mortgage payments (borrowers must remain current on property taxes, homeowner's insurance and HOA dues)! The HECM for home purchase also has minimal income and credit requirements, has many consumer safeguards, is FHA-Insured and HUD regulated!

Purchasing a home with a reverse mortgage is very like purchasing a home with a conventional mortgage.

What is the HECM for Purchase (H4P)?

A Home Equity Conversion Mortgage (HECM) for Purchase is a reverse mortgage loan that allows homeowners age 62 and older to buy a home using a larger down payment to build the necessary equity in the home rather than using all their available assets.

Purchase a New Home with absolutely No Monthly Payments*

What is a Home Equity Conversion Mortgage for Purchase (H4P)?

The H4P program allows buyers to combine a down payment with loan proceeds to purchase a new home and not make a loan payment* as long you they live in the home.

H4P can increase your purchasing power, and make it easier to afford the home you want. The most important feature of this type of loan is that there is NO personal financial liability for the buyer(s), their heirs, or their estate for any loan balance that exceeds the value of the home when it is being sold to repay the loan.

H4P Eligibility Requirements Set by the Federal Government

- You must be at least 62 years old. (This applies to all co-owners listed on the home's title)
- The home you are buying must be your primary residence and must meet FHA/HUD guidelines. Eligible properties are single-family homes and FHA- approved condominiums.
- You must have your down payment or "required investment" from an allowable source. While certain restrictions apply, these are generally funds you have had for at least 90 days or the sale of an asset that you already own. The most common sources of the down payment money are proceeds from the sale of a current home or money the buyer has in a checking, savings, CD, retirement or investment account.

Using the Home Equity Conversion Mortgage (H4P)

Home Equity Conversion Mortgages/Reverse Mortgages are normally used by Seniors to remain in their homes while drawing money from their home.

- Seniors age 62 and over buying a home as their primary residence make a down payment and then use a Reverse Mortgage to finance the remaining purchase price.
- No monthly payments are required*; interest accrues on the mortgage over time and balance is paid when the house is sold. Just as with a traditional mortgage, any remaining equity at the time of sale goes to the homeowner or his or her estate.

Purchasing seniors can typically borrow between 50 and 60 % of the sales price, up to the maximum HECM FHA Lending Limit. Loan to Value is determined by the age of the youngest borrower.

Reverse mortgages are incredibly flexible borrowing tools. Seniors can choose to borrow the maximum allowed at closing or borrow less and leave a portion of the loan in a line of credit for future use. Interest is only charged on the funds drawn like a traditional Home Equity Loan. Money not drawn in the line of credit is guaranteed to grow at the same adjustable interest rate that is being charged on the line of credit, even if the home value drops.

Seniors that are retired may have trouble meeting the new underwriting requirements for regular mortgages, which are primarily based on income and not assets; while reverse mortgages have much easier income and credit requirements. A reverse mortgage allows seniors the option buy a different home to better suit their physical needs, be closer to family, or move to a warmer climate.

Many seniors will use the proceeds from the sale of their previous home or their investments assets to purchase a home. By using a Reverse Mortgage for Purchase to buy a home, seniors can reduce the amount of their down payment and help maximize funds in their investment accounts.

**Borrower is responsible for property taxes, homeowner's insurance, HOA and property maintenance for the loan to remain in good standing. A HECM is a home-secured loan that must be repaid upon default or a maturity event, such as when the home is sold, all homeowners have passed away, or the last surviving borrower no longer lives there as their primary residence.*

Comparing three ways to purchase a new home

	ALL CASH	TRADITIONAL MORTGAGE	H4P
Why?	• Buyer owns the home free and clear	• Option to make a minimum down payment and limit upfront investment • Builds equity as they pay down the loan	• No monthly payments of principal and interest* • Gives the buyer the flexibility to get the home they want • Allows them to keep more assets to use as they wish
Why Not?	• Ties up a large portion of their money	• Monthly mortgage payments diminish the buyer's cash flow	• The buyer's equity in the home decreases as the loan balance increases over time due to interest • When the loan comes due, the buyer or their heirs must pay off the loan to keep the home

**Borrower is responsible for property taxes, homeowner's insurance, and property maintenance for the loan to remain standing. A HECM is a home-secured loan that must be repaid upon default or a maturity event, such as when the home is sold, all homeowners have passed away or the last surviving borrower no longer lives there as their primary residence.*

Benefits of a Reverse Mortgage

The main advantage of a Reverse Mortgage or Home Equity Conversion Mortgage (HECM) is that you can eliminate your traditional mortgage payments and/or access your home equity while still owning and living in your home. Given the right set of circumstances, a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) can be an ideal way to increase your spending power and financial security in retirement

Key advantages and benefits of a Reverse Mortgage/ Home Equity Conversion Mortgage (HECM) include:

- Not Solely Based on Credit Score or Income

One of the most advantageous benefits of a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) is that there are limited income and credit score requirements. Under the New Financial Assessment Rules, you will need to demonstrate a capacity to continue paying taxes and insurance on the home.

- Flexibility

The Reverse Mortgage/Home Equity Conversion Mortgage (HECM) is a tremendously flexible product that can be utilized in a variety of ways for a variety of different types of borrowers. Households who have a financial need can tailor the product to de stress their finances. Households with adequate resources might consider the product as a financial planning tool. HOA dues) and – in many cases – you can also get access to money to use for any purpose.

- No Downside

With a Reverse Mortgage/Home Equity Conversion Mortgage (HECM), you will never owe more than your home's value at the time the loan is repaid, even if the Reverse Mortgage/Home Equity Conversion Mortgage (HECM) lenders have paid you more money than the value of the home. This is a particularly useful advantage if you secure a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) and then home price declines. typically tax-free, whether you receive it as fixed income or in a lump sum.

- **Low Risk of Default**

Unlike a home equity loan, with a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) your home can not be taken from you for reasons of non-payment – there are no payments on the loan until you permanently leave the home. However, you must continue to pay for upkeep and taxes and insurance on your home.

- **No Downside**

With a Reverse Mortgage/Home Equity Conversion Mortgage (HECM), you will never owe more than your home's value at the time the loan is repaid, even if the Reverse Mortgage/Home Equity Conversion Mortgage (HECM) lenders have paid you more money than the value of the home. This is a particularly useful advantage if you secure a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) and then home price declines. typically tax-free, whether you receive it as fixed income or in a lump sum.

- **No Restrictions**

How you use the funds from a Reverse Mortgage/ Home Equity Conversion Mortgage (HECM) is up to you – go traveling, get a hearing aid, purchase long term care insurance, pay for your children's college education, or simply leave it sitting for a rainy day – anything goes.

- **Flexible Payment Options**

Depending on the type of loan you choose, you can receive the Reverse Mortgage/Home Equity Conversion Mortgage (HECM) loan money in the form of a lump sum, monthly payments, credit line or some combination of the above.

- **Home Ownership**

With a Reverse Mortgage/Home Equity Conversion Mortgage (HECM), you retain home ownership and the ability to live in your home. As such you are still required to keep up insurance, property taxes and maintenance for your home.

- **Federally Insured**

The Home Equity Conversion Mortgages (HECM) is managed by the Department of Housing and Urban Affairs and is federally insured. This is important since even if your Reverse Mortgage/Home Equity Conversion Mortgage (HECM) lender defaults, you'll still receive your payments.

- **Can Preserve Your Wealth**

Depending on your circumstances, there are a variety of ways that a Reverse Mortgage/Home Equity Conversion Mortgage (HECM) can help you preserve your wealth. Some financial planners are recommending Reverse Mortgage or Home Equity Conversion Mortgages (HECMs) to:

- **Preserve and increase the value of your home equity**

  If you take your loan amount as a Home Equity Line of Credit, then this Reverse Mortgage/Home Equity Conversion Mortgage (HECM) Line of Credit grows annually. This locks in your current home value, and your Reverse Mortgage/Home Equity Conversion Mortgage (HECM) line of credit over time might be larger than future real estate values if the market goes down.

- **Maximize wealth**

  Personal finance can be complicated. You want to maximize returns and minimize losses. A Reverse Mortgage/Home Equity Conversion Mortgage (HECM) can be one of the levers you use to maximize your overall wealth.

Reverse Mortgage Process

Learn how reverse mortgages work, requirements and the easy process to start a reverse mortgage/ Home Equity Conversion Mortgage (HECM).

1 Reverse Mortgage Awareness

Homeowner learns about the Reverse Mortgage program.

2 Reverse Mortgage Action

Homeowner can seek additional information and documentation by contacting their Local Lender or Reverse Mortgage loan officer, HUD, Fannie Mae, AARP, NCOA (National Counsel of Aging) or the National Center for Home Equity Conversion.

3 Reverse Mortgage Counseling

Homeowner seeks counseling from a local HUD-approved counseling agency, or a national counseling agency, such as AARP, National Foundation for Credit Counseling, or Money Management International. Counseling is required for all reverse mortgages and may be conducted face-to-face or by phone.

By law, a counselor must review (i) options, other than a reverse mortgage, that are available to the prospective borrower, including housing, social services, health and financial alternatives; (ii) other home equity conversion options that are or may become available to the prospective borrower, such as property tax deferral programs; (iii) the financial implications of entering into a reverse mortgage; and, (iv) the tax consequences affecting the prospective borrower's eligibility under state or federal programs and the impact on the estate or his or her heirs.

4 Reverse Mortgage Application

Homeowner fills out loan application and selects payment option: fixed monthly payments, lump sum payment, line of credit, or a combination of these. Lender discloses to homeowner the estimated total cost of the loan, as required by the federal Truth in Lending Act. Lender collects money for home appraisal. Homeowner provides lender with required information, including photo ID, verification of Social Security number, copy of deed to home, information on any existing mortgage(s) on property, and counseling certificate.

5 Reverse Mortgage Processing

Reverse Mortgage Lender orders appraisal, title work, lien payoffs, etc. An appraiser comes to your home. The appraiser assigns a value to the home and determines the physical condition of the property. If the appraiser uncovers structural defects that require repair, the homeowner must hire a contractor to complete the repairs after the Reverse Mortgage closes.

6 Reverse Mortgage Closing

Following approval, closing (signing) of loan is scheduled. Closing papers and exact figures are prepared. Closing costs are normally financed as part of the loan.

7 Reverse Mortgage Disbursement

Homeowner has three business days after signing papers in which to cancel the loan. Upon expiration of this period, the loan funds are disbursed. Homeowner accesses the funds in the form of the payment option selected. Any existing debt on the home is paid off. A new lien is placed on the home. The homeowner may use the loan proceeds for any purpose. During the life of the loan, the loan "servicer" disburses monthly payments to the homeowner (if this option is chosen), advances line of credit funds upon request, collects any repayments on the line of credit, and sends periodic statements.

Reverse Mortgage FAQs

The Home Equity Conversion Mortgage (HECM) is FHA's reverse mortgage program, which enables you to withdraw some of the equity in your home. The HECM is a safe plan that can give older Americans greater financial security. Many seniors use it to supplement Social Security, meet unexpected medical expenses, make home improvements and more.

1. What is a Reverse Mortgage?

A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The equity that you built up over years of making mortgage payments can be paid to you. However, unlike a traditional home equity loan or second mortgage, HECM borrowers do not have to repay the HECM loan until the borrowers no longer use the home as their principal residence or fail to meet the obligations of the mortgage. You can also use a HECM to purchase a primary residence if you can use cash on hand to pay the difference between the HECM proceeds and the sales price plus closing costs for the property you are purchasing.

2. Can I qualify for FHA's HECM Reverse Mortgage?

To be eligible for a FHA HECM, the FHA requires that you be a homeowner 62 years of age or older, own your home outright, or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan, have the financial resources to pay ongoing property charges including taxes and insurance, and you must live in the home. You are also required to receive consumer information free or at very low cost from a HECM counselor prior to obtaining the loan.

3. Can I apply for a HECM even if I did not buy my present house with FHA insured mortgage?

Yes. You may apply for a HECM regardless of whether you purchased your home with an FHA-insured mortgage.

4. What types of homes are eligible?

To be eligible for the FHA HECM, your home must be a single-family home or a 2-4-unit home with one unit occupied by the borrower. HUD-approved condominiums and manufactured homes that meet FHA requirements are also eligible.

5. What are the differences between a reverse mortgage and a home equity loan?

With a second mortgage, or a home equity line of credit, borrowers must make monthly payments on the principal and interest. A reverse mortgage is different, because it pays you – there are no monthly principal and interest payments. With a reverse mortgage, you are required to pay real estate taxes, utilities, and hazard and flood insurance premiums.

6. Will we have an estate to leave our heirs?

When the home is sold or no longer used as a primary residence, the cash, interest, and other HECM finance charges must be repaid. All proceeds beyond the amount owed belong to your spouse or estate. This means any remaining equity can be transferred to heirs. No debt is passed along to the estate or heirs.

7. How much money can I get from my home?

The amount varies by borrower and depends on:

- Age of the youngest borrower or non-borrowing spouse
- Current interest rate
- Lesser of appraised value or the maximum HECM FHA Lending Limit or, in the case of a HECM for Purchase, the sales price;
- Initial Mortgage Insurance Premium

If there is more than one borrower, the age of the youngest borrower is used to determine the amount you can borrow.

8. Should I use an estate planning service to find a reverse mortgage lender?

FHA does NOT recommend using any service that charges a fee for referring a borrower to an FHA-approved lender.

9. How do I receive my payments?

For adjustable interest rate mortgages, you can select one of the following payment plans:

- Tenure- equal monthly payments if at least one borrower lives and continues to occupy the property as a principal residence.

- Term- equal monthly payments for a fixed period of months selected.

- Line of Credit- unscheduled payments or in installments, at times and in an amount of your choosing until the line of credit is exhausted.

- Modified Tenure- combination of line of credit and scheduled monthly payments for if you remain in the home.

- Modified Term- combination of line of credit plus monthly payments for a fixed period of months selected by the borrower. For fixed interest rate mortgages, you will receive the Single Disbursement Lump Sum payment plan.

- Single Disbursement Lump Sum - a single lump sum disbursement at mortgage closing.

10. What if I change my mind and no longer want the loan after I go to closing?

By law, you have three calendar days to change your mind and cancel the loan. This is called a three day right of rescission. The process of canceling the loan should be explained at loan closing. Be sure to ask the lender for instructions on this process. Mortgage lenders differ in the process of canceling a loan. You should ask for the names of the appropriate people, phone numbers, fax numbers, addresses, or written instructions on whatever process the company has in place. In most cases, the right of rescission will not be applicable to HECM for purchase transactions.

Reverse Mortgage Myths

These are explanations to common misconceptions about reverse mortgages. See if a reverse mortgage – an approved FHA program – is right for you.

MYTH: ***"A reverse mortgage is like a home equity loan."***

FACT: A home equity loan will require that you make regular monthly payments, whereas a reverse mortgage loan does not require monthly mortgage payments (borrowers must remain current on taxes, homeowner's insurance and HOA dues as applicable).

MYTH: ***"I could get forced out of my home if something goes wrong."***

FACT: FHA/HUD reverse mortgages specifically state that you cannot be forced out of your home. The only requirements of a reverse mortgage are that you continue to keep your home as your primary residence, in a good state of repair, with property taxes paid and insurance coverage in place.

MYTH: ***"The bank will assume ownership of my home if I get a reverse mortgage."***

FACT: The borrower retains title to the property. The reverse mortgage lender is merely extending a loan to the borrower secured by the home / property. Because ownership of the home is retained, the borrower is responsible for the payment of property taxes, insurance and home maintenance.

MYTH: ***"Having a reverse mortgage will require I make monthly payments."***

FACT: You are not required to make monthly mortgage payments on your reverse mortgage (borrowers must remain current on property taxes, homeowner's insurance and HOA dues as applicable).

MYTH: ***"I can't qualify if I have an existing mortgage or other real estate debt."***

FACT: Even if you have an outstanding first mortgage, or some other real estate liens (i.e. a home equity loan, tax lien, etc.), you still may qualify for a reverse mortgage. The proceeds of the reverse mortgage must first be used to pay off such debts however. This is a significant benefit as many borrowers use a reverse mortgage loan simply to eliminate their mortgage or home equity loan payments.

MYTH: ***"With a reverse mortgage, my heirs won't be able to inherit my home."***

FACT: Borrowers can leave their home to their heirs. When the borrowers pass away, the heirs may either pay the balance due on the reverse mortgage (principal plus accumulated interest and MIP) and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, any remaining equity after the reverse mortgage is repaid is theirs to keep.

MYTH: ***"A reverse mortgage will affect my Medicare and Social Security benefits."***

FACT: Reverse mortgage payments should not affect Medicare or Social Security benefits. Additionally, reverse mortgage payments should not affect Social Security Income (SSI) benefits or eligibility if any reverse mortgage advances are spent within the month they are received (Consult your Social Security, Medicare or other financial advisor to determine how reverse mortgage payments may affect your situation).

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REVERSE MORTGAGE

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