Clifton Mortgage Services

Real Mortgages, Real People, Real Estate

Reverse Mortgages Frequently Asked Questions

1. What is a reverse mortgage?

Q. What is a reverse mortgage?
A. A reverse mortgage is a loan that enables senior homeowners, age 62 and older, to convert part of their home equity into tax-free* income—without having to sell their home, give up title to it, or make monthly mortgage payments. The loan only becomes due when the last borrower (s) permanently leaves the home.

** Consult Tax Advisor. Not all products available in all states.*

2. How does a reverse mortgage differ from a home equity loan?

Q. How is a reverse mortgage like a home equity loan? How is it different?
A. Both a reverse mortgage and a home equity loan use the equity you have built up in your home to provide you with readily available cash.

They differ in that with a home equity loan you must make regular monthly payments of principal and interest. However, with a reverse mortgage you do not make any monthly mortgage payments for as long as you stay in the home.

Q. Can my current income influence my ability to get a reverse mortgage?
A. No. Since reverse mortgage borrowers need not make monthly repayments, there are no income qualifications.

3. What are the advantages of a reverse mortgage?

Q. What are the advantages of a reverse mortgage?
A. There are many. Here are a few of the most significant:

- **Remain independent.** A reverse mortgage allows you to remain in your home and retain home ownership.
- **Stay in your home.** It allows you to remain in your home and retain home ownership.
- **No monthly mortgage payments.** You need not pay back the reverse mortgage loan nor make any monthly mortgage payments until you permanently move out of the home.
- **Tax-free money.** Because the money you receive from a reverse mortgage is not considered income, it is tax free* and will not affect your Social Security or Medicare benefits.
- **Freedom and flexibility.** The money you get from a reverse mortgage is yours to use in any way you choose.

Consult Tax Advisor

Q. I've heard that with a reverse mortgage the lender would own my home. Is this true?
A. It's absolutely false. The borrower retains title to the property. The reverse mortgage lender is merely extending a loan to the borrower.

Because the homeowners retain title, they remain responsible for the payment of property taxes, insurance, utilities, home maintenance, and other expenses — just as they would with a standard first mortgage or home equity loan.

Q. Can I refinance a reverse mortgage, as I would be able to do with a traditional home mortgage?
A. Yes. Refinancing can make sense if your home increases in value or interest rates drop.

Q. Is it possible to be liable if my loan balance to become greater than the value of my home?
A. No. You can never owe more than what your home is worth. What's more, since the reverse mortgage is what is known as a "non-recourse" loan, the lender cannot seek repayment from your income, your other assets, or your estate. In other words, the house stands for the debt.

Q. Can a reverse mortgage lender take my home away if I outlive the loan?
A. No they cannot. And the loan is not due at that time either. In fact, you don't need to repay the loan as long as you or another borrower continues to live in the house and keep the taxes paid and insurance in force.

4. How much money can I get?

Q. How do you determine the amount of cash I am eligible for?
A. The amount you can borrow depends on several factors, including your age, the type of reverse mortgage you select, current interest rates, the location of your home, and the appraised value of your home and FHA's lending limits for your area. In most cases, the older you are, the more valuable your home, and the less you owe on it, the more money you can get.

5. How can I use the money I get from a reverse mortgage?

Q. Are there any limits on how I use the money I receive from a reverse mortgage?
A. You can use the money for anything you choose, from daily living expenses, home improvements, healthcare expenses, paying off existing debts, or simply enhancing your retirement years. For many people, the money provides a "financial security blanket," in case unexpected expenses arise.

6. In what ways can I receive the money from a reverse mortgage?

Q. Is there a choice in how I receive the cash from my reverse mortgage?
A. Most definitely. With most reverse mortgages you have a wide range of payment options, one of which should be ideal to meet your financial needs.

- You can choose to receive the money all at once, as a lump sum.
- You can receive equal monthly payments as long as one of the borrowers lives and continues to occupy the property as a principal residence.
- You can choose to receive equal monthly payments for a fixed period of months.
- You can get a line of credit*; which allows you to take funds at times and in amounts of your choosing until the line of credit is exhausted. This is the most popular option, chosen by more than 60% of reverse mortgage borrowers.
- You can opt for a combination of line of credit with monthly payments for as long as the borrower remains in the home.
- Or, finally, you can choose a combination of the above.
- *Note: in Texas, lines of credit are not permitted by state law.*

7. What requirements or restrictions are involved in the reverse mortgage process?

Q. Who can qualify for a reverse mortgage?
A. Seniors 62 years of age or older qualify. There are no income, health or credit qualifications.

Q. I still owe money on a first or second mortgage. Can I still get a reverse mortgage?
A. Yes. You may be eligible for a reverse mortgage even if you still owe money on a first or second mortgage. The funds you would receive in the reverse mortgage would be used to pay off whatever existing mortgages you have on the property.

Q. Can I get a reverse mortgage on a second home or resort property I own?
A. Unfortunately no. Reverse mortgages may only be taken out on your primary residence.

Q. What kinds of homes are eligible for a reverse mortgage?
A. First and foremost, the reverse mortgage must be on the borrower(s) primary residence, that is, where they live most of the year. Most reverse mortgages are taken on single family, one-unit homes. Some programs also accept two-to-four unit buildings that are owner-occupied. Some programs grant reverse mortgages on condominiums and manufactured homes built after June 1976. Mobile homes and cooperatives are generally not eligible for a reverse mortgage

Q. Would a home that is in a "living trust" be eligible for a reverse mortgage?
A. Yes. In most cases a homeowner who has put his or her home in a living trust can usually take out a reverse mortgage. A review of the trust documents would be made by the reverse mortgage lender to determine if anything in the living trust would be unacceptable.

8. What kinds of reverse mortgages are available?

Q. Are all reverse mortgages the same?
A. No, actually there are three basic types of reverse mortgages:

1. **Federally-insured reverse mortgages.** Known as Home Equity Conversion Mortgages (HECM), they are insured by the U.S. Department of Housing and Urban Development (HUD). They are widely available, have no income requirements, and can be used for any purpose.
2. **Government-sponsored reverse mortgages**. A Home Keeper® is Fannie Mae's conventional market alternative to the Home Equity Conversion Mortgage (HECM). It is a government-sponsored enterprise program and works like a HECM loan in many ways. However, a Home Keeper® reverse mortgage addresses a few needs that are not met by HECM loans, such as individuals with higher property values, condominium owners, and seniors wishing to use a reverse mortgage to purchase a new home.
3. **Proprietary reverse mortgages**. These are private loans with unique features that appeal to certain kinds of borrowers. An example of such reverse mortgages, which are backed by the companies that develop them, is the Cash Account Advantage Plan.

Q. What are the main differences between a HECM reverse mortgage and a proprietary product like the Cash Account Advantage Plan?
A. In general, the HECM product may offer a higher loan amount for a lower valued home (for example, under $500,000) depending upon the loan amount caps in specific counties/MSAs, the amount of equity in the home, and the age of the borrower. For a higher valued home with significant equity, a senior may be likely to qualify for a larger cash payout through a Cash Account Advantage Plan reverse mortgage. Cash Account Advantage Plans are not currently available in all states.

9. When must a reverse mortgage loan be repaid?

Q. When will I have to pay the principal and interests cost of this loan?
A. Your reverse mortgage loan becomes due and must be paid in full when one or more of the following conditions occurs: (a) the last surviving borrower passes away or sells the home; (b) all borrowers permanently move out of the home; (c) the last surviving borrower fails to live in the home for 12 consecutive months due to physical or mental illness; (d) you fail to pay property taxes or insurance; (e) you let the property deteriorate, beyond what is considered reasonable wear and tear, and do not correct the problems.

10. What is owed when a reverse mortgage loan is repaid?

Q. What has to be repaid when the loan becomes due?
A. When the last surviving borrower permanently moves out of the home or dies, the reverse mortgage loan becomes due. The reverse mortgage principal, interest charges, and service fees (such as closing cost fees) are paid from sale of the house or other assets of the estate.

11. How will a reverse mortgage affect my estate?

Q. If I take a reverse mortgage, will I still have an estate that I can leave to my heirs?
A. When you sell your home or no longer use it for your primary residence, you or your estate must repay the lender for the cash received from the reverse mortgage, plus interest and service fees. Any remaining equity belongs to you or your heirs. It's important to remember that you can never owe more than the home's appraised value when it is sold. None of your other assets will be affected by your reverse mortgage loan.

Q. Must the heir or the last surviving borrower sell the property to repay the reverse mortgage loan?
A. No. Repayment may be accomplished by refinancing the reverse mortgage with a traditional "forward" mortgage loan, or through the use of other assets.

12. What are the costs and fees?

Q. Other than repaying the principal and interest, what kinds of fees are involved in a reverse mortgage?
A. Most reverse mortgages have an application fee (which may cover the cost of a credit report and an appraisal), an origination fee, closing costs, insurance, and a monthly servicing fee. These charges can be paid by the reverse mortgage itself, making them no immediate burden to the borrowers; the costs are added to the principal and paid at the end, when the loan becomes due.

Q. How much cash will I have to come up with to cover origination fees and other closing costs?
A. One of the real benefits of a reverse mortgage is that you can use the money you get from your home's equity (dependent upon final calculations) to pay for the various fees that are part of the loan costs overall. The costs are simply added to your loan balance, and you pay them back, plus interest, when the loan becomes due—that is when the last surviving borrower permanently moves out of the home or passes away.

Q. What is a LESA?
A. A LESA is a Life Expectancy Set Aside. This is for property taxes and home insurance and is only required if an analysis of your income does not show enough residual income to cover the taxes and insurance on your own. In this case a LESA is set up for your benefit to pay the taxes and insurance for your remaining life expectancy. The LESA reduces the amount of your available loan benefit.

Q. Are reverse mortgage interest rates fixed or variable?
A. Reverse mortgages can have variable rates that are tied to a financial index and will vary according to market conditions or a fixed rate tied to a financial index. I fixed rate option does not allow for the credit limit to grow with the CPI index, so you cannot access additional funds beyond the initial loan benefit

Q. What is "TALC" and why should I know about it?
A. TALC is short for "Total Annual Loan Cost." It combines all of the costs of a reverse mortgage into a single annual average rate and can be very useful when comparing one type of reverse mortgage to another.

Reverse mortgages vary considerably in features, benefits, and costs. It's not always easy to compare "apples to apples." If you are considering a reverse mortgage, be sure to ask the lender or counselor to explain the TALC rates for the various reverse mortgage products.

13. Are there tax consequences? What about my Social Security and Medicare benefits?

Q. What are the tax consequences of a reverse mortgage? What about my Social Security and Medicare benefits?
A. Because reverse mortgages are considered loan advances and not income, the IRS considers them to be not taxable. Similarly, having a reverse mortgage should not affect your Social Security or Medicare benefits.

If you receive SSI, Medicaid, or other public assistance, your reverse mortgage loan advances are only counted as "liquid assets" if you keep them in an account past the end of the calendar month in which you receive them. You must be careful not to let your total liquid assets become greater than these programs allow. It may be wise to consult your tax advisor on this.

Another tax fact to bear in mind: interest on reverse mortgages is not deductible on your income tax returns until the loan is paid off entirely.

Q. If I take on a reverse mortgage, how will it affect my government benefits?
A. The funds from a reverse mortgage do not affect regular Social Security or Medicare benefits. You should discuss the impact of a reverse mortgage on federal, state or local assistance programs with a professional advisor, such as your local Area Agency on Aging (toll free at 1-800-677-1116), an independent reverse mortgage consultant*, or a tax attorney.

** A list of approved counseling agencies is posted on the Internet by the U.S. Department of Housing and Urban Development, at www.hud.gov.*

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14. What advice should I get before taking a reverse mortgage?

Q. I understand that I must meet with an unbiased counselor before completing my reverse mortgage application. What does that accomplish?
A. This is a federally mandated feature of the reverse mortgage process and is designed for your protection. The counselor, who is from an independent government-approved housing counseling agency, explains in detail the pro's and con's of all your reverse mortgage alternatives. He or she will discuss a reverse mortgage's costs and financial implications, should tell you about any government or nonprofit programs for which you may qualify, and advise you on any proprietary reverse mortgages that may be available in your area.

Find out if a reverse mortgage is right for you. Call to schedule your personal and confidential appointment.

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NMLS #852745
670 N. Orlando Ave, Suite 101
Maitland, FL 32751

888-681-0777 x 101
407-252-3039
866-512-0169
Dan@CliftonMortgageServices.com
www.CliftonMortgageServices.com

Text "Preapp@Clifton" To 48421 and get

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