

Top Ten Things to Know if You're Interested in a Reverse Mortgage

Reverse Mortgages are becoming popular in America. The U.S. Department of Housing and Urban Development (HUD) created one of the first. HUD's Reverse Mortgage is a federally-insured private loan, and it's a safe plan that can give older Americans greater financial security. Many seniors use it to supplement social security, meet unexpected medical expenses, make home improvements, and more. Since your home is probably your largest single investment, it's smart to know more about reverse mortgages, and decide if one is right for you!

1. What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets a homeowner convert a portion of the equity in his or her home into cash. The equity built up over years of home mortgage payments can be paid to you. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence. HUD's reverse mortgage provides these benefits, and it is federally-insured as well.

2. Can I qualify for a HUD reverse mortgage?

To be eligible for a HUD reverse mortgage, HUD's Federal Housing Administration (FHA) requires that the borrower is a homeowner, 62 years of age or older; own your home outright, or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse loan; and must live in the home. You are further required to receive consumer information from HUD-approved counseling sources prior to obtaining the loan.

3. Can I apply if I didn't buy my present house with FHA mortgage insurance?

Yes. While your property must meet HUD minimum property standards, it doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new HUD reverse mortgage will be a new FHA-insured mortgage loan.

4. What types of homes are eligible?

Your home must be a single family dwelling or a two-to-four unit property that you own and occupy. Townhouses, detached homes, units in condominiums and some manufactured homes are eligible. Condominiums must be FHA-approved. It is possible for condominiums to qualify under the Spot Loan program. The home must be in reasonable condition, and must meet HUD minimum property standards. In some cases, home repairs can be made after the closing of a reverse mortgage.

5. Can the lender take my home away if I outlive the loan?

No! Nor is the loan due. You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. You can never owe more than your home's value.

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6. What's the difference between a reverse mortgage and a bank home equity loan?

With a traditional second mortgage, or a home equity line of credit, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The reverse mortgage is different in that it pays you, and is available regardless of your current income. The amount you can borrow depends on your age, the current interest rate, other loan fees, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow. You don't make payments, because the loan is not due as long as the house is your principal residence. Like all homeowners, you still are required to pay your real estate taxes and other conventional payments like utilities, but with an FHA-insured HUD Reverse Mortgage, you cannot be foreclosed or forced to vacate your house because you "missed your mortgage payment."

7. Will I still have an estate that I can leave to my heirs?

When you sell your home or no longer use it for your primary residence, you or your estate will repay the cash you received from the reverse mortgage, plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs. None of your other assets will be affected by HUD's reverse mortgage loan. This debt will never be passed along to the estate or heirs.

8. How much money can I get from my home?

The amount you can borrow depends on your age, the current interest rate, other loan fees and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow.

9. Should I use an estate planning service to find a reverse mortgage?

I've been contacted by a firm that will give me the name of a lender for a "small percentage" of the loan? HUD does NOT recommend using an estate planning service, or any service that charges a fee just for referring a borrower to a lender! HUD provides this information without cost, and HUD-approved housing counseling agencies are available for free, or at minimal cost, to provide information, and counseling.

10. How do I receive my payments?

You have six options:

- Tenure - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- Term - equal monthly payments for a fixed period of months selected.
- Line of Credit - unscheduled payments or in installments, at times and in amounts of borrower's choosing until the line of credit is exhausted.
- Modified Tenure - combination of line of credit with monthly payments for as long as the borrower remains in the home.
- Modified Term - combination of line of credit with monthly payments for a fixed period of months selected by the borrower.
- Lump Sum - Distribution to pay all liens of record and cash out to borrower.

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