

# Reverse Mortgage Fact Sheet

12/21/10

**What is a reverse mortgage?** A reverse mortgage is a home loan that you do not have to pay back for as long as you live in your home. It can be paid to you in one lump sum, as a regular monthly payment, or at the times and in the amounts you want through a line of credit. In a "regular" mortgage, you make monthly payments to the lender. In a "reverse" mortgage, you receive money from the lender, and generally don't have to pay it back for as long as you live in your home. The loan is repaid when you, sell your home, die, or when your home is no longer your primary residence.

You can also use a reverse mortgage to purchase a primary residence if you are able to use cash on hand to pay the difference between the reverse mortgage proceeds and the sales price plus closing costs for the property you are purchasing.

**Qualifications:** Borrower(s) must be at least 62 years of age and live in their home as their primary residence. Existing mortgages and liens must be paid off at loan closing, which eliminates the monthly loan payments. There is no income qualification and only minimal credit requirements.

**Eligible Homes:** Single family, one-unit dwelling; two-to-four unit, owner-occupied dwelling; HUD-approved condominiums, planned unit developments. Manufactured homes have specific requirements that must be met in order to be eligible for reverse mortgages. Please contact us for a list of these requirements. Commercial properties are currently ineligible for reverse mortgages.

## How do reverse mortgages work?

- Most require no repayment for as long as you live in your home.
- They are repaid in full when the last living borrower sells the home, dies, or permanently moves away.
- Because you make no monthly payments, the amount you owe grows larger over time. By law, you can never owe more than your home's value at the time the loan is repaid when the home is sold.
- You continue to own the home, so you must pay the property taxes, insurance, and repairs. If you fail to pay these, the lender can use the loan to make payments or require you to pay the loan in full.

**Determination of Loan Amount:** The loan amount is based on three primary factors; the age of the youngest homeowner(s), the FHA/HUD lending limits or current appraised value of the home (whichever is less) and current interest rates. The FHA/HUD Insured Home Equity Conversion Mortgage's (HECM's) new National Lending Limit was increased to \$625,500 in 2009.

**Counseling:** For your protection, all borrowers are required to receive counseling from a third party counseling agency prior to applying for a reverse mortgage. Your reverse mortgage consultant has a list of qualified independent counselors in your area and can refer you to the reverse mortgage counselor nearest you. You are encouraged to attend counseling in person whenever possible and to attend counseling sessions with family members and financial advisors.

**Distribution Plans:** Reverse mortgage borrowers can choose from several options to receive the loan proceeds:

1. **Tenure:** fixed monthly cash advances for as long as you live in your home.
2. **Term:** fixed monthly cash advances for a specific time.
3. **Line of Credit:** lets you draw down the loan proceeds at any time in amounts you choose until you have used up the line of credit.
4. **Lump Sum:** a single lump sum of loan proceeds upon loan funding.
5. **Modified Tenure or Term:** a combination of monthly payments and a line of credit.

If you select either of the term plans, you can remain in your home after the end of the loan term without starting repayment. The same is true if you have withdrawn the maximum amount under a line of credit. Under the tenure payment plan, you will continue to receive monthly payments and need not repay your loan as long as you continue to use your home as your principal residence. Remember that repayment of a reverse mortgage does not begin until you no longer occupy the home as your principal residence.

**Processing Time:** On average it may take 3 to 6 weeks to process and close a reverse mortgage.

**Costs:** Fees for reverse mortgages may be higher than those for other types of mortgages. Most closing costs may be financed into the loan. The costs for loans from banks and mortgage companies usually include the following:

- Origination fee
  - Monthly service fee
  - Closing costs
  - Interest
  - FHA/HUD Mortgage Insurance Premium (MIP)
- These costs are usually added to the loan balance (what you owe).
  - HECM loans are almost always the least expensive reverse mortgage you can get from a bank or mortgage company, and in many cases are significantly less costly than other reverse mortgages.
  - Reverse mortgages are most expensive in the early years of the loan and generally become less costly over time.
  - Before getting a reverse mortgage, carefully consider how much more it will cost you.

**Interest Rate:** Although some reverse mortgages have fixed rates, most have variable rates that are tied to a financial index: they are likely to change with market conditions.

**Impact on Income Taxes and Social Security:** Currently the IRS treats the proceeds from a reverse mortgage as a loan advance and not income, and the interest on reverse mortgages is not deductible on income tax returns until the loan is paid off in part or whole.

Advances from a reverse mortgage do not affect your Social Security or Medicare benefits because those benefits are not based on the assets of the recipient. However, some payment options may adversely affect your ability to qualify for needs-based public benefits, such as Medicaid or Supplemental Security Income. Regulations vary for state-administered programs such as Medicaid, Aid for Dependent Children (AFDC), and food stamps. Therefore, we recommend you consult your tax, financial advisors or a benefits specialist at your local offices for these programs to determine how payments from a reverse mortgage may affect your qualification for public benefits.

**Repayment:** The loan becomes due when one or more of the following conditions occurs:

- Upon the last surviving borrower's death, the loan balance, consisting of payments made to you or on your behalf plus accrued interest becomes due and payable. Your heirs may repay the loan balance by selling the home or by paying off the loan so that they may keep the home.
  - If your heirs sell the home, the repayment will not exceed the value of the home.
  - If your heirs retain the home, then the full loan balance is due, regardless of the value of the home.
- If all borrowers permanently move out of the home or if you choose to sell your home, the outstanding loan balance becomes due and payable to the mortgage lender. If you sell your home to your children or any other individual, and continue to live in it, the loan will be due and payable at settlement. After the loan is repaid, any arrangement for your continued occupancy of the property must be made with the new owners.
- The last surviving borrower fails to live in the home for 12 consecutive months; a borrower can live in a nursing home or other medical facility for up to 12 consecutive months before the loan must be repaid.
- Because you retain title to your home, you are responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. If you don't pay property taxes, carry homeowner's insurance, or if you don't maintain the condition of your home so that its value does not diminish, your loan may become due and payable.

**Use of Proceeds:** Fremont Bank does not encourage or recommend the use of reverse mortgage proceeds to fund annuity or investment products.

Whether a reverse mortgage is right for you is a big question. Consider all your options. You may qualify for less costly alternatives.

**To learn more please contact our Reverse Mortgage Consultant:**

Becky Matthew  
(866) 359-0167  
Rebecca.Matthew@fremontbank.com

The following organizations have more information on reverse mortgages:

**Reverse Mortgage Education Project**

AARP Foundation  
601 E Street, NW  
Washington, DC 20049  
[www.aarp.org/revmort](http://www.aarp.org/revmort)  
1-800-209-8085

**U. S. Department of Housing and Urban Development (HUD)**

451 7th Street, SW  
Washington, DC 20410  
[www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm)  
1-800-CALL-FHA (1-800-225-5342)

**Federal Trade Commission**

Consumer Response Center  
600 Pennsylvania Avenue, NW  
Washington, DC 20580  
[www.ftc.gov/bcp/menus/consumer/credit.shtm](http://www.ftc.gov/bcp/menus/consumer/credit.shtm) — Click on “Mortgages & Your Home”  
1-877-FTC-HELP (1-877-382-4357)