What is a reverse mortgage?

Unlike tradition mortgages in which you pay a monthly payment to reduce your debt and increase your equity, a reverse mortgage allows you to get a monthly payment that increases your debt and reduces your equity. You may also elect to get your payment as a lump sum or as a credit line, or you may do a combination between monthly payments, lump sum, and credit line.

What does it take to qualify for this loan?

Generally, a homeowner must be 62 years old, own the home outright either by yourself or as a co-owner, and must live in the home. A single family or multi-family home qualifies for a reverse mortgage, as well as HUD-approved condos and manufactured homes. Unlike a conventional mortgage, a reverse mortgage does not require you to have a monthly income.

How much do I get?

It is very important to note that even if your home is worth $250K, the amount you can borrow is subject to various limitations. The amount of cash you can get depends on your age, current interest rates, and your home's value. Below we will go into some of costs that would go into a reverse mortgage that could reduce the amount you could borrow.

What is the process like to obtain home mortgage?

The reverse mortgage process is a lot like the process one goes through when getting a traditional mortgage. You would contact a lending institution to start the process. After reviewing your options with the lender, you would be required to go through HUD counseling to ensure you are fully informed about your decision. After the counseling the home goes through the appraisal and inspection process, followed by loan underwriting. After underwriting is completed you would obtain your funds.

What are the different types of reverse mortgages?

1) Home Equity Conversion Mortgage (HECM):

HECM is the only reverse mortgage insured by the federal government. The HECM generally provides the largest loan advances, most flexibility in payment, and flexibility to use the money as you wish.

2) Reverse Mortgages offered by state & local governments:

Reverse mortgages offered by state & local governments might be less expensive than HECM. However, the loans can only be used for a specific purpose i.e. home repair or paying property taxes.

3) Privately insured reverse mortgages:

These reverse mortgages may provide low upfront fees, but the interest rates tend to be higher.

What are the costs involved in these loans?

Origination Fee: This is the fee the lender charges for preparing your paperwork and processing your loan.

- The lender may charge up to $2,500 if the home is worth $125,000 or less. The lender may charge 2% for the amount of the home up to $200,000 and 1% for any amount over

$200,000. For example, the origination fee of a home worth $250,000 would be capped at $4,500. (2% of $200,000 = $4,000 plus 1% of $50,000 = 500).

Closing Costs: These costs refer to the charges required to prepare the legal documents to complete the transaction. For example, an appraisal, title search, insurance, surveys, inspection, recording fees, mortgage taxes, and credit checks etc.

Mortgage Insurance Premium: This insurance is included in your reverse mortgage to ensure:

1. that you will receive your promised loan advances,
2. that your debt will never be greater than the value of the home if you sell to pay of the mortgage,
3. that you will not have to repay the loan as long in the home irrespective of how long you live there, what happens to the home value, what happens to the lender.

Servicing Fee: "Servicing" a loan means everything lenders or their agents do after closing it, including making or changing loan advances at your request, transferring insurance premiums to FHA, sending account statements, paying property taxes and insurance from the loan at your request, and monitoring your compliance with your obligations under the loan agreement

NOTE: It is imperative that one keeps track of all of the non-interest charges discussed above. In some instances, the non-interest charges may be an upward of $45,000, making reverse mortgage a less attractive options for many consumers.

<u>I'm a 75 year old borrower with home value of $250,000. What is the cost breakdown?</u>

Assuming a 7% interest rate, you're entitled to borrow up $135,484. You may elect to borrow sixty percent of that as a lump sum in the first year. The cost break down for that option are as follows:

Total Amount Borrowed $67,742
Loan Costs:
Upfront Costs $12,000
Total Monthly MIPs $7,933
Total Monthly Servicing Fees $5,040
Total Monthly Interest Charges $111,056
Total Loan Costs $136,029
Total Amount Owed (Loan Balance) $203,771

Compare that with selling your home:
Home Value 250,000
Real Estate Commission: $15,000
Property Taxes Due: $3,750
Other Fees Paid by Seller: $2,500

Amount Owed at Closing: $21,250

Net Proceeds to Seller: $228,750

What other resources do have about learning more about reverse mortgages?

http://www.consumer.ftc.gov/articles/0192-reverse-mortgages

This link provides explanations of the various types of reverse mortgages, the features of those loans, and steps to ensure one can obtain a good reverse mortgage deal.

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/rmtopten

This link answers some frequently asked questions regarding reverse mortgages.

http://www.fha.com/fha_article.cfm?id=81

This link discusses the terms and fees of a reverse mortgage.

http://www.forbes.com/sites/carolynrosenblatt/2012/07/23/hidden-truths-about-reverse-mortgages/

Forbes is a reputable financial magazine. While it is for profit entity, Forbes information can generally be trusted as reliable. This particular article discusses potential pitfalls involving reverse mortgages.