



**Richard T. Cirelli**  
 President  
 RTC MORTGAGE CORPORATION  
 Phone: (949) 494-4701  
 Fax: (949) 494-6703  
 License:NMLS: 288939 / 288267  
 rick@RTCMortgage.com  
 www.rtcmortgage.com



## Reverse Mortgages The Golden Stage of Life

### Introduction

Until recently, seniors 62 years of age and older have not had the best of choices when it came to getting cash from their homes. Traditional home loans only offered the option of either selling one's house or borrowing against its equity. Obviously, this meant moving into a new home or taking on monthly repayments; not exactly the most appealing choices for those who have been in their homes for years and also deal with set income and expenses.



Take for example Doug and Sharon Jones, a couple in their late 60's who have called their place home for over 30 years. After nearly 15 years of enhancements and home improvements, Mr. and Mrs. Jones are looking forward to spending the rest of their lives in that house, uprooting is the last thing they want to do.

Now, with all of their financial investments behind them, Doug and Sharon have decided they would like to spend some time traveling the world. They are also interested in finding a way to generate extra income in order to supplement their retirement and pay for the cost of prescription medications.

### Loan Proceeds



A reverse mortgage\* gives Mr. and Mrs. Jones some appealing cash-flow alternatives that they didn't have before. These loan plans will allow the couple to convert their home equity into tax-free loan proceeds without having to sell their current home or take on new monthly mortgage payments. Depending on their situation and home value, they may also receive cash payments and credit lines without incurring monthly payments. There are minimal income requirements for a reverse mortgage, as borrowers will continue to be responsible for property taxes, home insurance, and any homeowner association dues.

For seniors and maturing Baby Boomers, the idea of staying put while collecting monthly advances can be very attractive. Many of them have no desire to relocate. Instead, they prefer cash advances to pay off debts, improve and repair their homes, or cover unforeseen medical expenses.

Not having to repay the debt until a future time when they no longer occupy the home, and having no monthly mortgage payments are features that can make a reverse mortgage the ideal option for those in their golden years.

\* We strongly recommend consulting your tax advisor when choosing a reverse mortgage plan.

### A Senior Moment

In order to apply for a reverse mortgage you must be 62 years of age or older. All owners who are on the title deed must meet this age requirement, as well as apply for and sign the loan agreements. Lastly, the home must remain the applicants' principle place of residence.



Single family residences are most commonly eligible for reverse mortgages. Check with a knowledgeable reverse mortgage lender to see the latest rules for condominiums, co-ops, and manufactured homes, which all have additional requirements that HUD continues to regulate and update eligibility.

### Pre-Mortgage Counseling

In order to ensure that homeowners are fully aware of the financial ramifications of obtaining a reverse mortgage and to ensure that other options have been explored, senior borrowers must undergo counseling with an unbiased third party before applying for a reverse mortgage loan. HUD oversees a network of counselors who can provide this service, and it should be offered for a nominal fee or at no charge. The session will examine the feasibility of the loan for a senior, explore the current budget and needs, and go into other financial fact finding to examine the compatibility of the loan for the individual situation.

**About Face - How Reverses Work**

Reverse mortgages are probably best understood when compared side-by-side with a traditional home mortgage, otherwise known as a "forward" mortgage. The following table shows the differences between the two mortgages:

FORWARD MORTGAGE	REVERSE MORTGAGE
Uses income to pay debt	Uses home equity to get cash or credit
Monthly mortgage payments	No payments; debt is paid when the borrower dies, sells the home, or moves
Falling debt, rising equity	Rising debt, falling equity

As you can see, both loans incur debt against your home and both affect equity, but they do so in very different ways. For a traditional home mortgage, you would be making monthly payments to a lender. With a reverse mortgage, they will make the payments to you. In essence, the two loans work the complete opposite of one another.

**A Plan of a Lifetime**



While some proprietary reverse mortgage loans from lenders have been available in the past, the FHA H.E.C.M. is the industry standard that most seniors utilize today, with almost 500,000 H.E.C.M. loans funded

since 1989.

**Home Equity Conversion Mortgage - "HECM".**

The most common type of reverse mortgage is the Home Equity Conversion Mortgage, otherwise known as HECM. This is the only reverse mortgage program that is federally insured and backed by the U. S. Department of Housing and Urban Development (HUD).



Home Equity Conversion Mortgages have some very attractive features that make them a popular choice among borrowers.

Here are a few:

- **Fixed and Adjustable rates.** The Home Equity Conversion Mortgage (HECM) allows you to choose your interest rate. You can select one that changes annually or one that changes every month.

- **Several loan advance options.** With an adjustable rate program, you may receive monthly loan advances for a fixed term or for as long as you live in the home. You may also choose to receive a line of credit, or you may combine monthly loan advances with a line of credit. An HECM also permits you to change your payment options at little cost. Fixed rate loans require taking the full loan amount in cash at the closing.

- **Can be used for any purpose.** The funds are available to the borrower for whatever purpose chosen. There are no restrictions on use of funds.

- **Protection.** Most important of all, this plan protects you by guaranteeing your loan proceeds, ensuring that the most the bank can collect is the value of the home when it is sold. **No debt is transferred to heirs or family members.**

**HECM Saver Reverse Mortgage**

This lower-cost reverse mortgage requires significantly less in up-front costs as compared to the HECM Standard Reverse Mortgage. As a result, HECM Saver can save the average homeowner age 62 and older thousands of dollars. The amount of money that can be borrowed is less than with the HECM Standard, but the lower up-front costs may make it an attractive option.

**Home Equity Conversion Mortgage for Purchase**

A Home Equity Conversion Mortgage (HECM) for Purchase helps you purchase a home by taking out a reverse mortgage on that home. It's applicable for the purchase of a one- to four-family dwelling unit, to be occupied as a principal residence only. It could help you move to a home that will better fit your future needs.

**What Does a Reverse Mortgage Cost?**

Reverse mortgage closing costs break down into three sets of costs, all of which are transparent using a Good Faith Estimate given to the borrower at the time of the application:



1. Origination fees - paid to the lender to originate the loan
2. MIP collected by HUD - guarantees loan proceeds and Debt Limit\*\*\*
3. Other closing costs associated with title insurance, state and intangible taxes, and recording fees.

The loan fees and costs incurred in obtaining a reverse mortgage are typically no more than any other type of loan overall. These costs will be added to the balance of the loan and must be repaid with interest once the loan terminates.

**\*\*\*Debt Limit**

Reverse mortgage debt is determined by adding all of the loan advances (this includes those used to pay off prior debt or finance the loan costs) plus the interest on your loan balance. In the end, if that total amount equals less than the value of your home when you repay the loan, then you will end up keeping the remaining amount.

Should the balance of your loan ever grow to equal or exceed what your home is worth, then your total debt will be limited by that value; you or your heirs can never be required to repay more than what your home is worth after the loan comes due. That simply means if today's lofty housing prices start to decline, you won't be responsible for paying back a larger amount.

**In addition, there are several Out of Pocket Costs to the borrower that may include:**

1. Counseling with a HUD approved counselor
2. Appraisal
3. Condo Questionnaire (when applicable)

**Repayment**

Reverse mortgages do not require any payment as long as the borrower(s) remain in the home, and continue to pay their taxes and homeowners insurance. Should the borrower(s) pass away, sell the home, or relocate, then the loan will be due in full, along with interest and any additional costs. In the event there are two borrowers on the loan and one should pass away, the loan would not yet be due as long as one of the borrowers continues to occupy the home and remain on title.

Reverse mortgages have ZERO pre-payment penalties; they may be repaid at any point without incurring penalties or additional fees.

**How Would You Like Your Money?**

The amount of money you receive from a reverse mortgage will depend on several things including the plan you select, your age, and the value of your home. Typically, the older you are, the more equity you will have in your home. This is why more mature borrowers typically receive greater loan amounts.

Selecting a **FIXED RATE** reverse mortgage comes with one caveat from the lender - you **MUST** take all of the funds available in a lump sum during the closing of your loan. More options exist with an adjustable option.

With an **ADJUSTABLE RATE** reverse mortgage, there are several ways that you can receive your money. Here is a list of five different options to choose from:

- **Tenure** - Equal monthly payments as long as at least one borrower is living and continues to occupy the property as a principal residence.
- **Term** - Equal monthly payments for the fixed period of months you have selected.
- **Line of Credit** - This would be used in the same way as a credit card or checkbook. You would receive unscheduled payments or installments at the times and amounts you have selected. This will continue until the line of credit is exhausted.
- **Modified Tenure** - A combination of a line of credit and monthly payments for as long as you continue to live in the home.
- **Modified Term** - This combination of a credit line and monthly payments differs from the plan above in that it is based upon a fixed period of months that you have chosen.

**Advantages of Moving in Reverse**

A reverse mortgage can help you gain financial independence and maintain an adequate standard of living all without having to leave your current home. In addition to this, the money you receive from a reverse mortgage is tax free loan proceeds and may be used for a variety of purposes.



Besides the traditional uses of a loan, such as paying off old debt or making home improvements, here are some other ways borrowers are utilizing their tax-free income:

- **Traveling and taking vacations**
- **Obtaining in-home healthcare**
- **Paying for prescription medications**
- **Supplementing retirement**
- **Paying for grandchildren's educational expenses**

Financial Planners and professionals are using reverse mortgages in appropriate cases for strategies such as:

- **Social Security deferment using reverse mortgage proceeds to fill the income gap**
- **Using a HECM to purchase a home while downsizing**
- **Setting up a HECM SAVER credit line in lieu of a traditional "emergency fund"**

However you choose to use the money from your loan, reverse mortgages provide you with the freedom to do so without the added financial stress of a monthly payment to the lender.

**Should I Stay or Should I Go?**

Most seniors over 62 years of age simply do not want to move. Senior homeowners generally choose reverse mortgages so that they can remain in their current homes.

Several key questions need to be explored in advance of obtaining a reverse mortgage:

- Is a reverse mortgage the best option vs. a sale?
- Are my children able to assist me?
- Are my heirs concerned and informed about my decision to do a reverse mortgage?

The best way to decide if a reverse mortgage is for you is to compare it to the alternatives of selling your home or receiving financial help from elsewhere. Alternatives need to be explored, and may include re-financing or downsizing.

### **Myths and Misconceptions about Reverse Mortgages**

**Myth #1: The lender will take ownership of your home.**

False - You and your family or your estate continue to retain ownership of your home even after obtaining a reverse mortgage. The lender does not take control of the title. The lender's interest is limited to the outstanding loan balance.

**Myth #2: The reverse mortgage requires that I make monthly payments.**

Not True - There are never monthly mortgage payments with a reverse mortgage. The borrower is responsible for payment of property taxes, insurance, and general upkeep of the home and nothing more.

**Myth #3: My children will be held responsible for repayment of a reverse mortgage.**

False - The reverse mortgage is a non-recourse loan. This means that the lender can only derive repayment of the reverse mortgage loan from the proceeds of the sale of the property. Even if a catastrophe strikes and the value of the home is reduced, you or your estate can never owe more than the value of the home. Although your heirs will not be responsible for repayment of the loan, they will have the option of repaying the loan and keeping the house for themselves.

**Myth #4: You need a certain level of income, credit, or health to qualify.**

False - A reverse mortgage has no income, credit, or health requirements.

**Myth #5: To qualify, my home must be debt free and paid off "Free & Clear." Not True** - You may have an existing mortgage or other debt on your home. The mortgage or debt, however, must be paid off first with the proceeds of the reverse mortgage. In fact, many people get a reverse mortgage just for this reason: to get rid of their monthly mortgage payments forever.

**Myth #6: Reverse mortgage lenders just want to sell your house.** False - Reverse mortgage borrowers may remain in the home for as long as they wish. However, should they decide to sell the home for any reason, the loan would then become due and payable.

**Myth #7: If I do a reverse mortgage, I will have nothing for my kids.** False - "Retained Equity" is a very important concept to grasp. Realize that your property will continue to appreciate (the whole value of the estate) and you pay interest on only the smaller amount borrowed. Please consult a reverse mortgage advisor for amortization tables that might apply to your specific situation.

**Myth #8: If I get a reverse mortgage, I cannot sell my home.** False - If you decide to sell your home, the reverse mortgage is like any other loan that must be paid off at closing. There are no restrictions on prepayment or penalties for paying off your loan or selling your home.

**Myth #9: If my lender changes, my loan terms can change.** Not True - A reverse mortgage is secured by two Deeds of Trust. Once executed, the terms are defined and cannot be changed as long as the deeds remain in force.

**Myth #10: My Social Security, Medicare/Medicaid benefits will decrease.** Not True - Generally the money from a reverse mortgage is considered borrowed money and not income. For some programs, monthly draws must be spent and not accumulated, but for most, the money is not considered disqualifying. Please consult with an advisor or your local Agency for Aging for your specific situation.