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 Conduct pledging to abide by guidelines that assure fair, ethical, and respectful practices in offering and making reverse mortgages to seniors. 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 IRAs, pensions, 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 also yielding lower returns. Thru proper education, more retirees are recognizing that the home they have lived in for so many years can now provide a reliable source of supplemental income through using a reverse mortgage to access the equity accumulated in that home.

Record numbers of consumers are using reverse mortgages to remain in their homes to supplement retirement income, pay for health care expenses, make home modifications, or simply establish a cash reserve for emergencies.

Recognizing the value of reverse mortgages, the U.S. Congress made substantial improvements to the federally-insured Home Equity Conversion Mortgage by raising loan limits, lowering fees, creating a Home Purchase program, adding co-ops as an eligible property type, and implementing stricter consumer protections around cross-selling reverse mortgages with other financial services products.

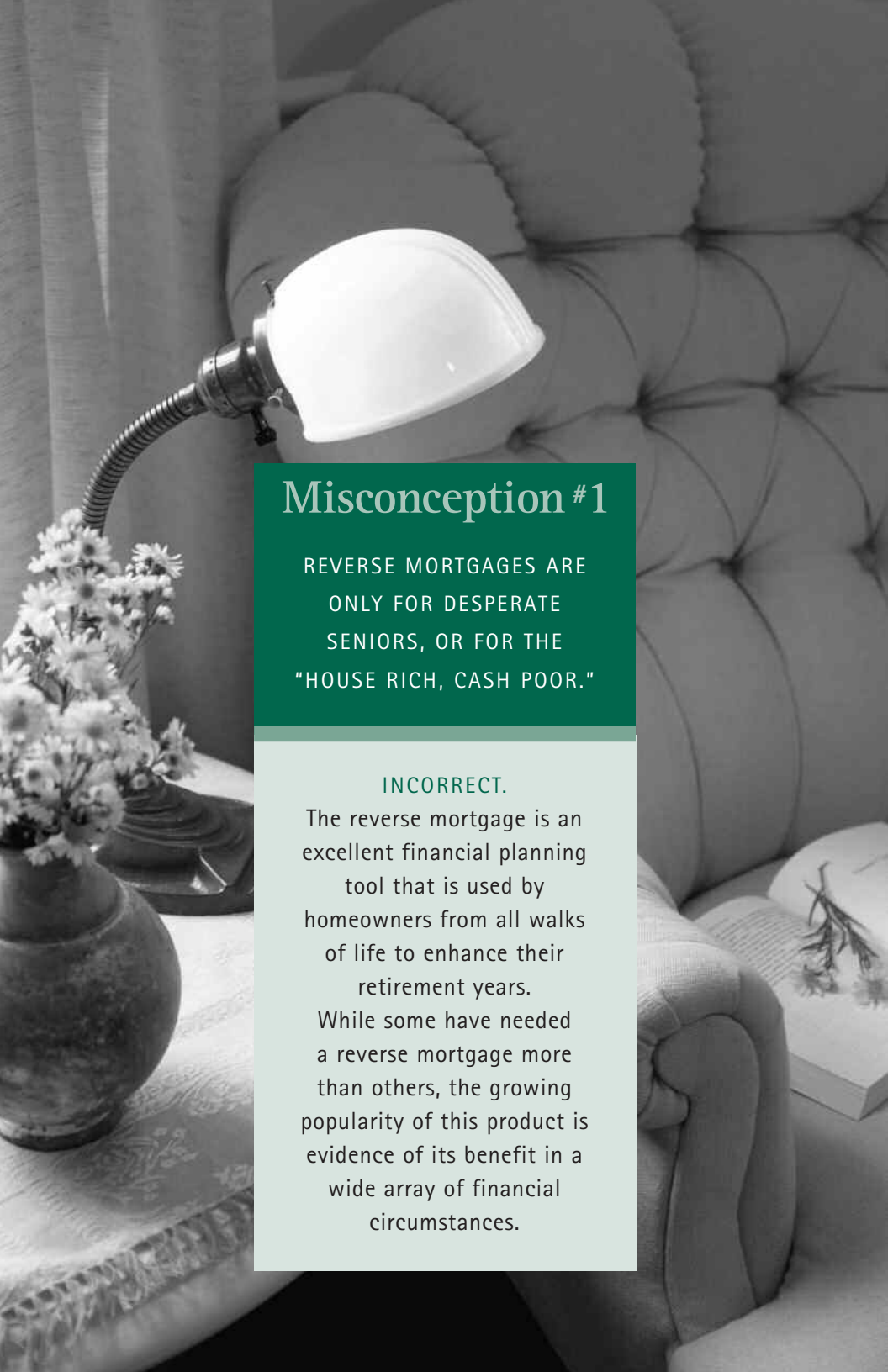
Despite increased popularity, even some of the most basic facts about reverse mortgages are often misunderstood. According to Peter Bell, President of the National Reverse Mortgage Lenders Association, a relatively short industry history and rapid product evolution have deluged consumers with information 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,' says Bell. That couldn't be further from the truth. Our mission, Bell explains, is to inform seniors 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.

Other guides published by NRMLA include Using Reverse Mortgages for Health Care: A NRMLA Guide for Consumers *and* Modifying Your Home to Promote Greater Independence: A Guide to Aging in Place. *Both may be viewed on our Web site (http://www.reversemortgage.org) along with detailed information about different reverse mortgage products and a state-by-state listing of reverse mortgage lenders.*

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



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.

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. Co-ops will soon be eligible.

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 could 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.

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.

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.

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

Many of the same costs associated with a regular mortgage apply to reverse mortgages. You will be charged an origination fee, a mortgage insurance premium (for FHA Home Equity Conversion Mortgages), an appraisal fee, and certain other standard closing costs. In most cases these fees and costs are capped and may be financed as part of the reverse mortgage, so that you incur little out-of-pocket expense.

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 government program and best practice by private lenders who have created their own programs.

You can seek face-to-face counseling 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), Consumer Credit Counseling Service of Atlanta (866-616-3716) and National Council on Aging (800-510-0301). You may also request a list of counselors from your lender.

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. **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. Some have used a reverse mortgage to purchase recreational vehicles, start a small business, and travel. Others have used reverse mortgages to eliminate expenses by paying off mortgages and credit card debt. Please consider your financial goals and objectives.

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.

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 becoming 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.

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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