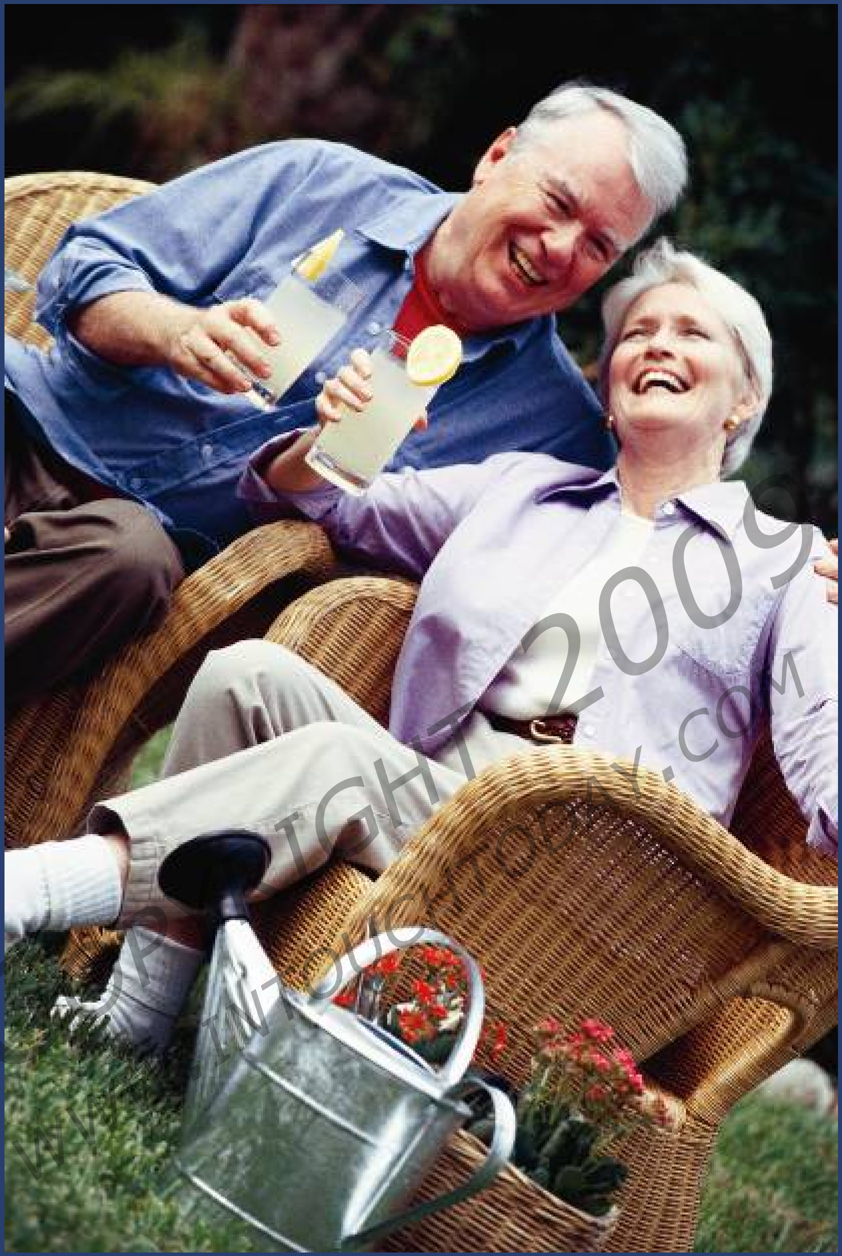

Reverse Mortgages

Is One Right For You?

Everything you need to know when considering a Reverse Mortgage.

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What is a reverse mortgage?

A reverse mortgage is a way to receive cash from the equity in your home.

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Traditional ways to receive cash from your home:

- Sell it
- Refinance or take out a home equity loan (requires monthly payments)

How is a Reverse Mortgage Different?

A reverse mortgage allows you to remove equity (cash) from your home *without paying it back* (for as long as you live in the home)

You can receive the cash from your home in several ways:

- In one lump sum
- In a monthly payment
- In a "credit line," which you withdraw from as needed
  (note: credit lines are not permitted in Texas by state law)
- In a combination of the above three forms

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When DO you pay back the loan?
Typically, only when you:

- Pass Away
- Sell your home, or
- Permanently move out of the home

How does a reverse mortgage work?

- The debt grows as you continue to take money out, and interest is added to the balance.
- Also known as a *rising debt, falling equity loan*. As the amount you're borrowing gets bigger, your equity gets smaller.

"Equity" is the $ value of your home that YOU own (as opposed to a lender)

Example:

- You bought your home for $75,000
- Because of appreciation over the years, your home is worth $150,000
- You owe $10,000
- The *equity* in your home is $140,000

Example of traditional "forward mortgages":

- You buy your home for $75,000
- Your Down payment $15,000
- Your debt is $60,000
- Over the years, you make monthly payments and your *debt decreases as your equity increases.*

Example of "A Reverse Mortgage":

- Your home is worth $150,000
- You receive a lump sum or monthly payments totaling $120,000
- Your debt is $120,000 plus interest
- Your equity is $30,000 minus interest
- With a reverse mortgage your *debt increases and your equity decreases*

However there are exceptions to debt increasing and equity decreasing:

- In an appreciating market - Your equity could actually remain the same or increase
- If you only get one loan advance – your debt would never change (unless interest were charged on it)

Who can qualify for a reverse mortgage?

- You're usually required to be at least 62 years old (and any co-owner of the home must also be 62)
- You need to own your home
- You need to live in the home at least 6 months a year

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Who can qualify for a reverse mortgage?

- Income generally isn't a factor
- Mobile homes usually don't qualify
- Your home must be a single-family unit, two-to-four unit building, or federally approved condominium.

To qualify, you must pay off your existing mortgage. You can do this by:

- Getting a cash advance from the reverse mortgage to pay off the debt, or
- Pay off the old mortgage before you get a reverse mortgage

How much can I qualify for?

The amount of cash you can get depends on your;

- age
- your home's condition
- current interest rates

How much can I qualify for?

- Usually the most cash goes to older buyers, with valuable homes, during times of low interest rates
- If there is more than one owner, the youngest owner's age determines the amount of cash available

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How much can I qualify for?

- The amount also depends on whether you decide to take an immediate cash advance at closing as a lump sum or accept a credit line that allows you to take cash advances up to the full amount

How much total cash will I receive?

Generally the amount of cash you can receive depends on your age and the value of your home:

- The older you are, the more cash you can receive
- The more valuable your home, the more cash you can receive

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How much total cash will I receive?

If you take out a credit line account, the cash available depends on whether it’s a flat or growing credit line

- Flat credit line – the available cash decreases by the amount of cash you withdraw
- Growing credit line - the available cash grows by a certain percentage each year

How much total cash will I receive?

- If you take monthly loan advances, the cash available will depend on whether you take advances for a specific number of years or for the length of time you live in your home

How much total cash will I receive?

- If you use the funds to buy an annuity, the amount will depend on how long you live

When do I pay it back?

- When you sell the home
- When the final surviving borrower dies, or
- When you move away for more than 12 months

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Lenders can also require repayment if you:

- Fall behind on property taxes
- Let your homeowner's insurance lapse, or
- Let the house fall into major disrepair

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A reverse mortgage can also contain an "acceleration clause," which makes it payable in full if you jeopardize the security of the lender in some way. For instance:

- You rent out your home (or a portion of it)
- You add another owner to the home's title
- You change the zoning classification of your home, or
- You take out another loan using your home as collateral

How much will I owe?

- The total amount of all cash advances
- Interest on those cash advances

How much will I owe?

- You will never owe more than the value of the home when the loan is repaid
- The lender has no recourse on anything that you or your heirs own except the home on which you took the reverse mortgage

How much will I owe?

- No matter how long you live, no matter how much your home value declines, - *you will never owe more than the actual value of your home.*

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How is it paid back?

- From the proceeds of the sale of your home
- Or from other funds if they're available
- If the borrower dies, the loan must be paid back before the title can be transferred to the heirs

What does a reverse mortgage cost?

Out of pocket costs generally consist of the appraisal and credit check

- Other costs are generally financed with the loan
- Be aware though that any costs which are financed into the loan will be tacked on to the loan balance on which you will pay interest

Other costs for a reverse mortgage:

These costs are generally the same as a forward mortgage, including:

- Closing costs
- Origination fees
- Interest charges
- Title search
- Insurance
- Inspections
- Mortgage taxes, etc.

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Important information regarding the costs of the loan:

- All reverse mortgage lenders are required, under The Federal Truth in Lending Law, to disclose the projected annual cost of the loan

Remember you are still a homeowner and still responsible for:

- Paying property taxes
- Paying homeowner's insurance
- Making property repairs

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Are there different types of reverse mortgages?

Yes. But the most popular and available reverse mortgage is the HECM (Home Equity Conversion Mortgage)

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About the HECM:

- It is the only reverse mortgage insured by the federal government (FHA guarantees that the lenders will meet their obligations)
- FHA tells HECM lenders how much they can lend to you, according to your age and the value of your home
- HECM limits the costs of the mortgage
- HECM loans usually provide the largest advances available

HECM is usually the lowest cost reverse mortgage available.

The only less expensive reverse mortgages are government mortgages typically available only:

- For specific uses (such as remodeling your home)
- To low or moderate income homeowners

Is a reverse mortgage right for you?

Perhaps – but it is wisest to consult with your mortgage professional and accountant prior to making that decision.

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Thank you!

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Name:

Phone:

Web: