REVERSE MORTGAGE MAGIC

Hidden Cash For Senior Homeowners

By

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Core Mortgage Associates

www.ReverseMortgageCMA.com

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INTRODUCTION

This book is designed to answer many of your questions about Reverse Mortgages simply and directly. It is not intended to cover every detail of the subject.

That is because most people don't need or want to know all the details until they are actually involved in pursuing a Reverse Mortgage loan.

However this book should provide you with an *introductory* guide and reference as you gain knowledge about Reverse Mortgages. Additional resources are listed in the back of the book should you want to delve more deeply into this subject.

By way of reference, the authors are mortgage professionals who work with Reverse Mortgages every day.

There is very little we haven't encountered in the world of Reverse Mortgages, so we intend to filter out the clutter and give you a solid, basic understanding of how these loans work.

We know from direct experience that Reverse Mortgages can be anything from a nice little cushion, to an absolute lifesaver for senior homeowners.

Many of our clients have used Reverse Mortgages to pull themselves out of desperate situations using the assets they already own in the form of home equity.

Others have used their loan proceeds to buy recreational vehicles, spend a couple of months on the beach, or help their grandchildren with college expenses. These are things they never could have done before obtaining a Reverse Mortgage.

This book is written in ordinary English in the hope that you will feel as if we are having a direct conversation. All mortgages have built-in complexities, but it is my job to simplify all of that.

We trust that having read this book, you will understand the basic processes involved in Reverse Mortgages.

We also hope that if you decide to proceed with obtaining a Reverse Mortgage you will be equipped to do so with a minimum of confusion -- and a large dose of safety and you'll contact us at Core Mortgage Associates to assist you.

In the interest of keeping things simple, we'll refer to Reverse Mortgages as "RMs" throughout the book. That said, let's get started!

J. Michael Ross
Sally. E. Emoto
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CHAPTER ONE

Changing Times -- Changing Needs

When people think of taking money out of their homes, they usually think of a traditional home equity loan, a home refinance, or selling the home outright and moving.

Those first two methods – taking out a home equity loan or doing a home refinance – are fine if you don't mind making monthly payments, and putting your home at risk of foreclosure should some mishap occur that causes you to miss several payments to the bank.

The third method – selling the home – is fine if you don't mind moving and finding another place to live.

But there is now a fourth, and I think far better choice, for seniors over the age of 62 who own or nearly own their homes. This method doesn't require monthly payments or moving out and the proceeds from the loan are tax-free. It's called a Reverse Mortgage (RM).

RMs are unlike any other kind of home mortgage. There are never any payments to make as long as the senior homeowners are living in the house as their primary residence.

There are lots of other advantages to RMs that I'll list shortly that make these loans perfect for seniors who need access to the money they've already saved as home equity.

In fact you could even say that home equity is a kind of pension fund that seniors have built up over the years probably without ever thinking of it that way. And RMs are the key to unlocking the door to that pension fund.

Falling Debt - Rising Equity

Maybe the best way to get an idea of what a RM is, is to think of traditional mortgages first, since homeowners generally understand those kind of mortgages very well.

When you buy a home, typically you start off with a down payment plus a large debt to a bank or mortgage lender. Then you pay monthly payments for years and years, and finally, you own the home outright in the end.

With that kind of loan, the value of your equity in the home—the part that you actually have paid off—keeps rising. At the same time, the debt in your home—the part that you borrowed from the bank in the first place—keeps falling.

Eventually, as we said above, the scale tips and at some point the home is yours free and clear.

Rising Debt - Falling Equity

With a RM, it's just the opposite. You start off with a paid for, or nearly paid for, home and you borrow back the money you need from the equity you've built up over the years. Only this time, you don't ever make monthly payments!

It may help to think of your home as a piggy bank in which you have been saving your money over a long period of time. The more you've put in year in and year out, the more you have later. Only in this case, you got to live in the piggy bank all this time!

Now that you need cash back from the piggy bank, you can take it out with a promise to return the cash only when you leave the home permanently. No monthly payments – ever – it's that simple.

As you withdraw money from the equity in your home – your piggy bank – the equity in the home goes down and the debt goes back up.

This idea can be a hard one for some seniors raised the Great Depression and World War II to swallow, because they became homeowners in a time when owning your home free and clear was the *only* intelligent thing to do.

But times have changed a lot since then – people are living much, much longer than they expected to during their working years and medical costs are very high. Fortunately, many seniors bought their homes when prices were extremely low, and have lived there while home values have gone through the roof. That means, they have lots of equity that they didn't even pay in directly!

Some time back the government and mortgage lenders realized what these changes in our society were going to mean – that often money seniors had saved early on for retirement wasn't going to last, and that the extra money they were going to need was locked up in their home equity.

That is why RMs were created. Now instead of having to take on traditional home mortgage debt with monthly payments, there are RMs that don't act like installment debt at all.

It's your equity, meaning it's YOUR money. If you need it now, you can have it now, even if this isn't what you planned on doing when you were younger and were paying the house off.

When you think about it, where else can you get a loan like that – one that lets you have the money now, with no payments, and repayment only coming due when you no longer live in the house?

In my experience RMs are completely unique financial vehicles. Some people even call them minor miracles – and for many seniors they can be.

CHAPTER TWO

Features of Reverse Mortgages

In this part I'm going to talk about some of the major features of RMs. I think you'll be pleasantly surprised.

Later, in Chapter Five, I'll talk about the costs and a few *downsides* of this kind of loan because as with everything on Planet Earth, there is a good side and a not-so-good side.

But equipped with the knowledge available in this book, you are likely to find that in many cases the good points to RMs far outweigh the bad.

Here is a quick summary of the features of RMs:

- The United States Government approves the HECM and Fannie Mae Home Keeper RMs.

- By law a counselor who is approved by the Dept. of Housing and Urban Development – or HUD as it's commonly called – counsels all RM borrowers before they are allowed to proceed with the mortgage.

- Homeowners can take cash out of the equity in their home and make *no monthly payments ever* – as long as they live in the home as their principle residence.

- The money taken out is not taxable since it is the proceeds from a loan, not income.

- Homeowners can live in the house until the surviving spouse passes away, or the borrowers no longer live in the home as their principle residence.

- Homeowners *always* keep the title to their home and can sell it.

- Any increase in value of the home over the life of the loan is the property of the homeowner, not the lender.

- The amount that must be repaid when the borrower dies or moves out of the home permanently can never exceed the value of the home.

- Proceeds from a RM may be used for anything the borrower likes.

- Loan proceeds do not affect Social Security checks *.

- The borrower's credit history is not a factor unless there is a debt to a government agency such as back taxes or a student loan.

- There are no age or income restrictions as long as the titleholders of the home are over age 62.

- The more the home is worth, the more money you can take out – up to certain government-specified limits.

- Usually, the older you are, the more money you can take out of the home's equity.

***See Chapter Five for government benefits that *may* be affected by the proceeds from a RM.**

CHAPTER THREE

The HECM Reverse Mortgage

The most widely used and well known of the RMs is the Home Equity Conversion Mortgage or HECM.

This is the only RM that is insured by the US Government through the Federal Housing Administration (FHA), a division of the Department of Housing and Urban Development (HUD).

What does that mean, "insured by the US Government?" It simply means that the FHA guarantees that lenders will meet their obligations to borrowers.

This cooperation between the government and the lenders insures that the costs of the HECM loans are kept with in certain limits. It also means that the government tells the lenders how much they can lend depending on the value and location of the home.

These limits are called 203-b limits [see Glossary.] They vary from state to state and county to county because home values in some places are higher than in others.

When you contact a lender or mortgage broker about a RM, they will tell you what the 203-b limits are in your area. Also, figuring in your age and the home's value, they can give you an approximation of how much you can take out of your home's equity with a RM.

HECM's are available in all 50 states, Puerto Rico and the District of Columbia.

Options For Taking Out The Money

1. Monthly Income: You receive a monthly check for a certain period of time, or as long as the home is your primary residence.
2. Lump Sum: You receive a cash pay out of the entire loan proceeds.
3. Line of Credit: This is a flexible pay out that allows you to write checks for as much or as little as you want.
4. Combination: You can combine any of the three above methods.

Eligibility

- Homeowners (the people whose names are on the title) must be 62 years old or older
- The home must meet HUD guidelines for minimum standards of construction and upkeep.
- Homeowners must meet with a counselor that is HUD-approved prior to obtaining the loan. This can be done in person or by telephone.
- The home must be a single-family house, a HUD-approved condominium, a planned unit development, or a 1- to -4 unit

complex. Some lenders will lend on manufactured homes if they are on a set foundation, but mobile homes without permanent foundations don't qualify.

- Homeowners CANNOT rent out the house or rooms in the house.
- The house must remain the borrowers' PRIMARY residence throughout the life of the loan.

Note: Costs and Fees for this and other RM loans are covered in Chapter Five.

CHAPTER FOUR

Other Types of RMs

Fannie Mae Home Keeper Loans

This RM loan is underwritten by Fannie Mae in Washington, D.C. and is similar to the HECM loan, but is not guaranteed by the US Government.

This type of loan will free up more money for those homeowners whose homes are above the HECM lending limits. In practice, they work exactly the same way as a HECM loan (above.)

For additional information on Home Keepers see: http://www.efanniemae.com .

Proprietary Loans

If you live in an area where home values are very high and you wish to borrow an amount higher than the HECM or HomeKeeper limits, a proprietary RM may be your best solution within the RM family of loans.

At the time of this writing, there is only one nation-wide RM proprietary lender, Financial Freedom that will make so-called Jumbo loans in excess of the HUD limits. There are other regional lenders who do the same thing.

The authors are not giving *advice*, but stating *opinions* in this book. Each homeowner's situation is different so it's best to check with your state attorney general, the Better Business Bureau, AARP and other trusted organizations as to the soundness of and business history of a proprietary lender.

Remember, the safeguards that are in place with the HECM and HomeKeeper loans may or may not be in place with a proprietary lender. Reverse mortgages are legally binding contracts. It's probably wise to read the paragraph above again and act accordingly!

A Field That's About To Break Wide Open

A quick word about the future of Reverse Mortgages of all types. Many lenders are beginning to see that this area of lending is going to explode exponentially due to the Baby Boomer generation (about 70 million people) moving into the 62 and older category. Visit our website for the latest updates as things are changing fast!

www.ReverseMortgageCMA.com

CHAPTER FIVE

Costs And Considerations

As was stated in the Chapter Two, there are some downsides to RMs, though they may not outweigh the advantages of these kinds of loans. Still they must be considered in making a sound decision.

- While proceeds from RMs do not affect Social Security checks they *may* affect other Government programs such as SSI. If you are in such a program, check with your account supervisor.

- Unless some other financial planning such as life insurance is in place, heirs will inherit less if you take out a RM. This is because with a RM, senior homeowners are spending down some, or all, of the value of the home. Thus, that portion will not be left to the heirs.

- If there is an existing traditional mortgage or home equity loan on the home, this must be paid off prior to obtaining a RM. Alternatively, existing mortgages can be paid off at closing if the proceeds from the RM are sufficient to do so.

- Shared appreciation clauses in "proprietary loans." These are clauses in a RM contract that grant the lender a share in any increase in value of the home over the life of the loan. HECM and Home Keeper RMs *do not* have such clauses.

A Specific Breakdown of Reverse Mortgage Costs

One of the most positive features of RMs is that most of the costs associated with these loans can be "wrapped" inside the loan itself, that is, the proceeds from the loan will pay these costs. That results in less out-of-pocket expense for the homeowners, but it also reduces the amount received at closing.

The normal fees that are wrapped inside the RM loan are listed below.

Origination Fee

When a lender puts together all the paperwork and processes it, it's called a "loan origination." There are specific rules as to how much the fees for this can be. With a HECM loan, the maximum it can be is two percent of the value of your home, or two percent of the 203-b limit in your county, whichever one is less. [See "Glossary" for a definition of 203-b limit.]

The one exception is when the amount from the above limits is less than $2,000. In that case, the lender can legally charge $2,000.

Mortgage Insurance Premium (MIP)

HECM loans require that there be an insurance premium paid to make sure you'll get what you were promised in terms of loan advances or lines of credit. It also insures hat the loan cannot be "called in" early, forcing you to pay off the loan before you leave the home permanently.

This guarantees that you can live in the home as long as you like and that the rise or fall of the home's value has nothing to do with the loan or its payoff. It also means that even if the lender you from whom you borrowed were to go under it wouldn't affect you as the borrower in any way. It further insures that when the loan comes due because the owners permanently vacate the home, sell it, or die, the amount due can't exceed whatever the value of the home is at that time.

Here's an example: Let's say you take out a RM for $100,000 based on your home's value of $150,00. The next day, the Happy Pig hog fat rendering plant moves in across the street. A few days later, the manager of Happy Pig stops by and says she wants to buy your house for an office and, with your approval, pays for a new appraisal.

The appraisal comes in at only $10,000 for the house, since after all, it's now next to a hog rendering plant! You decide that you want out because of the disgusting smell, take the offer, and move out permanently. What do you owe the RM lender? Only the $10,000 you receive from the Happy Pig hog rendering plant!

The other $90,000 is forgiven and forgotten. No dings on your credit, no giving back the $90,000, nothing. That's because when you took out the RM in the first place, the lender kept about two percent of the home's value and paid it as a Mortgage Insurance Premium, just in case something like this happened.

Servicing Fee

It costs money for the lender to do things like send your RM checks to you or make changes in insurance or other items in your loan account. According to FHA guidelines, the lender can legally charge you $30 a month for these services for a RM where the interest rate is adjusted annually, or $35 if it's adjusted monthly.

This can add up because by law, the lenders have to set aside an ample amount to cover these fees until you are age 100. Fortunately, this amount, which could be thousands of dollars, isn't added to your loan balance at closing. Rather, it is added month-by-month for as long as you live in the house. It's not something you'll notice, but you'll be paying it anyway.

Third-Party Closing Costs

When all parties involved get together to complete the legal arrangements on the RM, it's called a "closing." The RM actually begins on the day of the closing. For this to happen, a lot of specialists will have been involved in either conducting or verifying certain necessary items like a title search, special surveys, home inspection if required, credit checks, appraisals and home insurance.

Many, but not all of these are covered in the Third Party Closing Costs and it depends upon the individual lender whether they are included or not.

Typically, special surveys, minor home repairs under $500, appraisal and credit check must be paid for by the potential RM borrower. Another alternative is for the lender to charge an "application fee" to be paid by the borrower. This will cover the credit check and appraisal, and some lenders will refund this if the loan goes through, or include it in the third-party closing costs. Check with your lender before hand to find out what is included and what is not.

Interest Rates

Interest rates on RMs are "adjustable rate mortgages," or ARMS, which simply means that the rate you are quoted at closing may not be the one you end up with later. It can go up, or down, and because it's tied or "indexed" to whatever the current U.S. Treasury Security one-year note is, it's not up to you OR the lender. It simply "floats" depending upon how the U.S. Treasury one-year notes are doing. Fannie Mae adds a "margin" to whatever the securities are paying and that is your interest rate.

There are two ways interest rates can be adjusted:

Annual Adjustment Method

HECM lenders have to offer you a rate that can change annually, and it can only move in direct relation to the change in Treasuries. If you have the annual adjustable setup, the most your interest rate can rise in a year is two percentage points, with a cap of five percentage points over the life of the loan.

Monthly Adjustment Method

This method allows for a monthly adjustment in interest rates that are also tied to the U.S. Treasury one-year notes. The advantage is that this may allow for a lower interest rate than the annual reset. But the disadvantage is that the cap on interest rates is *ten percentage points* over the life of the loan. That's substantial and must be considered.

For a complete explanation of this somewhat confusing topic, visit http://www.aarp.org/money/revmort/revmort_decisions/ on the AARP website and click on "Choosing An Interest Rate."

Total Costs of the Loan

Because many costs are "wrapped" or "folded" into the RM loan, the total loan costs for these types of loans can be high relative to other types of mortgages. These can total as much as ten or fifteen percent of the total value of the home.

Let's face it, there are NO perfect solutions to any problem in life. Since you won't be making monthly payments on a RM loan or paying very much out of pocket to obtain one, something's got to give somewhere.

Higher total loan costs and the fact that RMs are adjustable rate mortgages [where you can never know for certain what interest rate you'll be paying down the road] is where the "give" is. Are those sufficient reasons to pass up a RM? It depends entirely upon your situation.

If you aren't worried about leaving the home's value to your heirs, both of those considerations can pretty much be tossed out the window. Why?

Because in the end, no matter how much the total loan costs were that were folded into the loan amount, or how high the interest rates got during the life of the loan, you could never be forced to leave the house before you were ready. Further, the money owed on the RM loan can never exceed the value of the home when it was permanently vacated by the borrower(s).

CHAPTER SIX

The Decision Making Process

Here are some questions and answers you might want to think about when considering a RM:

Q: Do I need to involve my family or other trusted people in this decision?

A: It depends on a lot of factors. We have seen a neighbor or friend who knew NOTHING about reverse mortgages talk senior home-owners out of taking out such a loan. While their intentions may have been good, it still meant leaving that senior suffering from a lack of money for necessities like food and medicine when the money they desperately needed was sitting in their home's equity.

As for your heirs, it may be a good idea to involve them in the decision-making process unless you don't care what they think. Yes, it's YOUR house and YOUR money, but your heirs may look at it as THEIR inheritance.

Q: Have I thought through all the possible alternatives?

A: There ARE other alternatives such as:

- selling the house and moving to less expensive place,
- taking out a conventional home equity loan and making payments,
- renting out a room to a boarder,
- others that the authors haven't thought of.

Q: What am I going to do with the proceeds from this loan?

A: Again, it's YOUR money, but using it wisely means asking:

- Should I wait until I am older to take out a RM?
- Have I talked to a HUD-approved counselor?
- Do I need to talk to an attorney or other advisor?

Q: Who Can Benefit From Reverse Mortgages?

A: Lots of people including:

- Seniors Who Need Money:

Many seniors simply need more money for a variety of reasons. If their house needs work, if they have faulty appliances, if their car needs repairs, or they have other financial needs, a RM can be the answer.

- Seniors With Dreams:

Ever want to see Europe, spend a month in Tahiti, publish your own book, or learn to play a guitar? The proceeds from a RM can be used for anything you like!

- Seniors With Medical Concerns:

If insurance isn't covering everything, or perhaps one spouse needs in-home medical assistance or Long Term Care in a retirement community, a RM is a great way to cover these kinds of expenses.

- Seniors Who Need to Move or Want to Move:

Often seniors who have lived in a large house while the kids were around simply have no interest in keeping it up when they don't need all that space. But perhaps the old family house isn't worth enough to buy that new condo in Vista Del Boca Retirement Village outright. There is a way to combine the sale of the old home with the purchase of a new one using a reverse mortgage and make no monthly payments.

- Seniors Who Don't Want Tax Consequences or Monthly Payments:

There are no taxes on the proceeds of a RM because the money is coming from a *loan,* not a sale. Also there are no monthly payments to make with a RM – ever!

- Seniors Who Wish To Age In Place:

Some seniors want to stay in their homes for life and need a little extra money for taxes, remodeling, repairs, normal upkeep, and improvements. A RM can provide that.

- Seniors Who Do Not Have A Pension Fund:

The money from a RM can be taken out as monthly payments to the borrower, virtually functioning as a tax-free pension fund.

- Baby Boomers With Parents Who Are Low On Money:

A RM can help seniors and their adult kids remain independent. It can keep the adult kids from having to tap into their own money to help out mom and dad. And it can give seniors the option to stay at home, rather than moving in with the kids.

CHAPTER SEVEN

Reverse Mortgage Summary

- A reverse mortgage is a home equity loan that provides tax-free advances to the homeowners.
- There are no monthly payments during the life of the loan as long as the home is occupied as the principal residence of the borrower(s).
- The loan balance comes due when the *last surviving borrower* no longer occupies the home as the primary residence due to:
    a) selling the house
    b) moving out permanently
    c) death
- Anyone whose name is on the home's title must be 62 years of age or older.
- Any existing mortgage on the home must be paid off, or nearly paid off to qualify. A reverse mortgage can be used to pay off an existing mortgage *in full* at closing.

- There are no income or credit requirements although a credit check is done to determine if the borrower owes a government agency such as the IRS. If so, those debts must be paid off with proceeds from the reverse mortgage loan at closing.
- Single-family homes, 1-4-unit dwellings, and condos are eligible, as are some manufactured homes that are affixed to *permanent foundations*. Unattached mobile homes do not qualify.
- Reverse mortgages are "non recourse' loans, meaning that no asset other than the home itself can be seized to satisfy the loan when it becomes due.
- The balance that must be repaid can never exceed the value of the home itself. Due to a rise in the Adjustable Rate of the loan, or a drop in the home's value, the amount borrowed *could* be higher than the value of the home, but not the repayment amount.
- Proceeds from the reverse mortgage can be used for anything lawful.
- The funds can be withdrawn as a lump sum, line of credit, monthly payments or a combination thereof.

The Three Most Common Reverse Mortgages Are:

- FHA Home Equity Conversion Mortgage [HECM]
- Fannie Mae Home Keeper
- Financial Freedom Cash Account

Other Information:

- The amount of money available to the borrower(s) from a reverse mortgage will depend upon:

  a) The age of the youngest borrower on the title. Note: Typically, the older the borrower(s) the more money available.
  b) the type of mortgage chosen
  c) the appraised value of the home
  d) current interest rates
  e) where the home is located by Zip Code

- Costs associated with obtaining a reverse mortgage are typically higher than for a conventional mortgage. Most, but not all, costs can be financed as part of a reverse mortgage. These typically include:
    a) origination fee
    b) title policy
    c) mortgage insurance (MIP)
    d) normal closing costs
- Costs that are *not typically financed* as part of a reverse mortgage are:
    a) appraisal and inspection fees
    b) surveys if required by the lender
    c) minor repairs to achieve FHA minimum standards up to $500

    NOTE: See Chapter Five for a complete cost breakdown
- A no-cost, one-hour session with a HUD-approved counselor is required by law and can be done by phone. AARP and Consumer Credit Counseling have HUD-approved counselors available.

CHAPTER EIGHT

Free HUD-Approved Reverse Mortgage Counseling

You can obtain free reverse mortgage counseling for federally insured Home Equity Conversion Mortgages from two national sources:

- Consumer Credit Counseling Services of your city, or
- AARP's Reverse Mortgage Education Project

The consumer must request reverse mortgage counseling. HUD requires it before a homeowner can apply for a federally insured reverse mortgage. The counseling generally takes about one hour and can be done by telephone or face to face.

Consumer Credit Counseling Services

To request reverse mortgage counseling through CCCS, obtain their number from your local directory. When you call, tell the person who answers the phone that you want to make an appointment for reverse mortgage counseling. State your name, city, telephone number, and whether you prefer counseling by telephone or in their offices. If you reach a message line, they will generally return your call within 24 hours.

At the time you call, or when they call you back, they'll ask a few simple questions to make sure you're qualified, then set an appointment. In some cases you can make an immediate appointment. In others, the appointment will be in about five to seven days. This gives CCCS time to mail materials that will be helpful to you during the counseling.

American Association of Retired People (AARP)

For the best chance of reaching a live operator at AARP, call the Project's referral request line at 1-202-434-6082 Monday through Friday from 10 AM to 3 PM Eastern time.

If your call isn't answered in person, leave your name, city, state, telephone number, and the best time to call back.

A project staff member will assess each caller's readiness for HECM counseling before referring a caller to a counselor.

The Counseling Process

1. You call and request free HUD-approved reverse mortgage counseling.
2. The counselor determines your eligibility and sets up an appointment.
3. If applicable, you receive printed materials in the mail.
4. You participate in the counseling session (all the individuals on the title MUST PARTICIPATE)
5. You receive the certificate of completion in person or by mail.

Some Things the Counselor May Ask

1. Are you and all other persons on the title to your home at least 62 years old?

2. Do you live in your home at least six months out of the year?

3. Is your home a single-family residence, duplex, triplex, 4-unit residence, condominium, or a planned unit development (PUD)? (If you answered "no" to this question, you may still be eligible if you live in some types of manufactured housing.)

4. What brought you to your decision to apply for a reverse mortgage?

5. Have you considered other alternatives to a reverse mortgage?

6. Have you received an estimate of how much money you would get from a reverse mortgage?

7. The counselor will also ask you general questions about your income, expenses, assets and debts to determine if a reverse mortgage is the best solution for you.

All Counseling Sessions are Confidential

HUD-approved HECM counseling agencies are required by HUD to "hold in strict confidence all client information regardless of the source" (HUD Handbook 7610.1).

If You've Opted for Telephone Counseling

- First, it's important to be home and ready to receive the call on the day of your appointment.

Some agencies say that if your appointment is at 10 AM, the counselor will call at 10 AM and once more ten minutes later. If you don't answer, you will have to set a new appointment.

- Second, it's important that ALL persons whose names are on the title to the home be there for the counseling. If they're not, the counseling can't proceed.

- If two people are on the title to the home, you'll need two telephones OR a speakerphone so both people can hear the counselor and participate in the counseling.

CHAPTER NINE

Steps In Obtaining A Reverse Mortgage

- **Hearing About It:** The consumer learns about reverse mortgages from a newspaper article, a mailed announcement, an ad, or by word of mouth.

- **Taking Action:** The consumer contacts a mortgage professional or lender to learn more.

- **Getting Counseling:** The consumer participates in mandatory counseling, either face-to-face or over the telephone, from a HUD-approved counseling agency. The counselor provides additional information on reverse mortgages, determines whether the borrower is eligible for a reverse mortgage, and discusses options other than a reverse mortgage that may be available to the borrower to assist them.

- **Filling Out the Application and Receiving the Disclosure:** The borrower fills out the application for the reverse mortgage and selects a payment option: fixed monthly payments, a lump sum payment, or a combination of these where available.

    - The lender discloses to the borrower the estimated total cost of the reverse mortgage as required by the federal Truth in Lending Act.

    - The borrower provides the lender with required information including photo ID, verification of Social Security number, a copy of the deed to the home, information on any existing mortgages on the property, and the HUD-approved counseling certificate.

- The lender collects the money for the home appraisal from the borrower.

- **Processing:** The lender orders the home appraisal, title work, and lien payoffs (if applicable), and completes any other required paperwork.

  - A HUD-approved appraiser visits the home to determine the physical condition of the property and assign a value to it.
  - If the appraiser uncovers structural defects requiring repair, the consumer must hire a contractor to complete the repairs *after* the reverse mortgage closes.

- **Underwriting**: After all the pertinent information and data has been collected, the loan package is submitted to the lender's underwriting department for final approval.

- **The Closing:** When the loan package is approved, the closing (signing) of the loan is scheduled at the lender's place of business or the title company office.

  - Initial and expected interest rates, closing papers, and final figures are prepared.
  - Closing costs are normally financed as a part of the loan.

- **Disbursement:** The consumer has three business days after signing the closing papers in which to cancel the loan. Shortly thereafter, the loan funds are disbursed according to the payment option selected. The new lien is put in place and any existing debt on the home is paid off at this time.

  - The consumer may use the loan proceeds for any purpose.

  - The interest rate on the loan is adjusted periodically (yearly or monthly) depending on the option selected.

CHAPTER TEN

How To Find A Reverse Mortgage Lender

It's easy! Just send us an email!

It won't do you much good to have gained all the information contained in this book if you don't know where to go to GET a reverse mortgage.

Unlike other types of mortgages that you can get from a bank, credit union, or mortgage broker on almost any street corner, there are only a few major lenders in the reverse mortgage field at this time.

Fortunately, we at Core Mortgage Associates are here to help. Contact us by email and we'll help you get started with your RM process with NO OBLIGATIONS.

We'll only need the dates of birth of the borrowers – that means all whose names are on the home's title – the approximate value of the home, the state your home's in and the zip code. We'll reply with the numbers telling you approximately how much you could get.

FOR A

FREE

Reverse Mortgage Consultation email:

Michael@Core-Mortgage.com

NOTE: ANTI-SPAM Legal Compliance

When sending your request or comments, you MUST type the following in the SUBJECT LINE of your email to us or we WILL NOT reply:

"Permission to reply by email is granted."

NOTE: Loan amounts will vary widely from state to state and from county to county. Also, a certain type of loan will generally provide the largest loan amount for a certain band in the range of home values. Clear as mud? Okay, let's explain:

For instance in 2007 in Erath County, Texas, the FHA-HECM loan will provide the most money for homes under $300,000, followed by the Fannie Mae Home Keeper loan that will often provide the most funding between $300,000 and $480,000. After that, it's Financial Freedom's territory because they will write reverse mortgages on homes of virtually any value and the others won't.

The numbers used in the above calculations as well as interest rates and lending caps change frequently. It is important to understand that the numbers used here are subject to change, and that no warranty is made for their accuracy.

CHAPTER ELEVEN

Glossary of Reverse Mortgage Terms

Adjustable rate: An interest rate based on a market-rate index. When the index changes, the interest rate changes accordingly and is updated monthly or annually

Annuity: A contract between a person or persons and an insurance company. It can provide monthly income to the owner(s)

Appraisal: The market value of a home. How much a licensed appraiser believes the home to be worth if it were sold today

Appreciation: A value increase in what a home is worth

Cap: A lid on how much the interest rate on an adjustable rate loan can increase within a set period of time

Closing: The final action in the acquisition of a mortgage. Usually all parties with an interest in the mortgage are present or represented

Credit line: A line of credit that allows the borrower to take out increments of the loan's proceeds

Current interest rate: In the HECM loan this is equal to the rate for one-year U.S. Treasury Securities with a margin added

Depreciation: A drop in a home's value from its previous value

Expected interest rate: In the HECM loan this is equal to the rate for 10-year U.S. Treasury Securities with a margin added. This is used to arrive at the amounts of a borrower's loan advances.

Fannie Mae: A government-sponsored corporation that buys and sells mortgages. It is designed to provide liquidity in the financing of home loans

Federal Housing Administration (FHA): A section of the U. S. Department of Housing and Urban Development (HUD). They provide insurance for HECM loans.

Federally insured reverse mortgage: A Home Equity Conversion Mortgage (HECM) is insured by the Federal Government and is the only reverse mortgage with this guarantee

Fixed monthly loan advances: A reverse mortgage borrower who elects this option is paid a set amount each month

Home equity: How much a home is worth less what is owed on it

Home equity conversion: Converting the value built up in a home as equity to cash or a line of credit

Home Equity Conversion Mortgage (HECM): See "Federally insured reverse mortgage" above

Initial interest rate: The one-year rate for U.S. Treasury Securities with a margin added. The interest rate charged the day the loan begins

Leftover equity: The dollar amount that remains after a home is sold and all mortgage debts are repaid

Loan advances: The money paid out to a borrower

Loan balance: How much is owed on a home mortgage with principal and interest added together

Lump sum: A loan advance that is paid out in one check as opposed to monthly payments

Maturity: The date upon which the mortgage must be repaid. In reverse mortgages, this date is unknown until the borrower vacates the residence permanently

Mortgage: This is a contract between a lender and a borrower that says how a loan is structured and how it must be repaid

Non-recourse mortgage: This is a feature of reverse mortgages that says the borrower can never be forced to pay more than the value of the home and that no other assets can be taken to satisfy the reverse mortgage debt

Origination: Structuring, compiling and processing the legal documents used in a mortgage loan

Proprietary reverse mortgage: Some non-governmental private mortgage lenders provide reverse mortgages outside the government-related loans

Reverse annuity mortgage: This is an annuity that is purchased with the proceeds from a reverse mortgage

Reverse mortgage: A home equity loan that reduces, rather than builds equity in a home and requires no monthly payments. Repayment is only due when the borrower no longer makes the home his or her primary residence.

Right of recission: A three-day grace period after the reverse mortgage has closed during which the borrower can cancel the loan with no penalty

Servicing: Management of the day-to-day process of maintaining the loan such as record keeping, billing, etc.

Shared equity: This is where, by contract, a lender shares in the ownership of some of the home's equity when the loan is repaid. (As opposed to only the interest being due.)

Supplemental Security Income (SSI): Some low-income individuals who are disabled or blind are eligible for monthly income from this Federal program.

Tenure advances: A monthly payment made to the borrower for as long as he or she lives in the home

Term advances: Monthly payments made to the borrower for a certain period of time. (May be less than the length of time the borrower lives in the home)

Total Annual Loan Cost (TALC) rate: The projected annual average cost of a reverse mortgage including all itemized costs

T-rate: The interest being paid to owners of U.S. Treasury Securities. Initial, expected, and current interest rates for HECM loans are based on the T-rate plus a margin

203-b limit: Taken from Section 203-b of the National Housing Act. The limit on how much can be obtained using a HECM loan on a county-by-county basis

CHAPTER TWELVE

Additional Resources

The purpose of this book is to acquaint the reader with *the basics* of Reverse Mortgages and provide a solid starting point for further inquiry.

To assist you in that process we provide the following brief list of additional resources for help and information.

AARP:
www.aarp.org/revmort/

Supplemental Security Income (SSI)
www.ssa.gov/ssi

Area Agency on Aging (AAA):
www.eldercare.gov

HUD Counseling:
www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm

Finally…

WE hope that you've learned a lot from this book.

Perhaps you're a senior homeowner who wants to make home repairs, pay off bills, or do something fun without having to make payments, such as buy a recreational vehicle and see the world. If so, a reverse mortgage might be just the ticket.

Also, if you know of other seniors who might be interested, be sure to tell them about reverse mortgages because these loans can transform lives and we're sure you'll be proud to be a part of getting the word out.

Best wishes,

J. Michael Ross
Sally E. Emoto
Susan L. Neely

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Michael@Core-Mortgage.com

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