THE REVERSE MORTGAGE GUIDE

Penny Lane Financial

Your Path To Better Investing

The Reverse Mortgage Guide

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Borrower is responsible for property taxes, homeowner's insurance, HOA and property maintenance in order for the loan to remain in good standing. A HECM is a home-secured loan that must be repaid upon default or a maturity event, such as when the home is sold, all homeowners have passed away, or the last surviving borrower no longer lives there as their primary residence.

Additional information:

Some information in this guide is from the CFPB Report to Congress on Reverse Mortgages, June 2012. Note: A credit line is available only on adjustable-rate HECM products.

Consult a financial advisor and appropriate government agencies for any effect on taxes or government benefits.

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Introduction

The understanding of **reverse mortgages** has shifted greatly in the last decade, leading us into an era where more and more people are intrigued by this unique financing option for people 62-and-older. By the end of this guide you should be able to understand how reverse mortgages function, who they're most suited for, what their financial and lifestyle incentives may be, misconceptions, and the steps necessary in getting one.

Whether you're a homeowner, loan officer, financial planner, realtor, CPA, tax professional, retirement advisor, or insurance agent, this guide will get you started in understanding some basics about reverse mortgage solutions.

Overview

Simply put, a reverse mortgage is a type of loan that allows a borrower to access the equity of their home. Just like a traditional mortgage, a reverse mortgage allows homeowners to borrow money using their home as security for the loan. The main difference with a reverse mortgage is that borrowers have the option of not making monthly mortgage payments. Rather, the lender pays them in some form- usually through monthly payments, cash, or a growing line-of-credit.

Over the course of the loan, interest fees are added to the loan balance each month. Meaning with a reverse mortgage, the amount the homeowner owes to the lender goes up, not down, over time. As your loan balance increases, your home equity may decrease. The loan is typically repaid when the borrower no longer lives in and/or sells the home.

Did You Know?

The amount owed at the time the loan is repaid cannot exceed the current value of your home.

Most reverse mortgages are part of the federally insured Home Equity Conversion Mortgage, or HECM, under the Federal Housing Administration. You may hear the term reverse mortgage used synonymously with HECM, although there are other types of reverse mortgages.

If you're 62-and-older and want to supplement your income, eliminate monthly payments, or even pay for healthcare expenses, you may want to consider a reverse mortgage. It allows you to convert part of the equity in your home into cash without selling your home or taking on additional monthly bills.

Reasons to Consider A Reverse Mortgage

Reverse mortgages can be used for a variety of homeowner expenses. The idea that reverse mortgages are only for those "cash-poor, house-rich" has been replaced with an expansive list of options to utilize home equity. For the right borrower, a reverse mortgage can have many benefits and can enable borrowers who are short on cash or income to enjoy a better lifestyle.

Reverse Mortgages:
improved lifestyle and financial security for all income levels.

Options include:

1. Get rid of monthly mortgage payments: This is one of the most popular reasons people get a reverse mortgage. Instead of making monthly mortgage payments and paying down your mortgage over time, your monthly interest is added to the principal balance of the mortgage. For many of us, the removal of a monthly mortgage payment means removing one of the greatest expenses we have, opening us up to more financial freedom.

2. Pay off your existing mortgage and debt: When you get a reverse mortgage you are required to pay off any existing mortgage. It is common for borrowers to have funds remaining after they pay off their mortgages, so they can use these funds to pay off other debts such as credit cards, car loans, or student debt.

3. Improve monthly cash flow / supplement income: Reverse mortgages can be used to provide monthly or lump sum payments to improve your lifestyle. Examples include:

Home improvements  (including accessibility improvements)	**Lifestyle improvements**  (shopping, dining out, hobbies)
Travel expenses 	**In-home care** 

4. 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 buy a smaller or more accessible home for their later years of life. 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 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 and you eliminated your monthly mortgage payment by purchasing your new home with a reverse mortgage. This is a unique way to use a reverse mortgage and can be extremely useful for some borrowers.

5. Divorce Settlement: Reverse mortgages can be a useful tool in the case of a divorce. Should one of the separated partners want to stay in the home but cannot make the monthly mortgage payments, they can acquire a reverse mortgage to eliminate monthly mortgage payments and distribute leftover funds to the other partner. Reverse mortgages can also be used to help finance a home purchase should both partners wish to move.

Reverse Mortgages For Retirement Planning

Reverse mortgages can also be used as a retirement strategy. Here's how:

Delay Social Security Benefits and Let Investments Grow:

Determining when to take Social Security is an extremely important decision for retirees. If you use the supplemental income from a reverse mortgage, this can help you to delay taking Social Security benefits for as long as possible, and provide you with greater monthly income.

> ***Did You Know?***
>
> Waiting until full retirement age (66 or 67) to take your Social Security benefits results in a ***~30% higher benefit amount*** than if you started taking benefits at age 62.

Protection from Investment Downturns:

If established at or near the beginning of retirement, a reverse mortgage can help to minimize investment portfolio risk. During a market downturn, the supplemental income from your reverse mortgage will allow you to leave those investments in place and preserve your investment portfolio longer during retirement.

Grow Retirement Funds with the HECM Growing Line of Credit:

When applying for a reverse mortgage, you get to decide how you want to receive the funds. One option is a line of credit that is left to grow at an interest rate that is equal to current loan rates. This line of credit also includes a compounding feature so that available credit increases each period on the prior period's available credit balance. At any time, the line of credit can be accessed for incidental cash or even converted to monthly term or tenure payments.

Tax Planning:

A reverse mortgage can be used for strategic tax planning. Instead of tapping into your other taxable retirement accounts, the money from a reverse mortgage is tax-free and can be used to augment your retirement.

*This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax, legal or accounting advice. Consult your own tax, legal and accounting advisors.

Eligibility

The following requirements must be met to be considered for a reverse mortgage:

Age	The youngest borrower on the title must be at least 62 years old.
Home Equity	Homeowners with approximately 50% equity or more, depending on the age of the youngest spouse.
Principal Residence	The home used in the reverse mortgage must be the borrower's permanent residence. Vacation homes are not eligible.
Property Type*	Most dwelling property types qualify for a reverse mortgages, including: • Single-family residences • Multi-family homes up to four units, as long as the borrower occupies one unit • Most condominiums • Townhomes • Planned unit developments • Modular homes • Manufactured homes that meet FHA requirements

*It is best to ask your reverse mortgage specialist if you have concern over your property qualifications.

Principal Limit

Those interested in a reverse mortgage are rightfully interested in the amount they can borrow, or the **principal limit** of the loan. The principal limit is determined by the loan's interest rate, borrower's age, and the home's value. Typically the loan amount is significantly less than the value of the home to account for interest accrued over the life of the loan. Younger borrowers usually qualify for a lower principal (or loan amount).

Using borrower age and rates, a "principal limit factor" (PLF) is calculated with tables available online. Lastly, the PLF is used along with the home value (or HECM limit of $822,375) to determine the reverse mortgage principal limit. Working with a reverse mortgage specialist will help you accurately determine your own principal limit.

Principal Limit Calculator

MyHECM.com has a free calculator available to determine your possible principal limit. **Click HERE** to access or visit myhecm.com/calculators/hecm-reverse-mortgage-principal-limit-pl-principal-limit-factor-plf-calculator.

Fees & Associated Costs

It is important to understand the fees associated with a reverse mortgage. Fees and associated costs can include:

Loan Origination Fee	Max 2% of the home value up to $200,000, then max 1% for any amount over $200,000. The maximum origination fee for HECM loans is $6,000.
Servicing Fees	When the loan has annual or monthly adjusting interest rates, servicing fees usually do not apply, unless it is a Proprietary Jumbo Reverse Mortgage.
Mortgage Insurance Premiums (MIP)	Mortgage insurance protects the borrower should the company managing the account go bankrupt, or if the value of the property becomes less than the loan balance (non-recourse aspect). MIP is calculated at 2% of the initial property value, and also accrues interest at 0.5% annually of the outstanding loan balance.
Closing Costs	Fees for document preparation, title insurance, and document preparation can be expected at closing.
Appraisal Fee	An appraisal of the home is needed to help determine the principal limit of the loan.
Counseling Fee	The mandatory counseling required for reverse mortgages holds an upfront cost of around $125.

There are options available to distribute some fees over the life of the loan to reduce upfront costs. A reverse mortgage specialist can help determine this for your loan.

Obligations

1. Pay property taxes and homeowners insurance: Your lender will do a financial assessment before closing the loan to determine how you will pay for ongoing property and homeowners insurance and, possibly flood insurance, if that is applicable to you.

Some of your options may include:

> **Making direct payments to the insurance company and tax authority.**
>
> **Making direct payments and having some of your loan set aside to help with these payments.**
>
> **The lender may elect to takes care of the payments for you using your loan proceeds in a set aside account.**

2. Maintain the condition of the home: Home maintenance is determined by the appraiser and HUD guidelines. Although this isn't a problem for most homeowners, it can pose very difficult for some homeowners and should be taken into consideration so that you don't risk foreclosure.

3. Home must be primary residence: Each year, you must certify in writing that you occupy your home as your primary residence. You risk foreclosure if you have a reverse mortgage and you are absent from your home for the majority of the year due to non-medical reasons, or, are absent from your home for more than 12 months in a row for healthcare purposes.

Key Point:

If you have two homes, such as a place you go for the winter, but live at your primary residence for more than half of the year, you are likely eligible for a reverse mortgage on the primary residence.

Misconceptions

Reverse mortgages are only used as a last resort.

Although a reverse mortgage can be a great option for someone who needs cash and needs it soon, they are many other benefits suitable to a variety of borrowers' needs! Many very well-off people get a reverse mortgage, perhaps for supplementing income, increasing liquid assets, extending the life of their assets, minimizing income taxes, and gaining additional flexibility in retirement.

Reverse mortgages are only used for 'fun' purchases.

Reverse mortgages can be used for a variety of costs and purchases, not just those related to travel or an enhanced lifestyle. The loan can be used to pay off an existing mortgage, plan for retirement, or pay off other debt. However, you can use a reverse mortgage for 'fun' purchases if you'd like!

The bank will own my home.

This is a common misconception. You will continue to own your home, with your name on the title. Of course, you must meet loan obligations such as keeping up with property taxes and home insurance, but your home stays yours.

Key Point:

Your name stays on the title with a reverse mortgage.

If I don't really need a reverse mortgage now, I should wait to get one.

A borrower must be in sound financial status in order to receive a reverse mortgage loan. The FHA has recently tightened qualifying standards for borrowers, so waiting until one is in a dire financial situation could mean you no longer qualify.

I don't own my home in full, so I can't get a reverse mortgage.

You might qualify for a reverse mortgage if you have sufficient equity in your home that will be used to pay off any existing mortgage. In other words, the balance of your existing loan will be refinanced by your reverse mortgage.

Reverse mortgages are only used by the very elderly.

Reverse mortgages can be used by borrowers over the age of 62. Older borrowers may have more equity in their homes, but those in their 60s can still benefit from a reverse mortgage even before retirement.

I'll pass on debt to my heirs.

The non-recourse aspect of this loan protects you and your heirs from falling into debt if the loan amount exceeds the value of the home. The borrower, as well as his or her heirs, will never owe the lender more than the home's current value when the loan is repaid. Typically, when the borrower leaves the home, the home is sold to repay the loan and the borrowers' heirs receive the remaining funds for whatever uses they desire.

Takeaways:

Reverse mortgages are NOT a last resort.

You will still own your home with a reverse mortgage.

You will not pass on debt due to a reverse mortgage.

Risk & Non-Recourse

Non-recourse aspect: With a reverse mortgage, you do not risk owing more than the appraised value of your home at the time of repayment. This is called the "non-recourse" aspect of HECM reverse mortgages and protects borrowers from volatile housing markets. The borrowers will never pay more than 95% of the appraised value at the time of maturity. If at the time you go to repay your loan, your loan balance is higher than the appraised value of your home, you will not owe more than that appraised value.

Misunderstanding reverse mortgages: Reverse mortgages are complicated. That is why they require formal counseling, and why we created this guide! Speaking with a reverse mortgage specialist is sure way to avoid any misunderstanding's.

Reverse Mortgage Scams: In recent years, reverse mortgage scams have become more common. The FBI and HUD have distributed warnings of these scams and how to protect yourself from vendors, contractors, realtors, family members, and others who use reverse mortgages to commit fraud. Stay vigilant and informed.

Deciding if a Reverse Mortgage is Right for You

Through this guide, hopefully your understanding of reverse mortgages has led you to want more information on whether a reverse mortgage is right for you. A few questions to ask yourself:

Do you meet the requirements for age, homeownership, and equity?
What are your financial goals?
What are your lifestyle goals?
What is the state of your retirement plan?
Will you be able to meet the loan obligations?

After considering these questions, **Penny Lane Financial** has reverse mortgage specialists ready to help you with next steps in determining if a reverse mortgage is right for you. Our specialists will work with you closely from consideration to funding, answering all your questions along the way.

How to Get a Reverse Mortgage

A smart first step to getting a reverse mortgage is to find a licensed reverse mortgage specialist who can begin the counseling requirement and then evaluate your situation to see if a reverse mortgage is right for you.

The Counseling Requirement:

Prior to applying for a reverse mortgage, you must complete counseling by an HUD-approved counseling agency, This is required because of the complexity of reverse mortgages, so that you understand the responsibility you are taking on in terms of borrowing against your home's equity.

After you've completed the counseling requirement your reverse mortgage specialist will help you gather all the information that you need to send to the lender for evaluation. This might include credit pulls, evaluating your payment history and any outstanding mortgages, as well as income statements such as 401(k), Social Security, pension, or pay stubs. Whatever the case, your specialist will assist you in preparing the application.

Finally, you will need to get an appraisal on your home to determine how much it's worth and how much you can borrow. Generally, you can expect the loan to close within 30-45 days, but this varies from your unique situation.

FAQs

When does the reverse mortgage need to be paid off?

Your reverse mortgage will need to be paid off when you sell the property or no longer occupy your home as your primary residence for a period of 12 months or more. You will also have to pay it off if you fail to maintain loan requirements such as property taxes, homeowners insurance or property maintenance.

When the last surviving borrower passes away, the reverse mortgage becomes due and payable. Generally, your heirs will have up to six months to refinance your home should they choose to keep it, or, up to 12 months to sell it.

What does the lender expect from me?

You must pay property taxes, homeowners insurance, and any homeowners association dues you may have. You also must continue to maintain and occupy the property.

I currently hold title in a trust, can I keep it that way?

Yes, you can. However, the lender and title company require that they review the trust for approval. If you hold title in a trust you should let your loan officer know up front so they can get a copy of the trust for review.

Do I need to own my home free and clear, or can I get a reverse mortgage if I already have a loan on my house?

You do not need to own your home free and clear to get a reverse mortgage. The proceeds can be used for any purpose, but any existing liens on the property must be paid off at closing. If the reverse mortgage is not large enough to cover your existing loan, you can still get the reverse mortgage by bringing in the additional funds from another account and still never have to make another house payment!

Will my heirs still receive an inheritance?

Oftentimes, yes, they will! After the balance of your reverse mortgage is paid off, all remaining equity will go to your heirs. We will provide you with an amortization schedule so you will always know the principal balance of your loan.

What are the downsides of a reverse mortgage?

While the reverse mortgage allows you to age in place and has no recourse, you are spending what has typically become a portion of the inheritance people might have planned to leave to their heirs. People are living longer nowadays, and need an additional source of income for a comfortable and secure life during retirement. We recommend that you involve those responsible for you and your assets after you have passed.

What are the credit and income qualifications?

There are no minimum credit score requirements to qualify for a reverse mortgage loan. However, lenders are required to complete a credit analysis focused on your last 24 month payment history. Lenders must also check that you meet minimum residual income as part of the FHA financial assessment guidelines because of the property tax and homeowners insurance requirement aspect of a reverse mortgage.

How do I know if a reverse mortgage is right for me?

A reverse mortgage may not be right for all borrowers. There are many things to consider and talking to a specialist is the best way to find out if a reverse mortgage is right for you, your loved one or your client. With the costs of the loan and required insurance, if you only need the loan for a short period of time, a reverse mortgage may not be right for you. If you intend to occupy the property for a long period of time and want access to your home equity in the form of monthly payments, a line of credit, or both, then a reverse mortgage may be right for you.

What is a Counseling Certificate?

Due to the complexity of the reverse mortgage, you are required to obtain counseling in order to qualify. Once you receive your Reverse Mortgage Counseling Certificate, you will send it over to the lender who will then be able to proceed with your loan.

Will the proceeds affect Social Security or Medicare?

Proceeds will not affect public benefits such as Social Security or Medicare, but can affect "need based" programs such as Medicaid. However, if the proceeds from the reverse mortgage are spent in the same month they are received they will not count as income.

Is the interest added to my balance tax deductible?

Only when a payment is actually applied to your loan, or when the balance is paid in full.

Can I make a payment back?

Yes! A reverse mortgage does not require scheduled monthly payments, but it does permit the borrower to make voluntary partial or full payments on the loan. There is no penalty to paying down or off your loan at any time.

If the loan is a fixed rate, funds submitted for prepayment cannot be re-borrowed at any point during the life of the loan, and the revolving credit feature does not apply.

What happens if the interest accrued exceeds the value of my home?

Since a HECM is a non-recourse loan, insured by the HUD, you are guaranteed that you and your heirs will never have to pay more than the property is worth at the maturity of the loan.

What do I need to give my reverse mortgage specialist?

- Copy of your driver's license or other picture ID
- Copy of your Homeowners Insurance
- Policy Declaration Page
- Copy of your Mortgage Statement (need all if any)
- Copy of your Trust (if your property is in a trust)
- Additional items may be requested after initial approval

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A **reverse mortgage** is a unique tool that may offer financial and lifestyle incentives for people 62 and older.

This guide seeks to simplify reverse mortgages so that you may gain a greater understanding, ask the right questions, and decide if it is right for you or your client.

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Penny Lane Financial is a family-owned independent mortgage broker licensed in Washington and Arizona. We have a passion for helping people get the education and assistance they need to make great financial decisions. We strive to make connections, build relationships and positively impact the lives of those we work with. Let's work together.

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