Reverse Mortgage Guide

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Reverse Mortgage Overview

Reverse Mortgage Overview

The official term for a reverse mortgage is Home Equity Conversion Mortgage (HECM) but most lenders and borrowers use the term reverse mortgage. Similar to a regular, forward mortgage, a reverse mortgage allows you to borrow money using the equity in your home. The equity in your property is the value of your property minus the amount of any mortgages you have on the property. For example, if you own a property that is valued at $300,000 and you have a mortgage against the property with a $50,000 principal balance, you have $250,000 in equity in your property ($300,000 (property value) - $50,000 (mortgage balance) = $250,000 in property equity.

Like a regular mortgage, when you take out a reverse mortgage you get a sum of money from the bank. With some types of reverse mortgages you can take equal monthly disbursements or draw down a line of credit. The disbursements you receive from a reverse mortgage are tax-free.

The biggest difference between a regular mortgage and a reverse mortgage is that the borrower does not make monthly payments with a reverse mortgage so the mortgage balance increases over time. This compares to a regular mortgage where the mortgage balance typically decreases over time as the borrower makes his or her monthly mortgage payments. Instead of making monthly payments comprised of both principal and interest, the interest expense with a reverse mortgage is added to the mortgage balance. By adding interest expense to the mortgage balance every month instead of paying it, you increase the principal mortgage balance, so you pay interest on interest which is one of the biggest drawbacks of a reverse mortgage.

- **Review Our Mortgage Expert Insights on Top Reasons to Get a Reverse Mortgage**

Unlike a regular mortgage, with a reverse mortgage you do not pay down the loan over time (because you do not make any monthly mortgage payments). Instead, the loan balance is paid off when you sell the property, refinance the reverse mortgage or pay-off the loan balance with other funds. In short, a reverse mortgage is due in full when you vacate the property by: 1) selling it; 2) when you move into an assisted living facility for longer than a year; or, 3) when you pass away.

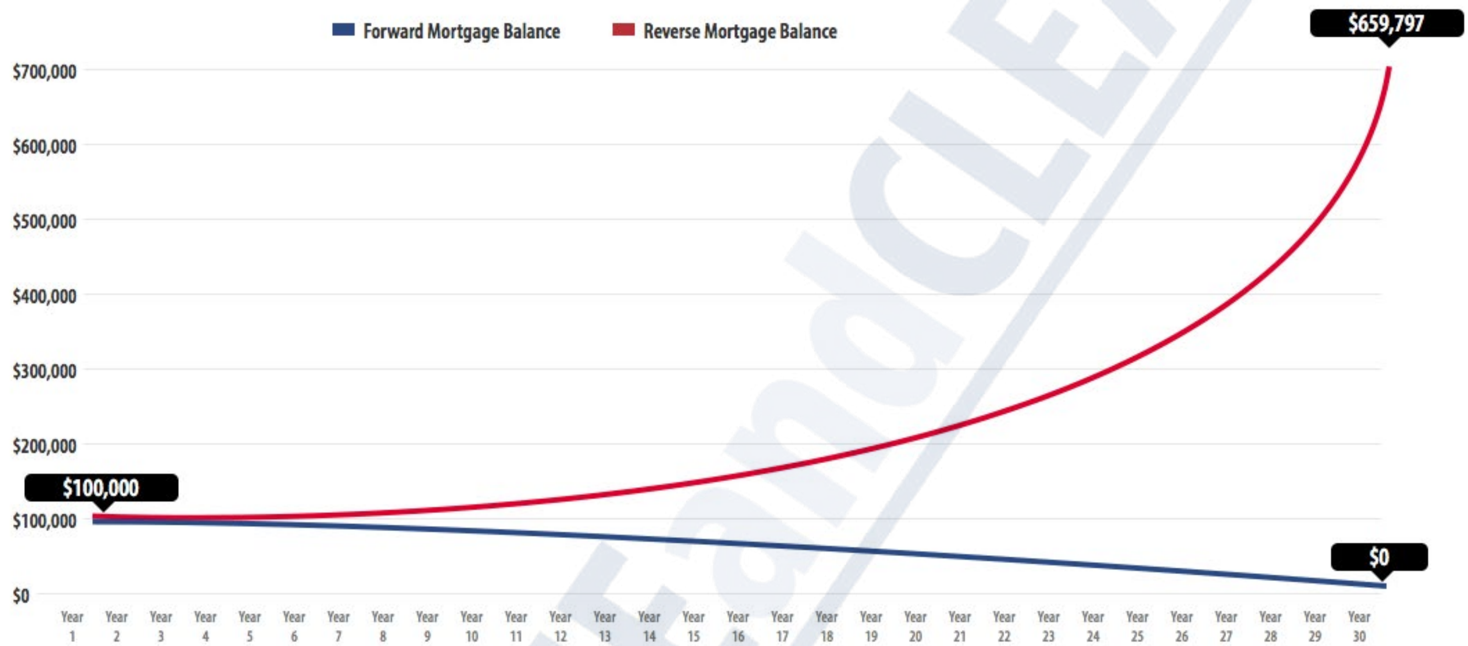
According to government regulations, the borrower or the borrower's heirs can never owe more on a reverse mortgage than the value of the property, even if the reverse mortgage balance exceeds the value of the property when the mortgage is due. If the mortgage balance is greater than the value of the property the lender is protected against any loss by insurance paid for by the borrower over the course of the reverse mortgage.

Reverse Mortgage Overview (continued)

Example: Reverse Mortgage Balance Over Time

The example below demonstrates how the mortgage balance for a reverse mortgage increases over time while the mortgage balance for a regular mortgage decreases over time. The chart compares a reverse mortgage with an initial balance of $100,000 and an interest rate of 5.1% to a regular mortgage with an initial balance of $100,000 and an interest rate of 4.0%. The interest rate on a reverse mortgage is typically higher than the interest rate on a regular mortgage. After 30 years, the regular mortgage has been paid off and the principal balance of the reverse mortgage is approximately $660,000.

This example shows a reverse mortgage after 30 years but there is no set term for a reverse mortgage. A reverse mortgage lasts as long as the owner lives in the property or until the mortgage is paid off.



How Much Money Can I Get from a Reverse Mortgage?

What size reverse mortgage you qualify for depends on several factors

- ***Your Age:*** the older you are, the larger the reverse mortgage you qualify for. If there are two people on a property title, lenders use the age of the youngest person to determine what size reverse mortgage you can obtain
- ***Interest rate:*** the lower the interest rate the larger the reverse mortgage you qualify for
- ***Property value:*** the higher the value of the property you are getting a reverse mortgage on, the larger the reverse mortgage you qualify for
- ***Program type:*** there are two types of reverse mortgage programs - fixed rate and adjustable rate. The amount of proceeds you receive varies depending on what program you select. Depending on their age, borrowers receive approximatley the same amount of proceeds up-front with both types of programs but can receive significantly more proceeds over the life of the loan with an adjustable rate reverse mortgage
- **Review our comprehensive discussion of Reverse Mortgage Program Options: Fixed Rate or ARM**

Reverse Mortgage Overview (continued)

Reverse Mortgage Proceeds Example

The example below illustrates the amount of proceeds a borrower can receive from a reverse mortgage for a refinance transaction, when the borrower refinances the existing mortgage on the property they currently own and live in and continues to reside in the property after the transaction. For this example, we assume the borrower's home is valued at $300,000 and compare the difference in proceeds between a fixed rate reverse mortgage and an adjustable rate reverse mortgage for borrowers aged 62 and 70.

The example demonstrates how a fixed rate reverse mortgage provides borrowers with a single lump sum disbursement at closing and no additional proceeds while an adjustable rate reverse mortgage provides a lump sum disbursement at closing and also enables borrowers to take additional disbursements one year after closing, either with another large disbursement, monthly disbursements or through a line of credit. The example also illustrates how the amount of proceeds the borrower receives at closing with an adjustable rate reverse mortgage is equal to or greater than a fixed rate reverse mortgage, plus the borrower is able to access more total proceeds over the life of the mortgage as compared to a fixed rate reverse mortgage.

Finally, the example illustrates how age impacts the amount of proceeds you receive from a reverse mortgage with the older borrower receiving more proceeds. Please note that the chart below represents one example and the actual amount of proceeds you receive from a reverse mortgage depends on many additional factors including interest rate and property value.

Assumptions	
Transaction Type	Refinance
Property Value	$300,000

	Age 62		Age 70	
Reverse Mortgage Program	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
Proceeds Available at Closing	$94,000	$94,000	$95,000	$100,000
Additional Proceeds Available After One Year	0	68,000	0	69,000
Total Proceeds Available Within One Year	$94,000	$162,000	$95,000	$169,000

The example below illustrates the amount of proceeds a borrower can receive from a reverse mortgage used to buy a home, which is very different than the amount of proceeds from a reverse mortgage used for a refinance. This example assumes the borrower purchases a home valued at $300,000 and compares a 62 year old borrower to a 70 year old borrower.

With a purchase reverse mortgage, the amount of proceeds the borrower receives is the same for both a fixed rate reverse mortgage and an adjustable rate reverse mortgage. Additionally, the borrower receives the proceeds as a single lump-sum disbursement at mortgage closing and is not able to access additional proceeds over the life of the loan. Because the amount of proceeds is the same for both a fixed rate and adjustable rate reverse mortgage used to buy a home, most borrowers select the fixed rate option which eliminates the risk that their interest rate can increase over the course of the mortgage. The example also demonstrates that the older borrower receives more proceeds from the reverse mortgage.

The example also highlights that a reverse mortgage used to buy a home requires the borrower to make a significant down payment of approximately 50%, which is a major difference as compared to a regular mortgage. After closing costs of approximately $15,500, the 62 year old borrower receives $141,525 in proceeds from the reverse mortgage and the 72 year old borrower receives $157,125 in proceeds. This means that the 62 year old borrower makes a down payment of $158,475 to buy a home (53% of the purchase price) and the 70 year old borrower makes a down payment of $142,875 (48% of the purchase price). The example demonstrates that borrowers who use a reverse mortgage to buy a home must be prepared to make a significant personal financial contribution to complete the purchase.

Reverse Mortgage Overview (continued)

Assumptions		
Transaction Type	Purchase	
Property Value	$300,000	
	Age 62	Age 70
Reverse Mortgage Program	Fixed Rate or Adjustable Rate	Fixed Rate or Adjustable Rate
Proceeds Available at Closing	$141,525	$157,125
Additional Proceeds Available After One Year	0	0
Total Proceeds Available Within One Year	$141,525	$157,125
Down Payment Required to Purchase Home	**$158,475**	**$142,875**

Both examples assume a 5.060% interest rate for the fixed rate reverse mortgage and a 3.774% initial interest rate for the adjustable rate reverse mortgage. Interest rates are subject to change depending on market conditions and the interest rate for the adjustable rate reverse mortgage is subject to change and increase over the life of the loan.

What Can I Spend My Reverse Mortgage Proceeds On?

Other than paying off your existing mortgage, there are no restrictions on how borrowers can spend the proceeds from a reverse mortgage. For example, if you have $50,000 mortgage balance on your home and obtain a $150,000 reverse mortgage with $5,000 in closing costs then your proceeds are $95,000 ($150,000 reverse mortgage - $50,000 existing mortgage - $5,000 closing costs = $95,000 in money to you). Borrowers can use the proceeds from a reverse mortgage for a variety of purposes including to pay off debt and improve their monthly cash flow; to pay for college tuition for a child, grandchild or themselves; to travel the world; to make investments; to remodel their home; or, to buy a home. For example, borrowers who currently own a home could sell their existing property and combine the proceeds with a reverse mortgage to buy a new home while also eliminating their monthly mortgage payment.

- **Review Our Mortgage Expert Insights on** [How to Buy a Home With a Reverse Mortgage]

In short, you can spend the proceeds from a reverse mortgage on just about anything but keep in mind that borrowers remain responsible for ongoing monthly housing expenses such as property taxes, homeowners insurance, homeowners association (HOA) dues and property upkeep.

What Can I Spend My Reverse Mortgage Proceeds On?

Age Requirement

One borrower must be at least 62 years old. If two people own a property jointly then the age of the youngest individual on the property title is used to determine the loan amount for the reverse mortgage. The younger the borrower the lower the loan amount. You should have a low mortgage balance or own your home free and clear. You are required to pay off any existing mortgage balance you have on the property with the proceeds of the reverse mortgage so the lower your existing mortgage balance, the more money you receive from the reverse mortgage.

Reverse Mortgage Overview (continued)

Borrower Financial Assessment

Lenders are required to perform a three part borrower financial assessment to determine your ability to qualify for a reverse mortgage. The financial assessment is designed to reduce reverse mortgage defaults and to make sure that borrowers can afford to live in their homes after the reverse mortgage closes. The reverse mortgage financial assessment focuses on a borrower's credit history, income and any extenuating circumstances the borrower has experienced that impact their financial or credit profile.

- ***Borrower Credit History Review:*** Unlike for a regular mortgage, for a reverse mortgage your credit score is not a significant factor in determining your interest rate or what size mortgage you qualify but lenders do review your credit history. All borrowers that meet the minimum credit score requirement typically receive the same interest rate from a lender so reverse mortgage borrowers are not rewarded for having higher credit scores. Lenders typically require borrowers to have a minimum credit score of 620 to qualify for a reverse mortgage although borrowers with extenuating circumstances may be able to qualify with lower scores. Lenders do review your credit report to verify that you have no late payments or derogatory credit events within the past year. Additionally, borrowers cannot have defaulted on government debt such as a student loan. Late payments or other derogatory credit events may make it challenging for you to qualify for a reverse mortgage or require the lender to set aside a portion of your reverse mortgage proceeds to pay for property tax and insurance.
- ***Residual Income Analysis:*** You must demonstrate that you have sufficient income or assets to afford non-mortgage housing expenses such as property taxes, homeowners insurance, homeowners association (HOA) fees (if applicable) and property maintenance. Failure to pay these ongoing housing expenses can result in default or foreclosure and you losing the property. To ensure that borrowers can afford the home after the reverse mortgage closes, the lender performs a residual income analysis that measures a borrower's income against ongoing housing expenses. A borrower's income can come from a multitude of sources including a job, military or private pension, retirement account income, social security, alimony and child support. When you apply for a reverse mortgage, the lender requests financial documents such as your tax returns and banks statements to verify that your income and assets. If a borrowers fails to pass the residual income test, the lender must set aside a portion of the proceeds to pay for ongoing housing expenses.
- ***Extenuating Circumstances:*** Lenders will review extenuating circumstances such as a job loss, reduced working hours or a medical hardship that may have impacted a borrower's financial profile or credit history. Borrowers with poor credit histories that may not otherwise be approved for a reverse mortgage may be able to qualify if they can prove that a derogatory credit event resulted from an extenuating circum stance. Additionally, in some cases, borrowers with extenuating circumstances may not be required to set aside a portion of their reverse mortgage proceeds for ongoing housing expenses even if they have poor credit profiles. Borrowers with extenuating circumstance must provide the lender with documentation that verifies and explains the event.

Life Expectancy Set Aside

If the borrower does not demonstrates sufficient income to pay for property tax and homeowners insurance or has poor credit, the lender sets aside a certain portion of the reverse mortgage proceeds to pay for these expenses. The amount of the Life Expectancy Set Aside is based on the borrower's age and expected property tax and insurance costs. The younger the borrower and higher the costs, the higher the set aside. Similar to an impound account for a regular mortgage, the Life Expectancy Set Aside is placed in a separate bank account from which property tax and insurance costs are paid when due.

A Life Expectancy Set Aside can be tens of thousands of dollars and take up a significant portion of a borrower's reverse mortgage proceeds. For example, for a 65 year old borrower with $3,000 in annual property tax and insurance expenses, the Life Expectancy Set Aside is approximately $40,000 which means the borrower receives $40,000 less in proceeds from the reverse mortgage. **Borrowers should determine if the Life Expectancy Set Aside applies to them before deciding if a reverse mortgage makes financial sense.**

Property Eligibility

You must live in the property for which you are getting a reverse mortgage so investment properties and vacation homes are not eligible. The property can be one-to-four units as long as the borrower occupies one of the units. The property can be a home or condominium although the condominium project must be HUD-approved. Borrowers who are seeking a reverse mortgage on a condominium should check with the condominium project's home-

Reverse Mortgage Overview (continued)

owners association (HOA) to determine if the project is approved by HUD.

HUD-Approved Reverse Mortgage Counseling Class

Borrowers must also complete a reverse mortgage class offered by a government-approved counselor. The class typically costs $100 - $175. Certain HUD-approved reverse mortgage counselors use HUD grants to offer counseling classes for free. Free reverse mortgage counseling classes save the borrower money but may take more time to find and complete due to greater borrower demand. Please note that lenders must wait seven days after receiving a signed certification that indicates the borrower completed a HUD-approved reverse mortgage counseling class before creating an FHA case number for the borrower. Creating the FHA case number enables the lender to order a property appraisal which is a key step in moving the reverse mortgage process forward.

What Lenders Offer Reverse Mortgages?

You can apply for a reverse mortgage from any HUD-approved reverse mortgage lender. Most types of lenders offer reverse mortgages including banks, mortgage bankers and mortgage brokers. Many larger, national banks, however, do not offer reverse mortgages. Mortgage bankers are the most common type of reverse mortgage lender and there are several mortgage banks that specialize in reverse mortgages. Many mortgage brokers work with a network of reverse mortgage lenders and are able to compare rates and fees from multiple competing lenders to find the reverse mortgage that is right for you.

You should treat the reverse mortgage process like you would any other major purchase, such as buying a car -- shop around, compare proposals from multiple lenders and negotiate the best terms for your reverse mortgage. Remember that the interest rate and closing costs, especially the lender origination fee, are subject to negotiation between you and the lender. We highly recommend that you speak to at least four lenders when shopping for your reverse mortgage including one mortgage broker and one mortgage banker. The National Reverse Mortgage Lenders Association (NRMLA) provides a reverse mortgage lender search function that allows you to find HUD-approved lenders in your state.

Shopping your reverse mortgage business and comparing lenders can save you thousands of dollars on your loan

Gathering and comparing reverse mortgage proposals from several lenders will help ensure that you receive the lowest interest rate and fees for your mortgage. Compare the interest rate and fees outlined in the lender proposals and negotiate the best terms for your mortgage. For example, if lender A offers a lower interest rate but higher fees than lender B, see if lender A will reduce their fees to match lender B.

Questions Borrowers Should Ask Before Getting a Reverse Mortgage

Is There a Size Limit for a Reverse Mortgage?

Yes. For almost all reverse mortgages, the mortgage amount cannot exceed the FHA reverse mortgage limit of $1,089,300. This is also known as the FHA HECM limit (Home Equity Conversion Mortgage). Some lenders offer jumbo reverse mortgages which permit higher loan amounts although lenders charge a higher interest rate and fees on jumbo mortgages and they represent a small portion (10%) of the reverse mortgage market.

- **Review our Jumbo Reverse Mortgage Overview**

Do I Lose Ownership of My Home?

No. With a reverse mortgage you keep ownership of your property as long as you continue to pay property tax and homeowners insurance. You maintain title of the property until you sell it or pass away.

- **Review our Mortgage Expert Insights on Reverse Mortgage Misconceptions**

Reverse Mortgage Overview (continued)

What is the Length of a Reverse Mortgage?

Unlike a traditional mortgage, there is no pre-determined length for a reverse mortgage. With a reverse mortgage, the loan lasts as long as you live in the property or until you decide to pay back the loan (which you are not required to do as long as you live in the property). A reverse mortgage could last five years or it could last 32 years -- there is no set term. It is important to highlight that the the longer a reverse mortgage is outstanding, the higher the principal balance.

When Do I Have to Pay Back the Reverse Mortgage?

If the borrower moves out of the property or passes away, the mortgage ends and the principal balance is due in full. Additionally, if a borrower is required to live in an assisted living facility for one year or longer then the borrower is no longer considered to live in the property and loan balance is due in full. A reverse mortgage is typically paid off by selling the property that is mortgaged and using the proceeds from the sale to pay off the loan but in some cases the borrower or the borrower's heirs may decide to pay off the loan with other funds.

A Reverse Mortgage Eliminates My Mortgage Payment. Does It Also Eliminate My Other Monthly Housing Expenses?

No. We want to emphasize this point. Although reverse mortgage borrowers do not make a mortgage payment they are responsible for ongoing housing expenses including property taxes, homeowners insurance, homeowners association (HOA) fees (if applicable) as well as property repairs and upkeep. Failure to pay these expenses could result in default or foreclosure which could require the borrower to pay off the mortgage balance in full or the borrower could potentially lose the home.

What are the Costs for a Reverse Mortgage?

Closing costs for a reverse mortgage are the same as for a normal mortgage including lender origination, appraisal report, settlement agent (escrow) and title fees. Lenders also charge a monthly servicing fee which is included in the mortgage interest rate and added to the mortgage balance over the life of the loan. Most closing costs for a reverse mortgage are regulated and there are limits on the total fees that can be charged. The lender origination fee for a reverse mortgage is capped at 2% of the value of the property up to the first $200,000 and 1% of the property value greater than $200,000. There is an overall cap on reverse mortgage lender origination fees of $6,000 but their is no minimum fee. The lender, escrow and title costs are typically financed which means they are included in the loan amount and paid for with the initial proceeds from the reverse mortgage. You are typically required to pay for the cost of the appraisal report and the FHA-required reverse mortgage counseling class up-front. Borrowers may also be required to pay for property repairs identified in the appraisal report prior to the mortgage closing.

- **Review our Mortgage Expert Insights on** Tips for Saving Money on Your Reverse Mortgage

Reverse mortgage borrowers are also required to pay an up-front and ongoing annual FHA Mortgage Insurance Premium (MIP). The up-front FHA MIP for a reverse mortgage equals 2.0% of the maximum claim amount (the maximum claim amount is the value of the property you are mortgaging up to the FHA mortgage limit in your county). The ongoing annual MIP for a reverse mortgage is 0.5% of the outstanding mortgage balance, calculated on a monthly basis. The borrower does not pay for either of these fees out of pocket as the up-front MIP is included in the closing costs which are financed as part of the reverse mortgage and the ongoing annual fee is added to the mortgage balance.

Reverse Mortgage Pros and Cons

There are pros and cons that a borrower should consider before applying for a reverse mortgage. The chart below outlines the positive and negatives of a reverse mortgage including key borrower benefits and challenges.

The example below the chart demonstrates one of the biggest risks of a reverse mortgage -- that you could lose all the equity in your property as the reverse mortgage balance grows over time. Although the example represents the worst case scenario for a reverse mortgage, it illustrates the downside risk that prospective reverse mortgage borrowers should consider. Review the chart and example below so that you can understand the upside and downside of a reverse mortgage before deciding if it is the right option for you.

Pros	Cons
Allows you to use the equity in your property to take out a loan that does not need to be paid back until you no longer live in the property	Your mortgage balance increases over time. This is called a negatively amortizing mortgage
You continue to own your home outright. Property title is never transferred with a reverse mortgage (unless the property is foreclosed upon due to the non-payment of property taxes or homeowners insurance)	With a reverse mortgage, instead of paying interest as part of your monthly mortgage payment, you do not make a monthly payment and the interest is added to the mortgage balance
Not having a monthly mortgage payment provides significant financial flexibility	This means you pay interest on the interest as the mortgage balance increases over time, which is a real financial negative for the borrower
The proceeds from a reverse mortgage are tax-free	You lose equity in your property. With a reverse mortgage, the amount of equity you have in your property declines over time in comparison to if you do not have a reverse mortgage
There are no limits on how you use the proceeds from a reverse mortgage	You potentially leave less money to your heirs because the reverse mortgage must be paid off if you pass away or move out of the house. Paying off the reverse mortgage means that your heirs receive less money when the property is sold
Depending on what type of reverse mortgage program you select, your available borrowing amount may increase over time if interest rates decrease	If your property does not increase in value, you may lose all the equity in your property. The principal balance of the reverse mortgage increases over time until it is paid off when the borrower sells the property, refinances the reverse mortgage or passes away. If the value of your property does not increase then the value of the reverse mortgage could match or exceed the value of your property ‣ Although you can never owe more than the value of your property, you may lose nearly all of the equity in the property meaning there would be little to no money for you or your heirs after the reverse mortgage is repaid
Due to government rules, the borrower or the borrower's heirs can never owe more than the value of the property, even if the value of the property decreases over time and the reverse mortgage balance is greater than the value of the property when the mortgage is due in full ‣ In the case where the reverse mortgage balance exceeds the value of the property, 95% of the property value, when sold, goes to pay off the reverse mortgage ‣ For example, at the end of a reverse mortgage when the loan balance is due in full, if the mortgage balance is $115,000 but the property value is $100,000, $95,000 in proceeds from the sale of the property ($100,000 * 95% = $95,000) will go to paying off the mortgage balance and the reverse mortgage is considered paid in full (the remaining $5,000 in proceeds is used to pay transaction fees) ‣ So even though the outstanding balance on the reverse mortgage is $115,000, the debt obligation is satisfied in full by paying 95% of the property value, as determined by a third-party appraiser ‣ This eliminates the risk that the borrower will pass the reverse mortgage debt onto your heir	You are required to pay an up-front and ongoing FHA Mortgage Insurance Premium (MIP). The up-front MIP fee is paid for with the proceeds of the reverse mortgage and the ongoing MIP fee is added to the mortgage balance. Although the borrower does not pay for the FHA MIP fees out of pocket, they are meaningful expenses that the borrower should consider when evaluating a reverse mortgage
	The borrower is required to perform maintenance and upkeep to make sure that the value of the property is maintained. This is an additional expense that the borrower should consider

Reverse Mortgage Pros and Cons (continued)

Example: Worst Case Scenario for a Reverse Mortgage - Total Loss of Equity

The example below demonstrates how you could potentially lose all of the equity in your home with a reverse mortgage. The example shows that if the interest rate of a reverse mortgage is greater than the property appreciation rate then you could lose all of the equity in your property, depending on the length of your reverse mortgage.

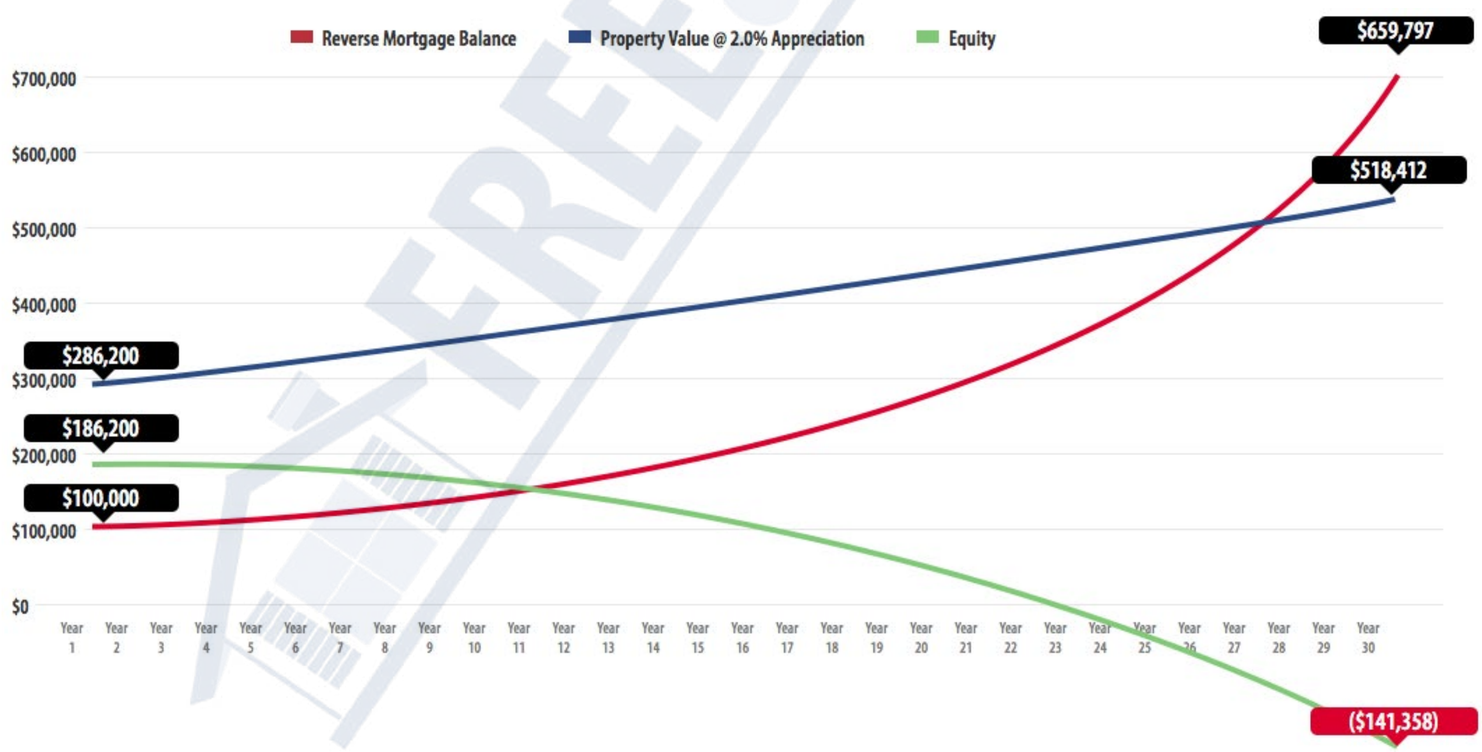
The red line in the chart shows how the principal balance for a reverse mortgage with an initial balance of $100,000 and an interest rate of 5.1% grows over time. At the end of year 30, the principal balance for the reverse mortgage is approximately $660,000.

The blue line in the chart shows how the value of the property changes over time using a $286,000 initial property value and 2.0% annual rate of property appreciation. At the end of year 30, assuming the property value increases 2.0% every year, the value of the property is approximately $520,000.

The green line shows the equity in the property, or the value of the property minus the balance of the mortgage on the property.

In this example, because the reverse mortgage balance increases faster than the property value, at the end of year 30, the owner's equity in the property is approximately negative $140,000. Although you can never owe more on your reverse mortgage than value of your property, you can lose all of your equity which means that your ownership stake in the property is worth nothing. The chart is only one example and represents the worst case scenario for a reverse mortgage. It is certainly possible for the property value to increase faster than the reverse mortgage balance, in which case your equity in the property will grow. Additionally, most reverse mortgages are shorter than 30 years which limits the potential growth of negative equity. But this example effectively demonstrates the biggest downside of a reverse mortgage -- you could lose all of your equity in your property.

This example shows a reverse mortgage after 30 years but there is no set term for a reverse mortgage. A reverse mortgage lasts as long as the owner lives in the property or until the mortgage is paid off so the actual term could be shorter than, or potentially longer than, 30 years.



Reverse Mortgage Key Terms

The table below summarizes the key items to focus on in evaluating a reverse mortgage. Understanding these key terms will help you understand how a reverse mortgage works, know what questions to ask a lender and determine if a reverse mortgage is right for you.

One of the most important inputs for a reverse mortgage is the expected property appreciation rate, or how much the value of your property is projected to increase in the future. With a reverse mortgage, your future home owners equity changes depending on the expected property appreciation rate -- the lower the rate, the lower your equity. The example below the table demonstrates how your future home owner equity changes based on the expected property appreciation rate. Be sure to ask the lender what property appreciation rate they are using when they show you how your reverse mortgage and equity project in the future.

Reverse Mortgage Key Items	

Interest Rate	- The interest rate that you pay on the outstanding balance of a reverse mortgage
	- There are two types of interest rate for a reverse mortgage:
	  - Fixed rate: the interest rate never changes over the life of the mortgage
	  - Adjustable rate: the rate is subject to change, and potentially increase over the life of the mortgage
	- The higher the interest rate, the lower the reverse mortgage amount you qualify for and the more the reverse mortgage balance increases over time
	- The lower the interest rate, the higher the reverse mortgage amount you qualify for and the less the reverse mortgage balance increases over time

Maximum Claim Amount	- This is the value of the property you are mortgaging up to the FHA mortgage limit in your county - So if the property value is $900,000 and the FHA mortgage limit in your county is $1,089,300 then the maximum claim amount is 1,089,300
Initial Principal Limit	- This is the size of reverse mortgage mortgage you initially qualify for based on your age, reverse mortgage type, interest rate and property value - The initial principal limit is calculated using an FHA formula and is typically between 50% and 60% of the property value - If you select a fixed rate reverse mortgage, you receive a disbursement of 60% or less of the initial principal limit when the mortgage closes and no additional proceeds - If you select an adjustable rate reverse mortgage, you receive a disbursement of 60% or less of the initial principal limit when the mortgage closes and after a one year waiting period you are able to receive the remainder of the proceeds up to the initial principal limit amount
Initial Advance	- The is the amount of money you receive up-front when the mortgage closes after paying closing costs and paying off any existing mortgages on the property
Lien Payoffs	- You are required to pay off any existing liens or mortgages on the property with the proceeds of the reverse mortgage
Financed Closing Costs	- When you get a reverse mortgage you are required to pay closing costs similar to a normal mortgage such as a lender origination fee, appraisal report fee as well as escrow and title costs - The lender, escrow and title costs are typically financed which means they are included in the loan amount and paid for with the initial proceeds from the reverse mortgage - You are typically required to pay for the cost of the appraisal report and the FHA-required reverse mortgage counseling class up-front
Beginning Mortgage Balance	- Your initial loan balance on your reverse mortgage when it closes - The beginning mortgage balance typically equals closing costs plus any existing mortgage balances on the property you pay off plus the amount of money you receive

Reverse Mortgage Key Terms (continued)

Reverse Mortgage Key Items	
Initial Line of Credit	- Depending on the type of reverse mortgage program you select and the amount of proceeds you elect to receive when the loan closes you may have access to a line a credit that allows you to draw down or pay back an amount of your choosing, up to the maximum amount of the line of credit, until the line is exhausted
Mortgage Insurance Premium	- The borrower is required to pay an up-front and ongoing FHA Mortgage Insurance Premium (MIP) - The borrower does not pay for either of these fees out of pocket as the up-front MIP is included in the closing costs which are financed as part of the reverse mortgage and the ongoing annual fee is added to the mortgage balance - The upfront FHA MIP for a reverse mortgage is 2.0% of the maximum claim amount (the maximum claim amount is the value of the property you are mortgaging up to the FHA mortgage limit in your county). The ongoing annual FHA MIP for a reverse mortgage is 0.5% of the outstanding mortgage balance, calculated on a monthly basis
Mortgage Payment	- With a reverse mortgage, the borrower never makes a mortgage payment
Monthly Servicing Fee	- This is a monthly fee charged by the lender to process and service the reverse mortgage - The servicing fee is typically included in the interest rate and the borrower does not pay the fee separately

Expected Property Appreciation Rate	- This is the expected annual rate of property value increase used to project what your property will be worth in the future
	- Your future projected property value minus your future projected reverse mortgage balance equals your equity
	    - The equity in your property is the value of your property minus the amount of any mortgages you have on the property, so it is basically the financial value of your ownership of the property
	- A higher expected appreciation means that the property value will increase more in the future
	    - If the expected appreciation rate is higher than the reverse mortgage interest rate then the value of the property grows faster than the the loan balance and the borrower is building equity in the property
	    - If the expected appreciation rate is lower than the reverse mortgage interest rate then the value of the property grows slower than the the loan balance and the borrower is losing equity in the property
	- Borrowers should be aware of lenders that use a high expected appreciation rate (4% or higher)
	- Borrowers should use a more conservative appreciation rate (3% or lower) or contact a real estate agent to understand the expected property appreciation rate in your area
	- The example below shows how the expected property appreciation rate impacts your projected future equity with a reverse mortgage

Life Expectancy Set Aside	- If the borrower does not demonstrates sufficient income to pay for property tax and homeowners insurance or has poor credit, the lender sets aside a certain portion of the reverse mortgage proceeds to pay for these expenses - The amount of the Life Expectancy Set Aside is based on the borrower's age and expected property tax and insurance costs. The younger the borrower and higher the costs, the higher the set aside - Life Expectancy Set Aside can be tens of thousands of dollars and take up a significant portion of a borrower's reverse mortgage proceeds

Reverse Mortgage Key Terms (continued)

Example: How the Property Appreciation Rate Impacts Your Equity

The example below demonstrates how the expected appreciation rate for your property impacts the equity in your home with a reverse mortgage. In this example, we assume that our property has an initial value of approximately $286,000 and look at how different rates of property appreciation impact our equity, or the value of the property minus the mortgage balance. The initial reverse mortgage balance in this example is $100,000 so the owner's equity in the property is $186,000 ($286,000 (property value) - $100,000 (mortgage balance) = $186,000 (equity)).

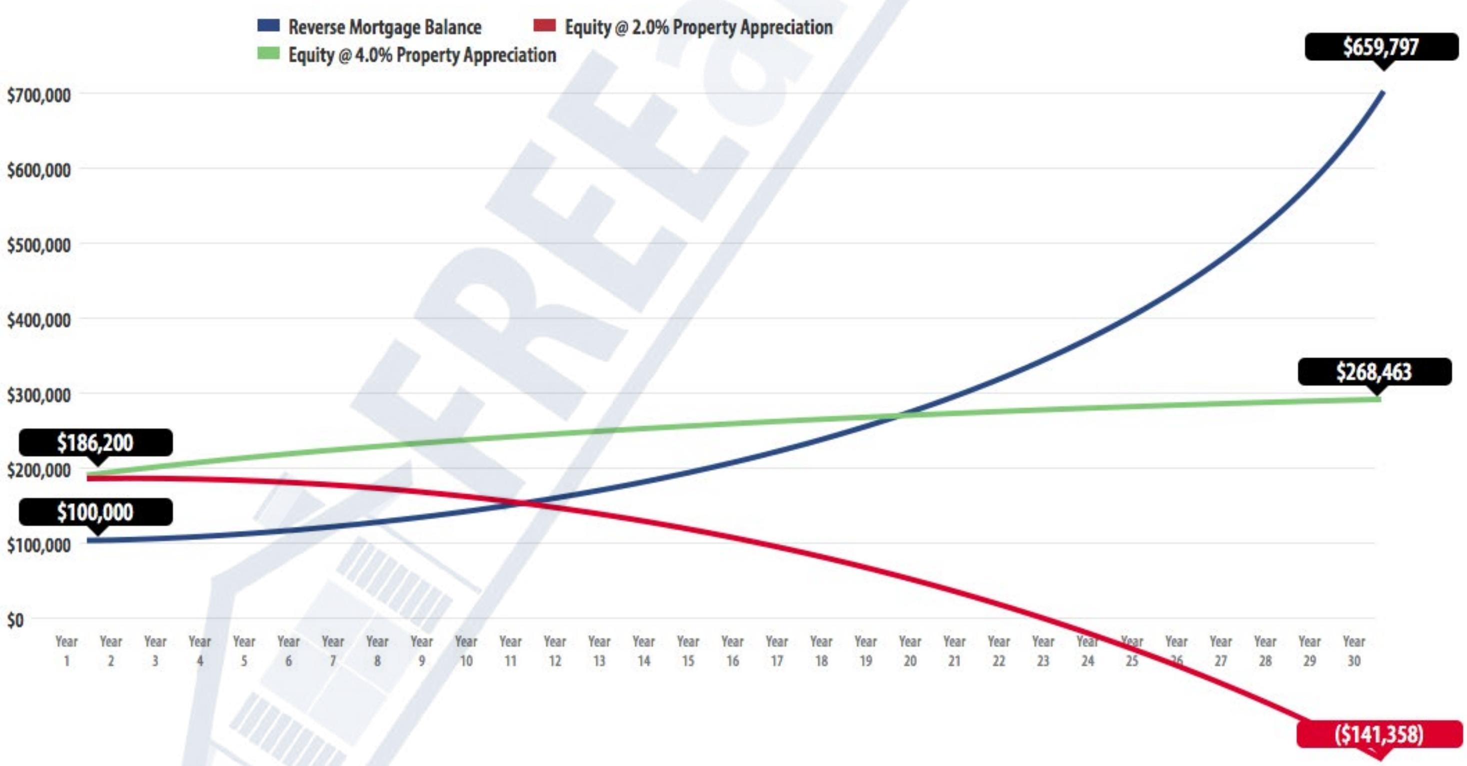
The **blue line** in the chart shows how the principal balance for a reverse mortgage with an initial balance of $100,000 and an interest rate of 5.1% grows over time. At the end of year 30, the principal balance for the reverse mortgage is approximately $660,000.

The **green line** in the chart shows how the owner's equity in the property changes over time using a 4.0% annual property appreciation rate. At the end of year 30, assuming the property value increases 4.0% every year, the value of the owner's equity in the property is approximately $270,000.

The **red line** in the chart shows how the owner's equity in the property changes over time using a lower, 2.0% annual property appreciation rate. At the end of year 30, assuming the property value increases 2.0% every year, the value of the owner's equity in the property is approximately negative $140,000. **Although you can never owe more on your reverse mortgage than value of your property, you can lose all of your equity which means that your ownership stake in the property is worth nothing.**

This example demonstrates the importance of the property appreciation rate in assessing what your property equity could be worth in the future with a reverse mortgage. It should raise a red flag if a lender uses a high property appreciation rate (4% or above) to try to convince you to do a reverse mortgage. Use a more conservative appreciate rate (3% or lower) or contact a real estate professional to discuss what property appreciation rate you should use to evaluate if a reverse mortgage is right for you.

This example shows a reverse mortgage after 30 years but there is no set term for a reverse mortgage. A reverse mortgage lasts as long as the owner lives in the property or until the mortgage is paid off.



Reverse Mortgage Program Options: Fixed Rate or ARM

There are two types of reverse mortgages: fixed rate mortgage and adjustable rate mortgage (ARM). The amount and type of disbursements you receive and the interest rate you pay vary depending on the type of reverse mortgage you select. The discussion below outlines how fixed rate and adjustable rate reverse mortgages work and reviews the pros and cons for each type of mortgage. Understanding both types of mortgages as well as their positive and negatives is key to selecting the reverse mortgage that is right for you.

Fixed Rate Reverse Mortgage

The interest rate for the reverse mortgage is fixed and cannot change over the life of the loan. The interest rate is determined by the lender and subject to negotiation with the borrower. The interest rate for a reverse mortgage is approximately 1.25% higher than the current market rate for a normal 30 year fixed rate mortgage. For a fixed rate reverse mortgage there is typically little variation in interest rates across lenders but borrowers can elect to pay discount points to lower their rate. Additionally, there is usually more variation in closing costs across lenders so borrowers should gather reverse mortgage proposals from three-to-four lenders to find the mortgage with the lowest combination of interest rates and fees.

Disbursement Options for a Fixed Rate Reverse Mortgage

With a fixed rate reverse mortgage the borrower receives a one-time disbursement, or payment, when the mortgage closes. The disbursement equals approximately 60% or less of the initial principal limit. The initial principal limit, calculated using an FHA formula, varies depending on age and property value and is typically between 50% and 60% of the property value. The amount of money the borrower receives equals the disbursement amount minus the principal balances on any existing mortgages on the property and closing costs.

The borrower does not receive any additional disbursements following the initial disbursement. The borrower does not receive any monthly disbursements and does have access to a the remaining equity through a reverse mortgage line of credit. The principal balance of the mortgage grows over time depending on the interest rate. The lower the interest rate, the slower the principal balance of the mortgage grows.

The chart below outlines the pros and cons of a fixed rate reverse mortgage:

Pros	Cons
Interest rate for the mortgage cannot increase during the life of the mortgage which provides certainty and peace of mind for the borrower ▶ If mortgage rates increase over time, the interest rate on a fixed rate reverse mortgage will likely be lower than than the interest rate on an adjustable rate reverse mortgage	The interest rate for a fixed rate reverse mortgage is typically higher than the initial interest rate for an adjustable rate mortgage The borrower is limited to taking one, lump-sum disbursement when the mortgage closes and does not receive any additional one-time payments, ongoing monthly payments or access to a line of credit
Limits the total amount of equity you can use in your property with a reverse mortgage	Lower maximum mortgage amount as compared to an adjustable rate reverse mortgage

Adjustable Rate Reverse Mortgage

With an adjustable rate reverse mortgage, the interest rate can change and possibly increase over the life of the mortgage. The higher the interest rate, the faster the principal balance grows so an adjustable rate reverse mortgage exposes the borrower to more risk than a fixed rate reverse mortgage. The borrower can choose between a mortgage that adjusts on a monthly basis or a mortgage that adjusts on an annual basis, with the annual adjustable rate reverse mortgage being the most popular.

The interest rate for an adjustable rate reverse mortgage is comprised of two components: the margin and the index. To calculate the interest rate for an adjustable rate reverse mortgage you add the margin to the index. For example, if the the margin is 2.500% and the index is 1.000%, the interest rate for your reverse mortgage is 3.500%.

Reverse Mortgage Program Options: Fixed Rate or ARM (continued)

The margin is a set interest rate amount that does not change over the term of the reverse mortgage. The margin is typically 2.0% - 3.0%. The margin is determined by the lender and subject to negotiation with the borrower.

The index is an underlying interest rate that can change over time. Reverse mortgages obtained prior to June 2020 usually use LIBOR as the index while reverse mortgages after June 2020 typically use the 30 day average SOFR (Secured Overnight Financing Rate). Simply put, SOFR and LIBOR represent the interest rate that banks charge each other to borrow money and change based on movements in the economy. The values for SOFR and LIBOR fluctuate but are the same for all banks.

LIBOR is being eliminated after 2021 and most LIBOR-based reverse mortgages will transition to SOFR. We recommend that you review your reverse mortgage documents to learn how your rate is calculated when LIBOR is not published.

The interest rate for an adjustable rate reverse mortgage is re-calculated on a monthly or annual basis (depending on if you have a monthly or annual reverse mortgage) for the entirety of the mortgage and will change with any fluctuations in the index. If the index increases, the interest rate on your reverse mortgage increases and the loan balance increases faster over time because you are adding more interest expense to the loan. The interest rate for an adjustable rate reverse mortgage also has a life cap which limits the maximum increase in interest rate over the term of the mortgage. The typical life cap for an interest rate for an adjustable rate reverse mortgage is 5.0% which means the interest rate over the life of the loan cannot exceed the initial interest rate by more than 5.0%.

Disbursement Options for an Adjustable Rate Reverse Mortgage

The maximum amount of proceeds the borrower is able to receive up-front at closing with an adjustable rate reverse mortgage is equal to or greater than a fixed rate reverse mortgage (depending on the borrower's age), plus the borrower has more options for how and when they take disbursements over the life of the mortgage. Additionally, with an adjustable rate reverse mortgage, the borrower is able to borrow more over the life of the loan as compared to a fixed rate reverse mortgage. With an adjustable rate reverse mortgage the borrower receives an up-front disbursement when the mortgage closes and is able to take additional disbursements after waiting a year. The maximum up-front disbursement equals approximately 60% or less of the initial principal limit. The borrower has to wait twelve months after the mortgage closes to be able to access the remaining available reverse mortgage proceeds, up to the initial principal limit, either through another lump-sum disbursement, monthly disbursements or through a line of credit.

An adjustable rate reverse mortgage provides the borrower with multiple options for how and when they access the proceeds from their reverse mortgage. The table below outlines the disbursement options for an adjustable rate reverse mortgage.

Disbursement Option	Description
Tenure	– Equal monthly payments as long as 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 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 as long as 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
Single Disbursement Lump Sum	– A single lump sum disbursement at mortgage closing

Source: HUD

Reverse Mortgage Program Options: Fixed Rate or ARM (continued)

It is important to highlight that different lenders offer different reverse mortgage programs and not all lenders offer programs that allow borrowers to draw down the proceeds from their reverse mortgage as described below. Be sure to consult multiple lenders to understand the programs they offer so you can find the reverse mortgage and disbursement strategy that are right for you.

The chart below outlines the pros and cons of an adjustable rate reverse mortgage:

Pros	Cons
The initial interest rate for an adjustable rate reverse mortgage is lower than the interest rate for a fixed rate reverse mortgage • A lower interest rate reduces your interest expense and means your principal mortgage balance grows more slowly	The interest rate for an adjustable rate reverse mortgage can change and potentially increase which exposes the borrower to greater risk • A higher interest rate means that you pay more in interest expense and your principal mortgage balance increases faster over time
An adjustable rate reverse mortgage offers more disbursement options, providing greater financial flexibility for the borrower	The ability to access more equity in your home with an adjustable rate reverse mortgage means that you could have less equity in your home at the end of the loan • Less equity means that you or your heirs receive less proceeds after you sell the property and/or pay off the reverse mortgage
Offers the borrower a higher maximum mortgage amount as compared to a fixed rate reverse mortgage • You can borrow more money over time with an adjustable rate	

Jumbo Reverse Mortgage Overview

What Borrowers Should Know About Jumbo Reverse Mortgages

Most reverse mortgage lenders apply limits to the size of reverse mortgage borrowers can obtain. Your reverse mortgage loan amount typically cannot exceed the FHA reverse mortgage limit of $1,089,300. This is also known as the FHA HECM limit (Home Equity Conversion Mortgage). A very small number of lenders, however, offer jumbo reverse mortgages, or mortgages where the loan amount is greater than the FHA loan limit. It is important to highlight that jumbo reverse mortgages are relatively uncommon and are not available to borrowers in all states.

Jumbo reverse mortgages work the same way as a regular reverse mortgage -- the borrower is not required to make a monthly mortgage payment and instead the principal loan balance grows over time, depending on the interest rate. The mortgage balance is due in full when the borrower vacates the home either by selling the property, moving into an assisted care facility for more than a year or when the borrower passes away.

Jumbo reverse mortgages also offer the same benefits as regular reverse mortgages including eliminating your monthly mortgage payment, significant tax-free cash proceeds and maintaining ownership of your home. Additionally, there are no limits on how borrowers spend the reverse mortgage proceeds after they have paid off their existing mortgage.

Like regular reverse mortgages, jumbo reverse mortgages only apply to a borrower's primary residence including single-family homes and eligible condominiums. Additionally, the borrower is required to complete a reverse mortgage counseling class.

Differences Between a Jumbo Reverse Mortgage and Regular Reverse Mortgage

Although they generally operate the same way, there are also multiple differences between jumbo reverse mortgages and regular reverse mortgages that borrowers should understand. We outline the key differences below.

Larger Loan Proceeds

Greater borrower proceeds is the most obvious benefit of a jumbo reverse mortgage. Some lenders offer jumbo reverse mortgages of up to $3,000,000, which is significantly higher than the loan limit for a regular reverse mortgage.

Both Borrowers Must Be 62

Both jumbo reverse mortgage borrowers must be 62 years old and if two people own the home being financed, both individuals must apply for the reverse mortgage as borrowers. Non-borrower spouses are usually not permitted for jumbo reverse mortgages.

Lower Loan-to-Value Ratio Limit

Jumbo reverse mortgages typically permit a maximum loan-to-value (LTV) ratio of 50%, which a is lower LTV ratio limit than a regular reverse mortgage (depending on the type of transaction, borrower age and type of loan program). The LTV ratio represents the ratio of the loan amount to the appraised fair market value of the home.

For Refinancings Only

Jumbo reverse mortgages only apply to refinancing transactions when the borrower refinances the mortgage on the home they currently own and reside in. You cannot use a jumbo reverse mortgage to buy a home.

Fixed Rate Mortgage Only

Regular reverse mortgages allow borrowers to select an adjustable rate mortgage or fixed rate mortgage; however, jumbo reverse mortgages only permit the fixed rate option. This means the borrower's interest rate remains constant, and cannot increase, over the life of the loan.

Lump Sum Disbursement Option Only

Regular reverse mortgages provide different disbursement options for how borrowers receive their proceeds including an up-front lump sum payment, monthly disbursements or by drawing down a line of credit. With a jumbo reverse mortgage, borrowers are only allowed to receive a one-time, lump sum disbursement when the mortgage closes.

Jumbo Reverse Mortgage Overview (continued)

Higher Interest Rate

The interest rate on a jumbo reverse mortgage is approximately 2.5% higher than the rate on a regular reverse mortgage. A higher interest rate means the borrower's loan balance grows faster over the course of the mortgage.

Stricter Borrower Financial Assessment

Reverse mortgage lenders perform a financial assessment to determine a borrower's ability to qualify for the loan. Lenders review the borrower's income, assets and credit score to make sure that the borrower can afford ongoing monthly housing expenses such as property taxes and homeowners insurance, which the borrower is still required to pay after the loan closes. The financial assessment for a jumbo reverse mortgage is usually stricter and requires the borrower to demonstrate a greater financial cushion, or a higher income as compared to ongoing housing expenses (after taking into account the borrower's other monthly debt).

Potentially Requires Two Property Appraisals

Lenders may require two property appraisals for homes valued at more than $1,000,000. The borrower is required to pay for the additional property appraisal if applicable.

Only Available in Selected States

Jumbo reverse mortgages are only available in a very small number of states including California.

Jumbo Reverse Mortgage Lenders

Currently, jumbo reverse mortgages are only offered by a small number of lenders. Borrowers should contact multiple lenders to determine if they offer jumbo reverse mortgages.

Top Reasons to Get a Reverse Mortgage

Reverse mortgages enable eligible borrowers to take a significant amount of cash out of their homes. Depending on the type of reverse mortgage, borrowers can take cash out in a single lump sum, through equal monthly disbursements or draw down a line of credit over time. The most compelling features of a reverse mortgage are that borrowers **do not** make monthly mortgage payments plus the proceeds from a reverse mortgage are tax-free. The downside to a reverse mortgage is that your mortgage balance increases over the life of the loan which can erode the equity you have in your property. The reverse mortgage balance is due in full when the borrower sells or vacates the property or refinances the loan.

To qualify for a reverse mortgage at least one borrower must be at least 62 years old and the borrowers must demonstrate the ability to pay for ongoing monthly housing expenses including taxes, insurance and property maintenance. Additionally, reverse mortgages are best-suited for borrowers with significant equity in their homes. The more property equity you have, the greater the proceeds you can receive from a reverse mortgage.

When fully understood and used properly, reverse mortgages offer significant financial benefits to borrowers. Below we outline some of the top reasons to get a reverse mortgage and explain how borrowers can use this financing option to access the equity in their homes for a multitude of purposes. A reverse mortgages is not without risks but can be a highly effective tool that helps borrowers realize their personal and financial goals. Review the explanation below to understand how a reverse mortgage can work for you.

1 Eliminate Your Mortgage Payment

- One of the most popular reasons to get a reverse mortgage is to eliminate your monthly mortgage payment. With a reverse mortgage, instead of making a monthly mortgage payment and paying down your mortgage over time, your monthly interest expense is added to the principal balance of the mortgage. Adding the monthly interest expense to the mortgage means your reverse mortgage balance increases over time but it also means you have no monthly payment. Eliminating your mortgage payment typically removes one of your largest monthly expenses while significantly enhancing your financial freedom and flexibility.

2 Pay Off Your Existing Mortgage and Debt

- Borrowers who get a reverse mortgage are required to pay off their existing mortgages. Additionally, in many cases borrowers with funds remaining after paying off their mortgages decide to pay off or pay down debt such as credit card or car loans.
- For example, a borrower with 10 years remaining on a $300,000 30 year fixed rate mortgage with a 5% interest rate has an approximately $148,000 mortgage balance and a $1,610 monthly mortgage payment. Assuming the value of the borrower's property is $400,000, the borrower can obtain an approximately $240,000 reverse mortgage. After the borrower uses the proceeds from the reverse mortgage to pay off his or her existing mortgage balance of $148,000 and closing costs of approximately $5,000, the borrower has $87,000 remaining that can be used for a variety of purposes, including paying off debt. The borrower may elect to pay off a credit card bill that cost hundreds of dollars per month.
- Depending on the value of your property, a reverse mortgage can enable borrowers to pay off hundreds of thousands of dollars in total debt which, which can dramatically improve your financial position.

3 Improve Your Monthly Cash Flow

- Paying off your existing mortgage and other debt significantly reduces your monthly costs and improves your cash flow. This reason for getting a reverse mortgage is especially applicable for borrowers who live on fixed incomes. Using a reverse mortgage to lower your monthly costs enables borrowers to stretch their monthly income farther.
- Using the same example as above, a borrower with a $300,000 30 year fixed rate mortgage with a 5% interest rate can use a reverse mortgage to eliminate his or her $1,610 monthly mortgage payment and possibly hundreds or even thousands of dollars in other monthly debt expense. Slashing several thousands of dollars in monthly expenses provides a significant boost to your cash flow.
- Borrowers who do not have a large mortgage balance or significant monthly debt can invest the proceeds from a reverse mortgage to generate supplemental income. Although current investment returns are relatively low, even a modest increase in income improves your monthly cash flow. Borrowers should be sure to fully understand the risks involved before they invest the proceeds from a reverse mortgage.
- Improving monthly cash flow with a reverse mortgage enables borrowers to spend more money on the things they want instead of struggling to pay the mortgage and other bills.

4 Remodel Your Home

- Many borrowers want to do a significant home remodeling or renovation project but do not want to incur additional debt to or increase their monthly mortgage payments. A reverse mortgage enables borrowers to access a significant amount of equity in their homes for a major home renovation while eliminating their mortgage payment at the same time.
- For example, a borrower with a $150,000 mortgage balance could obtain a $250,000 reverse mortgage and after paying off the existing mortgage balance and closing costs, have approximately $95,000 in proceeds remaining for a home remodeling project.
- For many borrowers, a reverse mortgage is a more attractive option for financing a major home remodeling project than a cash-out refinancing, home equity loan or line of credit. A refinancing, home equity loan and line of credit all require the borrower to make ongoing monthly loan payments as compared to a reverse mortgage which eliminates the borrower's current mortgage balance and requires no monthly payments.

5 Downsize Your Home

- In some cases, borrowers who currently own a home sell their existing property and combine the proceeds with a reverse mortgage to downsize and buy a smaller home. For example, if you have a home valued at $600,000 with a $400,000 mortgage balance you could sell the home and use the approximately $165,000 in proceeds (after commissions and closing costs) as the down payment on a new home that you purchase with a reverse mortgage. Assuming you make a down payment of 50%, you could purchase a new home valued up to approximately $330,000. So you have downsized from a $600,000 house to a $330,000 house but you have eliminated your monthly mortgage payment by purchasing your new home with a reverse mortgage.

Top Reasons to Get a Reverse Mortgage (continued)

6 Pay for College Tuition	One of the best features of a reverse mortgage is that there are no restrictions on the use of proceeds after you pay off your existing mortgage (if you have one). You can use a reverse mortgage to remodel your home, buy a new home or even pay for college tuition for a child, grandchild or yourself. Borrowers with smaller existing mortgage balances have the opportunity to use a reverse mortgage to take a significant amount of cash out of their homes. What the borrower decides to do with the money is up to them. Before getting a reverse mortgage, borrowers should make sure they have sufficient income or funds to pay for monthly housing expenses such as property taxes, homeowners insurance and property maintenance. With the right financial plan in place, a reverse mortgage can provide borrowers with significant funds to pay for ongoing housing expenses and also enable them to realize additional financial goals including paying for college.
7 Retire and Travel the World	Because one borrower must be at least 62 years old, reverse mortgages are popular with people who are retired or nearing retirement. In some cases, borrowers with significant equity in their homes can use the proceeds from a reverse mortgage to accelerate their retirement. Although borrowers must demonstrate the ability to pay for ongoing housing expenses, unlike "regular" forward mortgages, borrowers do not need to be employed or generate significant income to qualify for a reverse mortgage. So getting a reverse mortgage does not impose the 15-30 year financial burden of a regular mortgage that requires ongoing monthly payments to pay off the loan. Just the opposite, when implemented properly, a reverse mortgage can provide borrowers with greater financial freedom by enabling or enhancing their retirement. Some reverse mortgage borrowers continue to work but many use the proceeds from their loan to retire more comfortably and seek adventure across the globe.

Seven Reverse Mortgage Misconceptions

1 I Lose Ownership of My Home

- Just like with a regular mortgage, you do not lose ownership of your home with a reverse mortgage
- The title of the property is never transferred with a reverse mortgage
- The borrower maintains ownership of the property until the property is sold or the borrower passes away

FREEandCLEAR Resources

- Reverse Mortgage Overview

2 Equity in the Property Belongs to the Lender

- Any equity, or the difference between the value of the property and the amount of the mortgage on the property, always belongs to the borrower as long as they own the property
- Depending on how the value of the property changes over time, the amount of the homeowner's equity may decline as the reverse mortgage balance increases, but the homeowner maintains 100% of the equity in the property

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- Reverse Mortgage Overview

3 My Property Equity Will Always Increase

- This is false. The value of the property may increase at a slower rate than the reverse mortgage balance, which means that the borrower is losing equity in the property
- The reverse mortgage balance increases over time while the future value of your property can be hard to predict
- If the property appreciation rate, or the rate at which the value of the property increases over time, is lower than the reverse mortgage interest rate then your reverse mortgage balance will grow faster than your property value
- Although a borrower can never owe more on a reverse mortgage than the value of the property, a borrower could lose almost all of the equity in the property if the property value increases at a slow rate, remains flat or declines as the reverse mortgage balance increases
- When evaluating a reverse mortgage, borrowers should use a conservative property appreciation rate (3% or lower) or contact a real estate agent to understand the expected property appreciation rate in your area and understand that you could potentially lose all the equity in your property

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- Reverse Mortgage Pros and Cons

4 My Mortgage Balance Will Not Increase

- This is false. The borrower does not make monthly payments with a reverse mortgage so the mortgage balance increases over time
- Instead of making monthly payments comprised of both principal and interest, the interest expense and other reverse mortgage fees are added to the mortgage balance
- By adding interest expense and fees to the mortgage balance every month, you increase the principal mortgage balance plus you pay interest on interest which is one of the biggest drawbacks of a reverse mortgage
- Your reverse mortgage balance increases over time regardless of if you take additional disbursements

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- Reverse Mortgage Pros and Cons

Seven Reverse Mortgage Misconceptions (continued)

5 I Am Not Responsible for Property Taxes and Insurance	- A reverse mortgage borrower must continue to pay property tax, homeowner's insurance and other potentially applicable monthly housing expenses such as homeowners association (HOA) fees - If the borrower fails to pay these fees, the property could go into foreclosure and the homeowner could lose the property - Most reverse mortgage lenders require that borrowers demonstrate their ability to pay for monthly housing expenses when they apply for the mortgage
FREEandCLEAR Resources	- **Reverse Mortgage Overview**

6 My Interest Rate Will Never Increase	- This is true if you get a fixed rate reverse mortgage, but if you get an adjustable rate reverse mortgage, your interest rate can change and potentially increase - Depending on the type of adjustable rate reverse mortgage you select, the interest rate can change and increase on a monthly or annual basis - If your interest rate increases, your reverse mortgage balance will grow at a faster rate - Be sure to consult your lender to understand the pros and cons of an adjustable rate or fixed rate reverse mortgage
FREEandCLEAR Resources	- **Reverse Mortgage Program Options: Fixed Rate or ARM**

7 My Heirs Can Keep the Reverse Mortgage	- If you pass away or sell your property, the reverse mortgage must be paid off - The heirs to your property can decide to sell the property to pay off the reverse mortgage or pay off the reverse mortgage with their own funds but the reverse mortgage comes due when you pass away
FREEandCLEAR Resources	- **Reverse Mortgage Key Terms**

Six Tips for Saving Money on Your Reverse Mortgage

1 Shop for the Best Interest Rate

- Just like with a regular mortgage, you should shop for your reverse mortgage to make sure you get the lowest interest rate
- FREEandCLEAR recommends that you compare reverse mortgage proposals from three-to-four lenders to find the best rate
- There are two types of reverse mortgage: fixed rate and adjustable rate
- The interest rate for a fixed rate reverse mortgage is typically the same across all lenders but the interest rate for an adjustable rate reverse mortgage can vary across lenders
- If you are shopping for an adjustable rate reverse mortgage make sure you find the lender that offers the lowest margin as this will result in you paying a lower interest rate than an adjustable rate reverse mortgage with a higher margin

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- Reverse Mortgage Lender Overview

2 Negotiate Lower Fees

- Lenders make a lot of money over the course of a reverse mortgage so borrowers may be able to negotiate lower up-front fees
- The origination fee is the up-front fee that a lender charges the borrower to process the loan and the borrower may be able to negotiate with the lender to eliminate this fee
- Additionally, the borrower may be able to get the lender to pay for or reimburse the borrower at closing for other up-front fees such as the appraisal report
- Borrowers should compare proposals from multiple lenders and be prepared to negotiate with lenders to find the reverse mortgage with the lowest fees

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- Reverse Mortgage Lender Overview

3 Only Borrow the Amount of Money You Need

- Because the borrower does not make a monthly mortgage payment with a reverse mortgage, the mortgage balance increases over time
- The less money you borrow, the lower your reverse mortgage balance will be at the start, over the course and at the end of your reverse mortgage, when the balance is due in full when the borrower sells the property or passes away
- The amount of reverse mortgage you qualify for depends on many factors including your age, the value or your property and the type of reverse mortgage you select
- You are not required to borrow the full amount of the reverse mortgage you qualify for and you should borrow only what need based on your financial objectives
- Do not let a lender push you into taking a larger reverse mortgage amount than you need as a lower mortgage amount will save you money and help you preserve equity in your property in the long run

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- Reverse Mortgage Key Questions

4 Consider a Fixed Rate Reverse Mortgage

- If you select a fixed rate reverse mortgage, your interest rate will not change or increase over the life of the mortgage
- At the start of the mortgage, the interest rate for a fixed rate reverse mortgage is typically higher than the interest rate for an adjustable rate reverse mortgage. If interest rates increase in the future, however, the interest rate for an adjustable rate reverse mortgage will likely be higher than the interest rate for a fixed rate reverse mortgage
- The higher the interest rate, the faster your reverse mortgage balance increases over time
- A borrower can eliminate the risk of an interest rate increase and potentially save money in the long term by selecting a fixed rate reverse mortgage
- The downsides of a fixed rate reverse mortgage are that the interest rate is higher in the beginning of the mortgage, the borrower qualifies for a lower loan amount and has fewer disbursement options

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- Reverse Mortgage Program Options: Fixed Rate or ARM

5 Make Sure the Property is in Good Condition

- When you apply for a reverse mortgage, lenders order an appraisal report to determine the value of the property
- The borrower is responsible for addressing any repairs or renovations identified in the appraisal report and then must pay for the appraiser to re-inspect the property
- The borrower should perform any major property repairs or renovations prior to applying for the reverse mortgage to avoid paying multiple appraisal fees

FREEandCLEAR Resources

- Reverse Mortgage Key Items

6 Ask About Free Counseling Classes

- In order to qualify for a reverse mortgage you must complete a counseling class offered by a government-approved counselor
- The reverse mortgage counseling class typically costs $100 - $175 but certain HUD-approved reverse mortgage counselors use HUD grants to offer free counseling classes
- A borrower can save money by taking a free counseling class but it may take more time to find and complete these classes due to greater borrower demand

FREEandCLEAR Resources

- Reverse Mortgage Borrower Qualification

How to Buy a Home with a Reverse Mortgage

Most people use a reverse mortgage to take cash out of a property they already own. In many cases reverse mortgage borrowers have owned and lived in a property for many years and have paid off most or all of their mortgage balance. In these cases, borrowers use a reverse mortgage to access the significant equity they have in their homes.

Many people may not realize that you can also use a reverse mortgage to buy a home. Using a reverse mortgage to buy a home is different than using a "regular" forward mortgage to buy a home. With a regular mortgage, the borrower makes monthly payments and pays off the mortgage balance over a set period of time, usually 15 or 30 years. With a reverse mortgage, the borrower makes no monthly payments but the mortgage balance increases over time. Additionally, a reverse mortgage has no set term and lasts as long as the borrower occupies the property. The reverse mortgage principal balance is due in full when the borrower sells, vacates or refinances the property.

Below, we outline how borrowers can use a reverse mortgage to buy a home and eliminate their monthly mortgage or rent payments. Using a reverse mortgage to buy a home is especially suitable for borrowers with fixed incomes or significant financial reserves. Reverse mortgages are not without risk but when understood and used properly they can provide borrowers with significant financial freedom and even help them purchase a home. Review our comprehensive explanation below to understand if using a reverse mortgage to buy a home makes financial sense for you.

1 Meet Borrower Eligibility Requirements	The borrower eligibility requirements for a reverse mortgage are different than for a regular mortgage. At least one borrower must be at least 62 years old. The older the borrower, the larger the larger the reverse mortgage you can qualify for. Unlike a regular mortgage, there is no borrower employment requirement but borrowers must meet minimum credit score requirements. Borrowers are also required to complete a HUD-approved reverse mortgage counseling class which typically costs $100 - $175.
FREEandCLEAR Resources	**Reverse Mortgage Program Overview**
2 Demonstrate Ability to Pay Monthly Housing Expense	This is a really important point when it comes to qualifying for a reverse mortgage. Although a reverse mortgage does not have a standard debt-to-income ratio limit like a regular mortgage, the borrower must demonstrate the ability to pay for ongoing monthly housing expenses including homeowners insurance, property taxes, homeowners association (HOA) dues (if applicable) as well as property maintenance and upkeep. Lenders should verify that borrowers have sufficient monthly income or savings in reserve to pay for these expenses. If the borrower fails to pay ongoing housing expenses the property could go into default or foreclosure and the borrower could lose the property. The lender will also review the borrower's monthly debt to make sure the he or she can afford the housing expenses on top of the borrower's other monthly bills. Borrowers with limited incomes or savings and high recurring monthly debt will likely find it challenging to qualify for a reverse mortgage. The amount of ongoing housing expenses depends on several factors including the value and location of the property. For example, property taxes can range from .3% to over 2.3% of the property's value depending on your city and state. Additionally, the higher the property value, the higher the homeowners insurance premium. Borrowers should be sure to understand the expenses involved in owning a property before using a reverse mortgage to buy a home.
FREEandCLEAR Resources	**Total Monthly Housing Expense Overview**
3 Understand Property Eligibility Requirements	Borrowers must live in the property they purchase with a reverse mortgage so investment properties and second homes are not eligible. The property can be one-to-four units as long as the borrower occupies one of the units. Borrowers can use a reverse mortgage to purchase a home or condominium although the condominium must be located in a HUD-approved project. If you are considering buying a condominium with a reverse mortgage make sure the project is HUD-approved before moving forward.
FREEandCLEAR Resources	**HUD Approved Condo Search**

How to Buy a Home with a Reverse Mortgage (continued)

4 Determine Down Payment

- Buying a home with a reverse mortgage requires a much larger down payment than buying a home with a regular mortgage. Whereas buying a home with a regular mortgage typically requires a down payment of 3% - 20% of the property purchase price, buying a home with a reverse mortgage typically requires a down payment of approximately 50%, depending on the borrower's age and property value. The older you are the lower the down payment you are required to make, because you qualify for a larger reverse mortgage amount. For example, a 62 year old borrower may be required to make a 53% down payment while a 70 year old borrower may only be required to make a 48% down payment.
- For example, if you want to buy a $300,000 home with a reverse mortgage you could be required to make a down payment of approximately $150,000, or 50% of the purchase price. The remaining $150,000 of the purchase price plus money for closing costs would come from the reverse mortgage proceeds.
- A reverse mortgage requires a significant down payment which can come from your personal savings or by selling your current home and using the proceeds for the down payment on your new home. In many cases borrowers sell their existing home, pay off their current mortgage and use the remaining money for the down payment on the home they purchase with a reverse mortgage. Under this scenario, the borrower replaces a regular mortgage on their old home with a reverse mortgage on their new home which also eliminates their mortgage payment.

FREEandCLEAR Resources

- Down Payment Overview

5 Determine How Much Home You Can Afford

- What price home you can afford to buy with a reverse mortgage depends on the size of your down payment and how much you can afford to spend on monthly housing expenses. The higher your down payment, the higher the price home you can afford.
- For example, if you make a $100,000 down payment you can afford an approximately $200,000 home and if you make a down payment of $150,000 you can afford an approximately $300,000 home (assuming the down payment represents 50% of the purchase price in both cases). The higher the price of the home, the higher the monthly housing expenses so borrowers need to demonstrate that they have sufficient income or assets to afford the more expensive home.
- There is also a limit to the size of reverse mortgage you can obtain. Your reverse mortgage loan amount cannot exceed the FHA reverse mortgage limit of $636,150. This is also known as the FHA HECM limit (Home Equity Conversion Mortgage). Limiting the size of mortgage you can obtain serves to restrict how much home you can buy with a reverse mortgage.
- Finally, borrowers should also consider closing costs such as lender origination, appraisal, title and settlement agent fees in determining how much home they can afford. Closing costs for a reverse mortgage vary depending on property value, location, interest rate and mortgage program but typically run between 0.5% and 2.5% of the property value. Borrowers are also required to pay an upfront FHA mortgage insurance premium (MIP) which is 2.0% of the property value and an ongoing FHA MIP, which is 0.5% of the reverse mortgage balance, calculated on a monthly basis. The borrower typically does not pay for either of these fees out of pocket as the upfront MIP is included in the closing costs which are financed as part of the reverse mortgage and the ongoing FHA MIP fee is added to the reverse mortgage balance.
- Lender, settlement agent, title and up-front FHA MIP costs are typically financed which means they are included in the loan amount and paid for with the proceeds from the reverse mortgage, although this means borrowers receive less proceeds that can be used to pay for the home they are buying.
- Borrowers should work closely with their lender and consider their down payment, monthly housing expenses and closing costs to determine how much home they can afford to buy with a reverse mortgage.

FREEandCLEAR Resources

- FHA LOAN LIMIT CALCULATOR

6 Shop Reverse Mortgage Lenders

- Borrowers should shop for a reverse mortgage and compare lenders like they would for a regular mortgage. Just like with a regular mortgage, the lower the interest rate and fees, the more money the borrower saves. There is typically less variation in interest rates across reverse mortgage lenders but more variation in fees and closing costs. Borrowers can also elect to pay discount points to lower their interest rate.
- Reverse mortgages are relatively lucrative for lenders and borrowers can use this information to their advantage by negotiating lower up-front fees. Borrowers may also be able to negotiate that lenders pay for certain closing costs such as the appraisal fee. Borrowers should compare proposals from multiple lenders and be prepared to negotiate to find the reverse mortgage with most attractive terms.
- You can obtain a reverse mortgage from any HUD-approved lender. Mortgage banks are the most common type of reverse mortgage lender and there are multiple mortgage banks that specialize in reverse mortgages. Mortgage brokers are another lender option for borrowers. Mortgage brokers act as personal shoppers for borrowers and compare mortgage terms across a network of lenders to find the reverse mortgage that is right for you. **FREEandCLEAR recommends contacting at least one mortgage bank and mortgage broker before selecting a lender for your reverse mortgage.**
- When shopping lenders borrowers should also understand the lender's qualification requirements and the reverse mortgage timetable so that there are no surprises when the process moves forward.

FREEandCLEAR Resources

- INTEREST RATES

7 Select a Lender and Buy Your Home

- After you have determined what size reverse mortgage and home you can afford and compared multiple lenders you are set to select a lender and purchase your home. In addition to comparing key mortgage terms such as interest rates and closing costs, make sure that the lender you select has extensive experience with reverse mortgage home purchase transactions and ask for client references. Working with a capable and experienced lender is the best way to ensure a successful reverse mortgage transaction so that you can buy the home you want.

FREEandCLEAR Resources

- Tips for Saving Money on Your Reverse Mortgage