Are you interested in the possibility of converting equity in your home into cash without having to move or assume debt that has to be currently repaid?
Tapping into the Value of Your Home

At one time, there were only two ways to tap into the value of your home:

**Sell your home**

**BUT...**

then you would have to move somewhere else.

**Borrow against the equity in your home**

**BUT...**

then you would have to make monthly loan repayments.

Many people have retired with what they assumed would be a comfortable retirement income into the future, only to find that inflation, rising health care costs and unexpected expenses have worked to make their retirement less secure. These people may have substantial equity in their homes...equity they would like to convert to cash without having to move or assume debt that has to be repaid.

A reverse mortgage, which converts a portion of a home’s equity into cash without requiring that the home be sold or that the equity be repaid currently, may provide the answer.

What Is a Reverse Mortgage?

A reverse mortgage is a loan against the value of your home that does not have to be paid back for as long as you live in the home. Simply put, a reverse mortgage converts some of the equity in your home into income.

The proceeds from a reverse mortgage can be paid to you:

- In a single lump sum;
- As a regular monthly income; or
- At times and in amounts of your choosing.

While reverse mortgages typically require no repayment while you are living in your home, they must be repaid in full, including interest and any other charges, at the earliest of:

- The death of the last living borrowing spouse (or the death of a surviving non-borrowing spouse), meaning that a surviving spouse, whether named on the home’s title or not, may continue to live in the home without repaying the reverse mortgage;
- The sale of the home; or
- The last living borrowing spouse (or a non-borrowing surviving spouse) moves permanently away from the home, such as to an assisted living facility or nursing home.
Reverse Mortgage Considerations

- Typically, a reverse mortgage must be a "first" mortgage, meaning that if you still owe money on your home, you must pay off the existing mortgage before you can get a reverse mortgage (note: an initial lump sum payment from a reverse mortgage can be used to pay off an existing mortgage).

- Keep in mind that, while you don't have to repay a reverse mortgage for as long as you live in the house, the amount that ultimately has to be repaid does grow over time.

- While the amount of debt grows over time, the reverse mortgage repayment cannot exceed the value of your home at the time it is ultimately sold.

- If you take out a reverse mortgage, you continue to own your home. This means that you continue to be responsible for expenses such as property taxes, hazard insurance and home maintenance and repair.

- Reverse mortgage proceeds may affect eligibility for assistance under state and federal programs.

- The upfront costs associated with a reverse mortgage, such as an origination fee, closing costs and mortgage insurance premium (more fully described on page 7), can be significant. This means that a reverse mortgage may be expensive if the loan is repaid within a few years of closing. As a result, if you anticipate moving within a few years, you should explore another alternative, such as a home equity loan.

- Repayment of a reverse mortgage when your home is sold will mean less equity left to pass to your heirs.

What Types of Reverse Mortgages Are Available?

Reverse mortgages can be broken into two broad segments: public sector loans and private sector loans.

### Public Sector Reverse Mortgages

Public sector reverse mortgages are available through state and local governments. While these are usually the least expensive reverse mortgages, they generally can be used for specific purposes only, such as for home improvement or repair. There also may be geographic and income requirements.

- **Deferred Payment Loans (DPLs):** Provide a single, lump-sum payment that must be used for home improvement or repair. Available through many local and some state government agencies and eligibility requirements vary from program to program. If your home needs updating or repairs, if a DPL program is available in your area and if you qualify, a DPL is an attractive low-cost reverse mortgage alternative.

- **Property Tax Deferral Loans (PTDs):** Provide annual loan advances that can be used to pay property taxes. Availability varies widely, as do eligibility requirements.
Private sector reverse mortgages are available from banks, mortgage lenders and savings associations. The money from a private sector reverse mortgage can be used for any purpose.

- **Home Equity Conversion Mortgages (HECMs):** Federally-insured loans backed by the federal government and offered by any lender approved by the Federal Housing Administration (FHA). Generally speaking, HECMs are the least costly reverse mortgage that can be used for any purpose.

- **Proprietary Reverse Mortgages:** Reverse mortgages available through private companies that have proprietary or ownership rights to the loans and decide which lenders can offer them. Generally speaking, these are the most expensive type of reverse mortgage.

### Home Equity Conversion Mortgages (HECMs): Advantages and Requirements

Home Equity Conversion Mortgages (HECMs) are insured by the Federal Housing Administration (FHA), which tells HECM lenders how much they can lend, based on a homeowner's age and the value of the home. The FHA, which is part of the U.S. Department of Housing and Urban Development (HUD), guarantees that HECM lenders will meet their obligations under the loan, and insures lenders against loss if reverse mortgage payments exceed the equity when the home is eventually sold.

#### HECM Advantages:

- HECM proceeds can be used for any purpose.
- HECMs provide considerable flexibility in how the funds can be paid to you.
- HECMs are widely available.
- Generally speaking, HECMs are the least expensive reverse mortgage that can be used for any purpose.
HECM Requirements:

- The borrowing spouse(s) must be 62 years of age or older, but a non-borrowing spouse can be younger than 62;
- The home must be occupied as your principal residence and you must own the property outright or have paid-down a considerable amount of the mortgage;
- The home must be a single-family residence, a unit occupied by the borrower in a one-to-four-unit building, an FHA-approved condominium, a unit in a planned unit development or a manufactured home that meets FHA requirements (cooperatives and most mobile homes are not eligible);
- You must not be delinquent on any federal debt and you must have the financial resources to continue to make timely payment of ongoing charges such as property taxes, insurance and any homeowner association fees;
- Your income, assets, monthly living expenses and credit history will be verified, as will your timely payment of real estate taxes, hazard and flood insurance premiums;
- The property must meet FHA minimum property standards (but reverse mortgage proceeds can be used for required repairs); and
- The homeowner must receive free HUD-approved reverse mortgage counseling.

Home Equity Conversion Mortgages (HECMs): Loan Amounts and Payment Options

HECM Loan Amounts:

The loan amount available depends on your age, the value of your home, current interest rates and the Mortgage Insurance Premium option you select:

- **Age:** The older you are, the larger the reverse mortgage amount can be. In the case of spouses, the age of the youngest borrowing (or non-borrowing spouse if younger) is used.
- **Home Value:** The amount you can borrow is limited to the lesser of the appraised value or the HECM FHA mortgage limit or the sales price.
- **Interest Rate:** The lower the interest rate, the higher the amount of money available from an HECM loan.
- **HECM Costs:** You can pay for most of the costs of an HECM, such as the Mortgage Insurance Premium, by financing them...having them paid from the proceeds of the loan. This will, however, reduce the net loan amount available to you.
HECM Payment Options:

In addition to receiving a single lump sum payment, HECM loans can be structured to pay you cash in the following ways:

- **Line of Credit:** You make withdrawals at times and in amounts of your choosing, up to a maximum amount.

- **Tenure Plan:** You receive equal monthly payments for as long as you live and continue to occupy the home as your principal residence.

- **Term Plan:** You receive equal monthly payments for a fixed number of months selected (while a term plan will provide more money each month than a tenure plan, the monthly checks end at the end of the term).

- **Modified Tenure Plan:** Combines the tenure plan with a line of credit.

- **Modified Term Plan:** Combines the term plan with a line of credit.

There is a limit on the amount of money that can be withdrawn in the first year. Most homeowners will not be allowed to withdraw more than 60% of the maximum available HECM loan amount in the first year. In addition, only borrowers who select the line of credit option, which carries a variable interest rate, may be able to access amounts in excess of 60% in future years.

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**Home Equity Conversion Mortgages (HECMs): Loan Repayment and Costs**

**HECM Loan Repayment:**

An HECM loan must be repaid when the last surviving borrowing or non-borrowing spouse dies or sells the home. The loan may also become due if:

- The home is allowed to deteriorate and the problem isn't corrected.

- Property taxes and/or insurance are not paid.

- All borrowers (or a surviving non-borrowing spouse) move permanently to a new principal residence.

- The last surviving borrowing or non-borrowing spouse fails to live in the home for 12 straight months due to physical or mental illness.
HECM Costs:

There are several costs associated with HECM loans. One option is to “finance” these costs by paying them from the proceeds of the reverse mortgage. While this option reduces the amount you’ll receive, it also reduces your upfront out-of-pocket costs.

- **Origination Fee:** An origination fee is charged to compensate the lender for processing a HECM loan. A lender can charge the greater of $2,500 or 2% of the first $200,000 of your home’s value plus 1% of the amount over $200,000. HECM origination fees are capped at $6,000.

- **Closing Costs:** These vary from area to area, but cover the costs of third-party services, such as an appraisal, title search, survey, recording fees, etc.

- **Mortgage Insurance Premium (MIP):** This essentially pays for the guarantee that you will receive your reverse mortgage payments for as long as you live in your home and the assurance that the total payment due when your home is sold cannot exceed the value of the home. You can finance the mortgage insurance premium (MIP) as part of your loan. Borrowers who take out more than 60% of the total amount available in the first year will pay a MIP of 2.5% of the appraised value of the property. Borrowers taking out less than 60% will pay a MIP of 0.5% of the appraised value of the property. Over the life of the loan, you will also be charged an annual MIP that equals 0.5% of the outstanding mortgage balance.

- **Interest Rate:** HECM borrowers can choose an adjustable interest rate or a fixed rate. If you choose an adjustable interest rate, you may choose to have the interest rate adjust monthly or annually. Lenders may not adjust annually-adjusted HECMs by more than 2 percentage points per year and not by more than 5 total percentage points over the life of the loan. FHA does not require interest rate caps on monthly-adjusted HECMs.

- **Servicing Fee:** The fee charged by the lender to administer your HECM loan cannot exceed $30 per month for an annually-adjusted interest rate or $35 per month for a monthly-adjustable interest rate.
The Reverse Mortgage Decision

In considering whether or not to get a reverse mortgage, you are the only one who can decide whether a reverse mortgage is right for you. In making this important decision, answers to the questions that follow may prove helpful in your decision making.

**Have I evaluated my other options?**

There is a natural tendency to want to stay in our own homes. Before getting a reverse mortgage, however, you may want to evaluate other housing options, such as buying a less expensive home or moving to an apartment or assisted living facility. This is especially important if there is any possibility that you may want to move in the near term. Since the upfront costs associated with a reverse mortgage, as described on page 7, can be significant, reverse mortgages may be expensive if repaid within a few years of closing, so carefully consider your other housing options, together with possible future plans to relocate.

**Do I want to involve someone else in my decision?**

Do you have a trusted advisor or friend whose opinion you value? If so, you may want to ask this person for his or her thoughts on whether a reverse mortgage would be right for you in your situation. You also need to decide whether to involve your children or other heirs in the decision-making process.

**What other resources are available to me?**

As noted earlier, to be eligible for an FHA-insured Home Equity Conversion Mortgage (HECM), you must discuss the reverse mortgage with a HUD-approved counselor. The counseling service is free and can prove helpful in your decision process. If you are considering a proprietary reverse mortgage, you may want to consider paying a counseling agency for this service.

In addition, there are several online resources that may prove helpful to you:

- **AARP** (http://www.aarp.org): In addition to providing literature about reverse mortgages, you can receive HUD-approved HECM counseling through AARP.
- **NRMLA** (http://www.reversemortgage.org): Reverse mortgage information from an association of reverse mortgage lenders who have signed a code of conduct.
A Final Caution

Before you get a reverse mortgage, carefully consider how you will spend the money.

<table>
<thead>
<tr>
<th>Will you take a lump sum?</th>
<th>If so, how much of the available loan amount will you take as a lump sum and how will you spend it?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will you supplement your current income by taking the available loan amount in the form of monthly payments?</td>
<td>If so, do you want the payments to continue for as long as you live in your home, or do you want them to continue only for a specific number of years?</td>
</tr>
<tr>
<td>Do you prefer having the loan amount available as a line of credit?</td>
<td>If so, for what reasons will you make withdrawals from your line of credit?</td>
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</table>

The answers to these questions are important because, simply put, the more of your reverse mortgage loan amount that you take now, the less will be available to you in the future.

**A final caution:** It is generally not wise to use the money from a reverse mortgage for investment purposes. It is highly unlikely that you can prudently invest the money and earn more from the investment than the reverse mortgage will cost in interest and fees.
Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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