

Just the FAQs: Answers to Common Questions About Reverse Mortgages

From the National Reverse Mortgage Lenders Association



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THE NATIONAL REVERSE MORTGAGE LENDERS ASSOCIATION

The National Reverse Mortgage Lenders Association is a nonprofit trade association, based in Washington, DC, whose mission is to support the continued evolution of reverse mortgages as an important financial option for senior homeowners while educating consumers and lenders about the varied applications of this type of loan. Members sign a Code of Conduct pledging to abide by guidelines that assure fair, ethical, and respectful practices in offering and making reverse mortgages to seniors. Details on NRMLA and reverse mortgages and a state-by-state list of reverse mortgage lenders may be found on NRMLA's Web site at <http://www.reversemortgage.org>.

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Introduction

As more consumers learn about the versatility of reverse mortgages, this financial planning tool has gained significant popularity. In 2001, more older homeowners used a reverse mortgage to remain in their homes to supplement their retirement income, pay for health care expenses, make home modifications, or simply establish a cash reserve for emergencies.

But despite increased popularity, even some of the most basic facts about reverse mortgages are often misunderstood. According to Peter Bell, the president of the National Reverse Mortgage Lenders Association, a relatively short industry history and rapid product evolution have deluged consumers with information that at times is confusing or inaccurate.

“The most common misconception we hear is, ‘A reverse mortgage is where the bank gives you some money and then takes your house,’” says Bell. “That couldn’t be further from the truth. Our mission,” Bell explains, “is to inform seniors about the benefits of reverse mortgages so that they can make empowered decisions about whether this product makes sense for their own particular situation. A reverse mortgage helps people to address their retirement needs.”

This guide lists the most common questions asked by consumers about reverse mortgages – with the answers. The questions are broken into three groups: those appropriate to ask before getting a reverse mortgage; those applicable during a reverse mortgage; and those applicable at the end of a reverse mortgage.

This is the third guide published by NRMLA. The previous two are The NRMLA Consumer Guide to Reverse Mortgages, and Using Reverse Mortgages for Health Care: A NRMLA Guide for Consumers. Both are free and may be ordered from NRMLA by telephone (1-866-264-4466, toll-free, or 202-939-1792), or at our Web site (<http://www.reversemortgage.org>). Our Web site also has details about the different reverse mortgage products now available and a state-by-state list of reverse mortgage lenders who are members of NRMLA.

Now, on to the questions.

A reverse mortgage is a loan that enables older homeowners (62 or older) to convert part of the equity in their homes into tax-free income without having to sell the home, give up title, or take on a new monthly mortgage payment.



Misconception #1

REVERSE MORTGAGES ARE ONLY FOR DESPERATE SENIORS, OR FOR THE "HOUSE RICH, CASH POOR."

INCORRECT.

The reverse mortgage is an excellent financial planning tool that has been used by homeowners from all walks of life to enhance their retirement years. While some have needed the cash from a reverse mortgage more than others, the growing popularity of this product is evidence of its benefit in a wide array of financial circumstances.

Before Getting A Reverse Mortgage

Am I eligible for a reverse mortgage?

To qualify for a reverse mortgage, you must:

- Be at least 62 years old. In the case of a couple or co-owners, both must be 62 if their names appear on the title to the home.¹
- Be a homeowner with equity in your home. You may qualify even if you have an outstanding balance on your first mortgage. Single-family homes and qualified condominiums, townhouses, manufactured homes, and 1- to 4-family owner-occupied residences are eligible. Cooperative apartments may be eligible by year-end 2002.

¹ If one spouse or co-owner is under 62, that person's name must be removed from the title so that the other person can qualify for the reverse mortgage.

How much money can I get?

This depends on a few factors, including your age at the time of loan closing, the value of your home, the amount of built-up home equity, and interest rates at the time of origination. Other factors are the type of reverse mortgage product and particular payment option you select. Calculators that can help you estimate how much you could receive under different products and payment options are available at NRMLA's Web site (<http://www.reversemortgage.org>), and from most reverse mortgage lenders and counselors.

What are my payment options?

You decide how to receive the money generated by a reverse mortgage. In general, your payment options are:

- An upfront lump sum payment;
- Line of credit;
- Fixed monthly payments for as long as you remain in your home (or a predetermined, shorter period); or, if you choose,
- A combination of monthly income and line of credit.

Misconception #2

YOUR HOME MUST BE DEBT-FREE TO QUALIFY FOR A REVERSE MORTGAGE.

INCORRECT.

Even seniors with an outstanding first mortgage or some other debt on their home may qualify for a reverse mortgage. The proceeds of the reverse mortgage, though, must first be used to pay off such debts.

How much does a reverse mortgage cost? What are the upfront and closing fees?

Many of the same costs of home purchase mortgages apply to reverse mortgages. You can expect to be charged an origination fee, an upfront mortgage insurance fee (for FHA Home Equity Conversion Mortgages, or HECMs), an appraisal fee, and certain other standard closing costs. In most cases these fees and costs are capped and may be financed as part of the reverse mortgage.

Do I need to get an appraisal of my home to get a reverse mortgage?

Yes. Since the value of your home is a factor in determining how much money you can get from a reverse mortgage, an appraisal is required. Normally the lender will order the appraisal, which is paid for by the borrower at the time of application.

Do I need a lawyer to apply for a reverse mortgage?

Legal counsel is not required. However, NRMLA encourages you to seek the advice of a legal, tax, or financial advisor before committing to a reverse mortgage.

Safeguards of Current Reverse Mortgages

- *Advance counseling, to ensure that you understand fully about reverse mortgages and your other options, so you can select the product and payment option that best fits your needs.*
- *Limits on the interest rate and origination fee.*
- *A ceiling on the repayment amount – it can never exceed the value of your home.*
- *Federally mandated consumer disclosures.*

Am I required to receive counseling before I get a reverse mortgage?

Yes. Counseling, one of the safeguards of reverse mortgages, is required for all three current reverse mortgage products before you can obtain a loan. Counseling is an educational session at which you are informed about reverse mortgages and your other options. You can get the name of a local counseling agency or qualified telephone counselor from a reverse mortgage lender or by calling AARP (toll-free 1-800-424-3410), Fannie Mae's Homepath service (toll-free 1-800-732-6643), or HUD's Housing Counseling Clearinghouse (toll-free 1-888-466-3487).

Is the money from a reverse mortgage taxable income? Will it affect my Social Security benefits or other government benefits?

Funds from a reverse mortgage are tax-free; it's your money, not additional income. A reverse mortgage does not affect regular Social Security or Medicare benefits. To assess the impact, if any, on other federal or state assistance or medical programs, you may wish to consult with your local Area Agency on Aging (to locate, call 1-800-677-1116, or visit <http://eldercare.gov>), a reverse mortgage lender, or a tax attorney.

Misconception #3

THE BANK OWNS THE HOME AFTER YOU GET A REVERSE MORTGAGE.

INCORRECT.

You own your home and retain title throughout the life of the reverse mortgage. Once you permanently move out of your home or pass it to your estate, the loan must be repaid.



During the Reverse Mortgage

Who owns title to my home while my reverse mortgage is outstanding – the bank or me?

You retain title to your home during the period when you have a reverse mortgage, just the same as with a regular home purchase mortgage.

Am I required to pay anything during the course of the reverse mortgage loan?

No. The flow of payments is reversed during the term of the reverse mortgage – the lending institution pays you. However, you are responsible for keeping up payments for your homeowner's insurance and property taxes, and to maintain the condition of your home.

Are there any limits on how I can use the funds from a reverse mortgage?

No. Borrowers have spent the funds from reverse mortgages for a variety of purposes. Among these have been to pay health care expenses, supplemental retirement income, home improvements, home modifications, higher education, gifts to others, and long-term care insurance premiums. Some have used a reverse mortgage to purchase recreational vehicles, start a small business, and travel the Amazon. Some have used reverse mortgages to eliminate expenses by paying off mortgages and credit card debt. The only limit on how you use a reverse mortgage is your imagination.

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

The interest rate varies by type of reverse mortgage.

- For the HECM, the most popular product, the interest rate is adjusted either monthly or annually (the borrower chooses) based on an index called the “1-Year U.S. Treasury Constant Maturity Rate,” which changes weekly.
- For monthly adjusting HECMs, the interest rate charged on the loan for the next month is equal to the current 1-Year Treasury rate plus 1.5%.
- For annually adjusting HECMs, the interest rate charged on the loan for the next year is equal to the current 1-Year Treasury rate plus 2.1%.
- For Fannie Mae Home Keeper loans, the interest rate charged on the loan for the next month is equal to the current “1-Month Certificate of Deposit Secondary Market Rate” plus 3.4%.

- For the Financial Freedom Cash Account loan, the interest rate charged on the loan for the next six months is equal to the current LIBOR rate (London InterBank Offered Rate) plus a margin. The margin is 5.0% for the Cash Account product with the standard benefit option and 4.0% for the Cash Account product with the high benefit option.
- The latest 1-Year Treasury rate and 1-Month CD rate are issued by the Federal Reserve Board, and are published – along with the LIBOR rate – in financial newspapers. Interest charged on a reverse mortgage is “accrued.” That is, there is no payment of interest until the loan comes due.

What are equity share reverse mortgages?

Loans with an equity share feature allow you to receive a greater cash benefit in exchange for a portion of your home’s future value. One of the reverse mortgage products currently available offers an equity share option. The potential amount shared is limited by an overall interest rate cap. All reverse mortgages offered today have built-in consumer protection features that prevent you or your heirs from owing more than the value of your home at the time the loan comes due – even if your home declines in value. This risk is assumed by the lender.

Misconception #4

WHEN A REVERSE MORTGAGE COMES DUE, THE BANK SELLS THE HOME.

INCORRECT.

When the loan must be repaid, you or your heirs can either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage.



At the End of the Reverse Mortgage

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

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



What happens if I move out of my house after I get a reverse mortgage?

Once you no longer occupy your home as your principal residence for more than one year, the reverse mortgage comes due and must be repaid. Similarly, if you sell your house, the reverse mortgage comes due.



What happens when my house gets passed to my heirs?

Once your home is passed to your heirs, the reverse mortgage comes due. Your heirs may either pay the balance due on the reverse mortgage and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, they get to keep any excess sales proceeds.

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

Reverse mortgages are offered mostly by private, specialized lenders. For a list of lenders who belong to NRMLA who offer reverse mortgages in your state, visit NRMLA's Web site, <http://www.reversemortgage.org> (Click on Find a Lender), or call NRMLA, 1-866-264-4466. Note: All members of NRMLA agree to the organization's Code of Conduct – so you can be confident that NRMLA members will treat you fairly and respectfully.

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