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FAMILY RESOURCE MANAGEMENT

Is a Reverse Mortgage Right for You?

Congratulations

After years of scrimping and saving, you own your home free and clear of a mortgage. You've achieved the American dream of homeownership. You've also accomplished another feat…you've earned clear title to a major capital investment, your home.

Most individuals might only consider paying off their mortgage as a major achievement; they may not look at it as part of their retirement planning or may not think of it as"sitting on a bundle of cash." However, relatively new financial products are now available to seniors, who are 62, so that they can tap into a great portion of their equity while still retaining title and full home ownership.

Such an arrangement can be beneficial to the home owner(s) for additional financial peace of mind; to make home improvements and/or repairs; to finance a second career or new business venture; to travel to exotic places or just visit friends; for health care and medical expenses; to pay premiums for long-term care insurance; or, for some other significant expenditure.

Reverse Mortgage

This somewhat new financial product, that's gaining popularity with seniors, is called a reverse mortgage. It earned that name because it functions, in a reverse manner, to the traditional–type mortgages used to buy a home. With a traditional mortgage, individuals create debt (the amount of money you borrow from a lender to purchase your home, which you pay down over a period of years).

With a reverse mortgage, it's different. Essentially, it acts in the reverse. Instead of you making monthly mortgage payments to the lender, the lender pays you! And, you do not make any repayments.

Homeowners are required to keep up the insurance payments and property taxes as well as to maintain the home. If for some reason the owners are not able to fulfill these requirements, then funds can be "set aside" from the reverse mortgage for these expenditures.

Reverse Mortgage Pay Off

With a reverse mortgage, borrowers are "spending or drawing down" the equity they have in their home without making monthly loan repayments during the life of the loan. Eventually, the loan must be repaid if: the owner(s) decides to sell the home; the owner(s) does not use the home as a primary residence; or the owner(s) dies.

When the property is passed to heirs or an estate, the reverse mortgage does come due. Then, there are several repayment options. The heirs/estate may

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elect to pay off the loan and keep the house or sell the property and use the proceeds to pay off the mortgage. In either case, the repayment cannot exceed the home's value, its sales price at the time the loan comes due. This provision pertains to all reverse mortgages and is referred to as a "non-recourse" feature. If for some reason the amount owed to the lender does exceed the home's appraised value, either the lender or the federal government [in the case of a Home Equity Conversion Mortgage (HECM)] absorbs the loss.

Once the reverse mortgage is paid off, all remaining proceeds from the sale of the house go to the surviving owner or estate.

How Much Money Can I Access?

In a reverse mortgage transaction, the actual amount of money available to the homeowner is determined by the homeowner's age (for couples, the amount is based on the age of the youngest borrower); the current appraised value of the home; the amount of equity in the home; and the (mortgage) interest rates at the time the reverse mortgage is originated. Additional factors affecting just how much money a homeowner can draw include the type of reverse mortgage and payment option the homeowner(s) selects. If the homeowner selects the government-insured HECM loan, the county lending limit becomes a factor. A basic rule pertaining to all types of reverse mortgages is: the older you are = the more money that is available to you.

Qualifications

The individual(s) listed on the title must be 62 years of age. If a co-owner is under 62, that individual's name must be removed from the title in order to qualify for a reverse mortgage. The types of properties that meet the requirements are: single-family homes, some condominiums, manufactured homes, townhouses, and 1- to 4-family owner-occupied residences. You may even qualify if you have an outstanding balance on your first mortgage.

Things Seniors Need to Consider about Reverse Mortgages and Should Discuss in the Counseling Sessions

Before a reverse mortgage can be issued, the homeowner(s) must receive counseling sessions with a local HUD-approved counseling agency or a national counseling agency such as AARP, the National Foundation for Credit Counseling, or Money Management International. These individual sessions are required as a safety measure to ensure that consumers are aware of the various financial options, in addition to reverse mortgages, and all facets of the transaction, answering any and all questions the seniors might have.

Seniors need to realize that while a reverse mortgage does not affect regular Social Security or Medicare benefits, it can impact other benefits. Specifically, if the homeowner prefers to receive the money in a lump sum payment, the length of time the senior(s) keeps the funds after pay out could potentially affect Medicaid eligibility. Thus, it's important to also discuss this subject during the counseling sessions.

In addition to the financial implications of a reverse mortgage, the counselor must discuss different financial alternatives, other home equity conversion options (such as possible tax deferral programs), the impact of a reverse mortgage on the estate, and the tax consequences regarding the borrower's eligibility under state or federal programs.

Reverse Mortgage Process

After the parties interested in a reverse mortgage have discussed the various financial options available to them with a counselor, some of the next steps include:

- Scheduling an appraisal. Normally, the financial institution makes the necessary arrangements for an appraisal to be performed. This is a required procedure, which is paid for by the homeowner/borrower, at the time of application.
- Selecting the type of payment plan. The choices include: a lump sum, a fixed-monthly payment, or perhaps a combination of these two.
- Obtaining the required disclosures from the lender regarding the total costs of a reverse mortgage.
- Having the necessary documents readily available: verification of Social Security number(s); copy of the deed to the home; information pertaining to any existing mortgage(s); and a certificate proving that the homeowner(s) received counseling.
- Submitting the loan. Once the lending institution has received all the necessary and pertinent information, the lender will review all the details of the loan with the homeowner/borrower, such as the frequency

of any loan interest rate adjustments and the desired payment option. Then, the loan package is submitted for approval and underwriting, which takes approximately one to two months.

Reverse Mortgage Costs and Right of Rescission

The Federal Reserve Board requires that seniors are given a Total Annual Loan Cost (TALC) disclosure, which shows the total transaction costs over the projected life of the loan. The Federal Reserve instituted this requirement to ensure that prospective borrowers are fully aware of the costs in obtaining a reverse mortgage.

Homeowners will recall that, when they took out their original mortgage to buy their house, there were costs associated with borrowing. Some of these same costs apply to a reverse mortgage. To refresh, these costs are the origination fee, a mortgage insurance premium (for FHA Home Equity Conversion Mortgages), and other commonly charged closing costs as well as a (projected) service fee is set aside. These loan origination fees are limited by U.S. Department of Housing and Urban Development (HUD) regulations and typically are financed as part of the loan. The out-of-pocket expense that seniors can incur with a reverse mortgage is the up-front appraisal fee, which can cost upward of $300 depending upon geographic location.

Under provisions of the Truth-in-Lending Act following the loan closing, seniors have up to three (business) days to cancel the transaction for any reason whatsoever. This is called the "right of rescission."

Reverse Mortgage Providers and Interest Rates

Initially, reverse mortgages were available only through private, specialized lenders. But, as their popularity has increased, the number of lenders offering reverse mortgages has grown. [To locate lenders in your state, check the National Reverse Mortgage Lenders Association's website at [http://www.reversemortgage.org]. As a consumer safeguard, no matter which lender the seniors select, the interest rate on a reverse mortgage is capped.

Some reverse mortgage options include:

- The oldest and most popular type of reverse mortgage selected by the majority of seniors is the federally insured Home Equity Conversion Mortgage (HECM). This particular loan is administered through HUD. It has a provision which allows the homeowner(s) to live outside the primary residence for up to 12 consecutive months. Note: this provision may vary for other reverse mortgage products.
- Fannie Mae has developed its own reverse mortgage products to supplement HUD's offering called Fannie Mae Home Keeper loans.
- For higher-priced homes valued above Fannie Mae's and the FHA's lending limits, Financial Freedom created a reverse mortgage product called, Cash Account, which has jumbo proprietary characteristics.

Thoughts

As a senior, you may or may not have thought about the additional significance of owning your home, free and clear. So, if seniors need or want additional funds, a reverse mortgage might be a feasible option because there are no required payments while the owners occupy their home and retain title to it. The accessible funds offer great protection for seniors against unanticipated expenditures and the safeguards imposed upon reverse mortgages make them vastly safer than some other loan alternatives.

Additional sources for reverse mortgage information:

- The National Reverse Mortgage Lenders Association (866-264-4466)
- AARP (800-209-8085)
- National Foundation for Credit Counseling (866-698-6322)
- Money Management International (877-908-2227)
- HUD's Housing Counseling Clearinghouse (800-569-4287)

Prepared by Nancy M. Porter, Ph.D., Extension Family Resource Management Specialist, Clemson Cooperative Extension Service and Marci R. Schneider (retired) Office of Public Affairs, Federal Reserve Board of Governors, Washington, D.C.