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## ***Reverse Mortgage Information***

A reverse mortgage is a special type of loan used by older Americans to convert the equity in their homes into cash. The money from a reverse mortgage can provide seniors with the financial security they need to fully enjoy their retirement years.

The reverse mortgage is aptly named because the payment stream is "reversed." Instead of making monthly payments to a lender, as with a regular first mortgage or home equity loan, a lender makes payments to the borrower.

While a reverse mortgage loan is outstanding, the borrower continues to own the home and hold title to it.

The money from a reverse mortgage can be used for ANYTHING: daily living expenses; home repairs and home modifications; medical bills and prescription drugs; pay-off of existing debts; continuing education; travel; long-term health care; prevention of foreclosure; and other needs.

If the borrower home needs physical repairs (mandatory repairs) in order to qualify for a reverse mortgage, a portion of the proceeds will be set aside for this purpose.

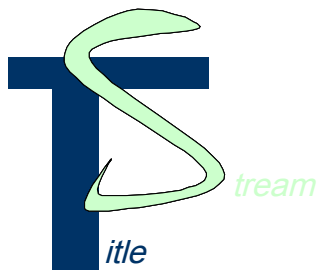
To qualify for a reverse mortgage the borrower must be at least 62 and own the borrower's own home. There are no income or medical requirements to qualify. The borrower may be eligible for a reverse mortgage even if the borrower still owes money on a first or second mortgage. In fact, many seniors get a reverse mortgage to pay off a first mortgage.

The borrower can choose how to receive the money from a reverse mortgage. The options are: all at once (lump sum); fixed monthly payments (for up to life); a line of credit; or a combination of these. The most popular option - chosen by more than 60 percent of borrowers - is the line of credit, which allows the borrower to draw on the loan proceeds at any time.

The size of the reverse mortgage that the borrower can get depends on the borrower's age at the time the borrower apply for the loan, the type of reverse mortgage the borrower choose, the value of the borrower's home, current interest rates, and - sometimes - where the borrower live. In general, the older the borrower is and the more valuable the borrower's home (and the less the borrower owe on the home), the larger the reverse mortgage can be.

The costs associated with getting a reverse mortgage include the origination fee (which can be financed as part of the mortgage), an appraisal fee, and other charges similar to those for regular mortgages.

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The money provided to the borrower from a reverse mortgage is tax-free, and does not affect regular Social Security or Medicare benefits. However, the funds received from a reverse mortgage may affect the borrower's eligibility for certain kinds of government assistance, such as Medicaid or state assistance programs, so the borrower should check into this before getting a reverse mortgage.

Before applying for a reverse mortgage, the borrower must first meet with a reverse mortgage counselor. The borrower may, however, first approach a reverse mortgage lender, who can provide the borrower with the names of approved counseling agencies in the borrower's area.

The counselor's job is to educate the borrower about reverse mortgages, to inform the borrower of other alternative options available to the borrower given the borrower's situation, and to assist the borrower in determining which particular reverse mortgage product best fits the borrower's needs.

In general, counseling sessions are done face-to-face, although telephone counseling is becoming more prevalent.

No payments are due on a reverse mortgage while it is outstanding. The loan becomes due and payable when the borrower ceases to occupy the home as a principal residence. This can occur if the borrower (the last remaining spouse, in cases of couples) pass away, sell the home, or permanently move out.

The home does not have to be sold to pay off the loan. The borrower (or the borrower's heirs) can pay off the reverse mortgage and keep the home. In any event, the amount owed on the reverse mortgage can never exceed the value of the home at the time the loan must be repaid. Moreover, if the home is sold and the sales proceeds exceed the amount owed on the reverse mortgage, the excess money goes to the borrower or the borrower's estate.

Reverse mortgages are offered by banks, mortgage companies, and other financial institutions.

Three reverse mortgage products are available to consumers in the U.S. at the present time, Home Equity Conversion Mortgage (HECM), Financial Freedom Cash Account, Home Keeper Mortgage. (*attached*)

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# Top Ten (10) Questions According to HUD Asked By Borrowers About Reverse Mortgages

## 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 the borrower. 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 the borrower's 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. The borrower are further required to receive consumer information from HUD-approved counseling sources prior to obtaining the loan. The borrower can contact the Housing Counseling Clearinghouse on 1-800-569-4287 to obtain the name and telephone number of a HUD-approved counseling agency and a list of FHA approved lenders within the borrower's area.

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

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

## 4. What types of homes are eligible?

The borrower's home must be a single family dwelling or a two-to-four unit property that the borrower 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. What's the difference between a reverse mortgage and a bank home equity loan?

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

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

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

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

When the borrower sell the borrower's home or no longer use it for the borrower's primary residence, the borrower or the borrower's estate will repay the cash the borrower received from the reverse mortgage, plus interest and other fees, to the lender. The remaining equity in the borrower's home, if any, belongs to the borrower or to the borrower's heirs. None of the borrower's 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 the borrower can borrow depends on the borrower's age, the current interest rate, other loan fees and the appraised value of the borrower's home or FHA's mortgage limits for the borrower's are, whichever is less. Generally, the more valuable the borrower's home is, the older the borrower are, the lower the interest, the more the borrower 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-

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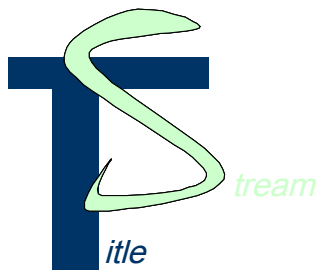
approved housing counseling agencies are available for free, or at minimal cost, to provide information, counseling, and free referral to a list of HUD-approved lenders. Before the borrower agree to pay a fee for a simple referral, call 1-800-569-4287, toll-free, for the name and location of a HUD-approved housing counseling agency near the borrower.

### **10. How do I receive my payments?**

The borrower have five 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.

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## Financial Freedom Cash Account Plan

The Cash Account (CA) plan is available to seniors 62 years or older who own their home with a minimum value of \$75,000. It provides an open-end line of credit (i.e., the consumer can borrow, repay, and borrow again) that is available for as long as the borrower occupies the home. The senior can draw on the line of credit in full or part at any time; the minimum draw is \$500. The unused portion of the credit line grows by 5 percent annually until maturity.

Eligible home types are owner-occupied single-family detached, manufactured, condominium, Planned Unit Development units, 1- to 4-unit residences if one is owner-occupied.

The size of the line of credit depends on the value of the home and the borrower's age. The interest rate charged to the senior -- adjusted semi-annually and assessed on the amount borrowed -- is equal to the current 6-month London Interbank Offered Rate (LIBOR) plus 4 percentage points for the High Benefit Option and 5 percentage points for the Standard Option. The rate may never rise more than specified percentage above the initial rate. *A special introductory rate applies for the first six months.*

Cash Account is currently available in 24 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, and Wyoming.

The Cash Account is available in two forms: the Standard Option and the High Benefit Option. The Standard and High Benefit origination fee is equal to a scaled percentage of the home's value, up to a maximum of 2 percent. The monthly servicing fee for both options is \$20 (no fee in Illinois and Maryland). Under the High Benefit Option, the borrower receives a larger line of credit in exchange for 5 percent of the home's value at payoff, which isn't collected if the loan is repaid in the first two years.

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## Home Equity Conversion Mortgage (HECM)

The Home Equity Conversion Mortgage (HECM) is the oldest and most popular reverse mortgage product. Available since 1989 to homeowners 62 or older, HECMs are insured by the federal government through the Federal Housing Administration (FHA), a part of the U.S. Department of Housing and Urban Development.

Eligible home types include single-family homes, manufactured homes built after June 1976, condominiums, and townhomes.

The size of a HECM varies with: (1) the borrower's age; (2) the value of the home; and (3) current interest rates. The location of the borrower's home also affects the loan size. The maximum size of a HECM depends on the FHA Loan Limit, which varies from area to area and is usually adjusted annually.

Currently (for 2003), the FHA loan limit varies from a low of \$154,896 (for rural areas) to a high of \$280,749 (for high-cost metropolitan areas). The 2003 loan limit for a particular area may be found at HUD's Web site. FHA provides free software to lenders to help compute the applicable loan amount for each borrower.

Borrowers can choose to receive the proceeds from a HECM as (1) a lump sum payment, (2) fixed monthly payments, (3) a line of credit, or (4) a combination of these.

The fee charged to a borrower for a HECM is limited. The origination fee can't exceed \$2,000 or 2 percent of the maximum claim amount (the FHA loan limit), whichever is greater. In 2002, therefore, this 2 percent limit ranges between \$3,098 (2 percent of \$154,896) and \$5,615 (2 percent of \$280,749). The entire amount of the origination fee may be financed as part of the mortgage, and certain other closing costs. FHA Mortgagee Letter 00-10 spells out the size of the origination fee that may be charged to borrowers and what the fee cap covers.

HECM borrowers must also pay an FHA insurance premium, equal to 2 percent of the loan amount up-front, plus an annual premium thereafter equal to 0.5 percent of the loan amount.

Typically the only cost that a borrower must pay for upfront out of pocket is for an appraisal fee. The remaining closing costs and fees generally can be financed as part of the reverse mortgage.

The interest rate charged on a HECM adjusts either monthly or annually, depending on which option the borrower chooses. However, these adjustments don't alter the monthly payments that

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borrowers can receive (if they have chosen the monthly payment option). Instead, the adjustment affects the total interest that is charged on the loan, which is added to the loan balance while the loan is outstanding and is paid when the loan becomes due.

A borrower is not required to make any mortgage payments to the lender during the life of the HECM. The HECM becomes repayable, in full, when the sole remaining borrower dies or no longer occupies the home as his or her principal residence (e.g., through a sale of the home or a permanent move out of the home). The repayment obligation is equal to the sum of the total funds received by the borrower, interest, and any closing costs and other charges financed as part of the loan.

The borrower or borrower's heirs/estate may pay off the loan and keep the home. If not, the lender is repaid when the home is sold. If the sales proceeds exceed the amount owed, excess proceeds go to the borrower or borrower's heirs/estate. If the proceeds are less than the amount owed, FHA absorbs the shortfall and makes an insurance claim payment to the lender.

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## Home Keeper Mortgage

In 1996, Fannie Mae developed its own proprietary Home Keeper® mortgage as a supplement to the federally insured reverse mortgage production, the FHA Home Equity Conversion Mortgage. Home Keeper was developed to address unmet needs that could not be served by the HECM program, such as individuals with higher property values, some condominium owners, and seniors wishing to use a reverse mortgage to purchase a new home.

The Home Keeper mortgage is available in every state to borrowers 62 and older. Eligible home types include owner-occupied single-family homes, condominium units, and units in qualified planned unit developments. Properties held in trust and qualified leasehold properties are also eligible. Cooperative units, however, are not.

The amount of funds available to the borrower is determined by a formula and varies with: (1) the age and number of borrowers at the time of application; (2) the adjusted value of the home; and (3) current interest rates. Home Keeper loans can be larger than HECMs because Fannie Mae's maximum mortgage limit - \$322,700 for 2003 - is larger than the FHA maximum mortgage limit.

The consumer may choose to receive the funds from a Home Keeper mortgage as: (1) fixed monthly payments for life (i.e., for as long as the borrower occupies the home as his/her principal residence); (2) a line of credit; or (3) a combination of monthly payments and line of credit.

Home Keeper borrowers are charged an origination fee that may not exceed 2 percent of the adjusted value of the home, whichever is greater), a monthly servicing fee (\$15-\$30), and other closing costs. Many of these can be financed and included in the mortgage.

The interest rate charged on a Home Keeper mortgage adjusts monthly and is equal to a fixed spread above an index rate - the current weekly average of the one-month secondary market CD rate, which is published by the Federal Reserve. The rate may never rise by more than 12 percentage points above the initial rate; there is no cap on a monthly adjustment other than the lifetime cap.

The Home Keeper for Home Purchase program enables seniors to obtain a Home Keeper mortgage in connection with the purchase of a new home - in a single transaction. The transaction reduces the out-of-pocket cash needed by the consumer to buy a new home, eliminates any new monthly mortgage payment, and helps the consumer keep more of the sales proceeds from their old house - or a larger amount of savings - to use for other purposes.

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For example, let's say a 76-year-old senior sells her home for a \$75,000 profit and wants to buy a new home costing \$115,000. To avoid a mortgage payment on the new house, she would need to pay \$115,000 in cash. This means she would have to use the entire \$75,000 from the sale of her first home, plus another \$40,000 from her savings. If she doesn't have the \$40,000, she couldn't buy the new house, unless she qualifies for a new home mortgage, which might be difficult and which in any event would require making monthly mortgage payments again.

Alternatively, the same senior could buy the new home for \$115,000 in cash using \$60,000 from a new Home Keeper reverse mortgage and \$55,000 of the \$75,000 in sales proceeds from her old house. This way allows her to keep the remaining \$20,000 in savings from the sales proceeds from her old house and make no monthly mortgage payments.

This product might be used, for instance, by older homeowners who want to sell their old home and move near their children or to a warmer climate, or to move into a home that provides greater accessibility.