

# Just the FAQ's: Answers to Common Questions About Reverse Mortgages

## INTRODUCTION

*As more people learn about the versatility of reverse mortgages, this financial planning tool has gained significant popularity. Today, record numbers of consumers are using reverse mortgages to remain in their homes to supplement their retirement income, pay for health care expenses, make home modifications, or simply establish a cash reserve for emergencies.*

*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". That couldn't be further from the truth. Our mission 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.*

***A reverse mortgage is a loan that enables older homeowners (62 of 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 SENIOR, 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 case of a couple of co-owners, both must be 62 if their names appear on the title to the home. (If one spouse or co-owner is under 62, that person's name must be removed from the title so that the other person can qualify for the reverse mortgage).
- Be a homeowner with equity in your home. You may qualify even if you have an outstanding balance on your first mortgage. Single-family homes and qualified condominiums, townhouses, manufactured homes, and 1- to 4-family owner-occupied residences are eligible. Reverse mortgages are available only for homes occupied by owners as a principal residence.

*What is the difference between a reverse mortgage and a bank home equity loan?*

To qualify for a traditional second mortgage, or home equity line of credit, you must have a sufficient income versus debt ratio. You are also required to make monthly mortgage payments.

The reverse mortgage is different in that it pays you and is available regardless of your current income. You do not make payments because the loan is not due as long as the house is your principal residence. Like all homeowners you are expected to pay the real estate taxes and other payments such as utilities and insurance, but with a federally-insured HUD reverse mortgage, there can be no foreclosure on your home because you missed your mortgage payment.

### ***How much money can I get?***

This depends on a few factors, including your age, the value of your home, the amount of build-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.

#### **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 in determining 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, you may want to seek the advice of a legal, tax or financial advisor before committing to a reverse mortgage to be sure it is in line with all your other financial and tax goals.

## 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 amount – it can never exceed the value of your home.*
- *Advance disclosure so that you are made fully aware of the cost incurred in obtaining a reverse mortgage.*

### ***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.**

***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 modification, 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. The only limit on how you use a reverse mortgage is your imagination.

### ***What is the interest rate on a reverse mortgage and how is it determined?***

The interest rate varies by type of reverse mortgage.

- For the HECM, the most popular product, the interest rate is adjusted either monthly or annually (the borrower chooses) and based on an index called the “1-Year U.S. Treasury Constant Maturity Rate,” which changes weekly.
- For monthly adjusting HECMs, the interest rate currently charged is equal to the 1-Year Treasury rate plus 1.5%. (As of September 6, 2006)
- For annually adjusting HECMs, the interest rate currently charged on the loan for the next year is equal to the current 1-Year Treasury rate plus 3.1%. (As of September 6, 2006)
- For Fannie Mae Home Keeper loans, the interest rate charged on the loan for the next month is equal to the current “1-Month Certificate of deposit Secondary Market Rate” plus 3.4%
- For the Cash Account “jumbo” loan, the interest rate charged on the loan for the next six months is equal to the current LIBOR rate (London InterBank Offered Rate) plus a margin.
- The latest 1-Year Treasury rate and 1-Month CD rate are issued by the Federal Reserve Board, and are published – along with the LIBOR rate – in financial newspapers. Interest charged on a reverse mortgage is “accrued.” That is, there is no payment of interest until the loan comes due.

# Repayment of the Reverse Mortgage

## *How much will be owed when my reverse mortgage comes due?*

The amount owed to the lender typically includes the amount borrowed to date, the amount of accrued interest, accrued mortgage insurance premiums (for the HECM), servicing fees, and any other costs and fees financed as part of the loan amount. In no event will the repayment amounts exceed the value of the home at the time the loan comes due. There are no pre-payment penalties for the current reverse mortgage products.

## *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 is passed 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.

## *And most important – Where can I get a reverse mortgage?*

Call our office today for more details. 714-572-0727

# Using Reverse Mortgages For Health Care:

## Introduction

*Paying for health care has become a critical issue for older Americans and their children. As costs continue to rise for prescription drugs, in-home care, and physical rehabilitation, seniors are having to shoulder a larger share of the financial burden or turn to their children for help.*

*While Medicare, Medicaid, HMOs, and private insurance pay for doctor visits, hospitalization, and home care, these plans frequently require co-payments and insurance deductibles. Medicare does offer prescription drug coverage, but many plans do not cover related expenses that can help a senior cope with frailty, illness, or disability, such as home modifications, transportation, or other comfort-oriented services.*

*Fortunately, there's an easier way for seniors to pay for health care needs. It's a reverse mortgage, a unique loan that allows seniors to convert equity in their homes into available cash. This guide explains how you can use a reverse mortgage to help pay for your health care needs and preserve your financial security.*

## ***Different Needs – One Solution***

Everyone's needs are unique – but a desire to enjoy a full life is universal. Often, this means having enough money to cover bills and relieve some of the anxiety that comes from figuring out how to pay for medical and health-related expenses.

As many seniors have already discovered, a reverse mortgage can be an excellent financial tool for generating extra income to cover these costs.

A reverse mortgage enables homeowners 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 payment. It's called a reverse mortgage because the flow of payments is reversed compared to a traditional home mortgage. The lender makes payments to you, or arranges a line of credit that's available for your use. This differs from a traditional mortgage used to purchase or refinance a home, in which you must make monthly mortgage payments to a bank. With a reverse mortgage, you retain title to your home and can't be forced to leave. The loan is repaid when you permanently leave your home.

The versatility of reverse mortgages has already been demonstrated by the thousands of seniors who have used this tool to alleviate money worries or to simply make their retirement more comfortable. As the following profiles of actual borrowers illustrate, seniors have used reverse mortgages to cover a variety of medical and health care expenses.

## **Dorothy Rogers Paid for Her Prescription Medication**

For 45 years, Dorothy Rogers has lived in the same single-story home in Hampton, NH that she and her husband, John, and son, Thomas, built together. Tragically, in August of 1976, Mr. Rogers suddenly passed away just 20 days before retiring.

"I lost John, his insurance, and most of his pension. I received a little of his pension but it lasted only about one year," Mrs. Rogers says.

To make ends meet, Mrs. Rodgers relied on her Social Security. Initially, the monthly Social Security check she received was enough to survive. But over time, as inflation increased, the \$743 she received was barely enough to cover her daily living expenses.

"I had a horrendous time paying for things," she says. "Every time I went to the grocery store, I'd have to choose between prescription drugs or food. In the end, what I was getting from Social Security was going almost entirely to medicine."

Those awful days of choosing ended on November 20, 2000, when Mrs. Rogers obtained a reverse mortgage. She now receives over \$1,000 a month in extra income for life! As Mrs. Rogers puts in, her life has completely changed for the better. She has no problem paying for prescription drugs, food, or bills.

“I thank God every day that I got a reverse mortgage,” she says. “I can go see a movie with the girls now, or get a sandwich. The first thing I did after getting the loan was go to the store and buy a steak.”

**MEDICARE, MEDICAID, HMOS, AND PRIVATE INSURANCE ARE CENTRAL TO MANY SENIORS' HEALTH CARE STRATEGIES, BUT THESE PLANS HAVE THEIR LIMITATIONS. IN 1999, MEDICARE RECIPIENTS SPENT 19% OF THEIR OWN MONEY – AN AVERAGE OF \$2,430 – FOR HEALTH CARE EXPENSES. (SOURCE: AARP)**

**ACCORDING TO AN APRIL 2000 REPORT FROM AARP 33% OF ALL SENIORS LACK PRESCRIPTION DRUG COVERAGE.**

## **William Ellis Added a Downstairs Bedroom to Make His Wife More Comfortable**

William Ellis, of Vancouver, WA, has a different story. In May 1988, his wife, Beulah Maria, suffered a debilitating stroke that left her wheelchair-bound.

“Her mind was still sharp but she was left partially paralyzed on her right side and had problems with her speech,” says Mr. Ellis. “I certainly didn’t want to see her put into a nursing home, I wanted her here with me.”

The solution was to convert the garage into a ground-floor bedroom to accommodate his wife’s needs. “The existing rooms and hallways were not wide

enough to accommodate a wheel chair, so we had to make some modification,” Mr. Ellis notes.

The modification cost \$42,000. To pay for the work, Mr. Ellis obtained a reverse mortgage with a line of credit. The reverse mortgage paid for the additional room plus other changes, including a walk-in shower.

“I got enough money to cover the costs to make these changes, plus some left over to cover everyday expenses,” explains Mr. Ellis. “The reverse mortgage really helped us out.”

## **Katrine Denese Receives 24-Hour In-Home Care, Thanks to Her Daughter**

Katrine Denese, of Jacksonville, FL, suffers from paranoid schizophrenia and Parkinson’s Disease. But the last thing her four children wanted was to have her placed in a nursing home.

“My mother’s home is her security – she loves it there,” says daughter Janet Hayes.

Though still able to function independently at times, Ms. Denese, nonetheless, requires round-the clock care because of dementia. Using money from her mother’s pension and Social Security, Ms. Hayes hired private caregivers to assist her mother.

“They help with every-thing – cooking, bathing, cleaning – you name it,” she says.

Ultimately, it became clear that Ms. Denese’s pension and Social Security would no longer be sufficient to cover the caregivers’ fees.

Ms. Hayes thought about mortgaging her home to pay for a nurse but, in the end, chose a reverse mortgage.

“I could have gotten a lot more money using a home equity loan but the interest rate was higher and there’s a monthly payment to make,” she adds

Acting as power of attorney for her mother, Ms. Hayes arranged a reverse mortgage with a line of credit. “What sold me on the reverse mortgage was that even if my mother exhausts all the money, she still can stay in her home for a long as she needs to,” adds Ms. Hayes.

Hayes recommends the reverse mortgage to any adult child who has to care for a parent but doesn’t have the financial ability to do so. “It’s been a life saver for my mother”

## **Versatility to Meet Your Needs**

As illustrated by these real life stories, the versatility of reverse mortgages can provide you with a range of financial options that enable you to choose the kind of health or personal care you desire, in the setting you prefer. Because the funds from a reverse mortgage can be taken by the borrower as a lump sum, monthly payments, line of credit, or a combination of these, you have tremendous flexibility when planning how to address your health care needs.

For example, you might choose to receive monthly payments to budget for often-overlooked needs such as a cleaning service, grocery delivery, or transportation. Or, you might select a line of credit because that’s the best strategy for you to pay your annual Medicare or private insurance deductibles or HMO and prescription drugs. No matter what your needs are, a reverse mortgage gives you more choices and a better way to plan your own care with confidence.

To lean more, please contact our office at 714-572-0727.

## **What Else You Should Know**

A reverse mortgage doesn't affect your regular Social Security or Medicare benefits. However, depending on your particular situation, it may affect the benefits you receive, if any, from the federal Supplemental Security Income (SSI) program or from State-run programs such as your local Area Agency on Aging, a reverse mortgage lender, or a benefits expert to get more information.