
REVERSE MORTGAGE BASICS



IS A REVERSE MORTGAGE
RIGHT FOR YOU?

Presented By:

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WHAT IS A REVERSE MORTGAGE?



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

TRADITIONAL WAYS TO RECEIVE CASH FROM YOUR HOME:

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



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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

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 was \$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 EXCEPTION 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 year old (and any co-owner of the home must also be 62)
- ❖ You need to own you home
- ❖ You need to live in the home at least 6 months to a year

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.

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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

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HOW MUCH CAN I QUALIFY FOR?



The amount of cash you can get depends on you;

❖ 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

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

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

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
- ❖ 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*

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.

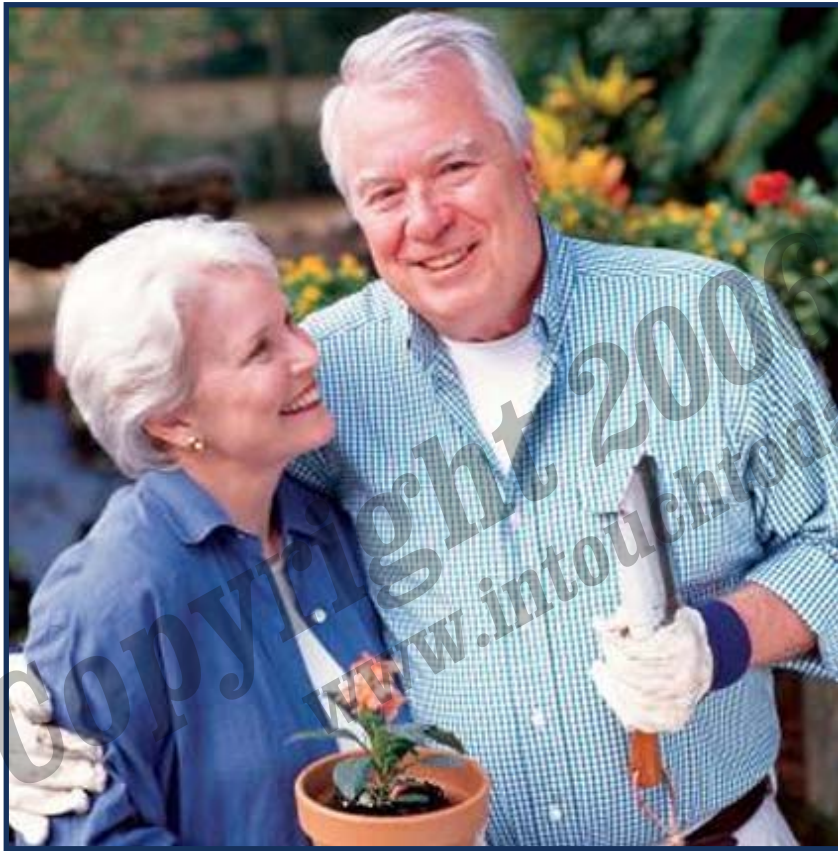


IMPORTANT INFORMATION REGARDING THE COST OF THE LOAN:



- ❖ 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

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.

THANK YOU!

For more information:

Your Company Name

Office telephone number

Alternate telephone number

Web site address

Email address

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