

The NRMLA Consumer Guide to Reverse Mortgages

*National Reverse Mortgage Lenders Association:
Helping senior homeowners enjoy a comfortable retirement.*



Reverse mortgages are emerging as a significant financial security tool for senior homeowners because of the broad range of needs these unique loans can satisfy. Senior homeowners of all income levels have taken out reverse mortgages for many different reasons. For some, reverse mortgages provide the extra dollars that let them stay securely in their homes throughout retirement. For others, reverse mortgages provide a means to live more comfortably and pursue their dreams.

This guide developed by our organization should answer many of your questions about reverse mortgages and help determine if a reverse mortgage is the right option for you.

The National Reverse Mortgage Lenders Association (NRMLA) is a national nonprofit trade association whose member firms originate and service reverse mortgages in the U.S. and Canada. Working with its members, NRMLA strives to promote greater public awareness of reverse mortgages. Lenders that belong to NRMLA agree to abide by our Code of Conduct (*see p. 11*) and reflect our set of Best Practices in their business operations.

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Published by
NATIONAL REVERSE MORTGAGE LENDERS ASSOCIATION

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Diverse Needs, One Solution: Seniors Live Better Because of Reverse Mortgages

NORMAN AND MARGARET VAN DINE'S NEED:
Home Improvement

Noblesboro, Maine

Norman and Margaret Van Dine of Nobleboro, Maine needed a downstairs bedroom. Besides preferring to avoid the trek upstairs to the second floor, the Van Dines, both 76, wanted the extra room to more comfortably accommodate the frequent visits from their two daughters and four grandchildren – that is when the Van Dines aren't traveling to California and New Hampshire to visit them.

Although Mr. Van Dine, a former Navy pilot and flight instructor during WWII, still works three days a week, the Van Dines were seeking a financial option that would allow them to pay for the new the bedroom without adding to their list of monthly expenses.

The Van Dines obtained a reverse mortgage, which paid off their first and second mortgages and allowed them to move forward with their building plan.

"It's done. We're sleeping down here and we're very pleased with it," says Mrs. Van Dine. "And when we get older, we won't have to go up and down the stairs."

Like a growing number of seniors, the Van Dines are living more comfortably thanks to their reverse mortgage.



Understanding *A Reverse Mortgage*



Reverse mortgages can provide seniors a means to access the built-up wealth in their homes and use it for just about anything. And since 1989, these unique loans have been helping seniors.

Although reverse mortgages have been around for several decades in one form or another, it wasn't until 1989 that a truly nationwide product became available – the Home

HELEN ROUSE'S NEED:

Remain in Her Home, Pay off Medical Bills.

Atlanta, Georgia

After undergoing back and lung surgery, Helen Rouse had medical bills to pay. Divorced since 1974, Ms. Rouse lives alone and has two sons and a daughter in nearby Atlanta and another daughter in Maryland. With a first and second mortgage on her house, she knew she needed help with her finances.

Then one of her daughters told her about reverse mortgages and soon Ms. Rouse obtained an FHA Home Equity Conversion Mortgage.

The loan proceeds paid off her outstanding mortgages and helped with her medical bills. "There's still a mortgage there, but now I don't have to pay it," says the 70 year-old Ms. Rouse.

Since her surgery, Ms. Rouse says she's, "doing fine," thanks to the financial security provided by her reverse mortgage. Although she cannot get out to church or the movies, Ms. Rouse enjoys reading mystery novels and the Bible in the comfort of her own home.

Equity Conversion Mortgage (HECM). The HECM, insured by the Federal Housing Administration, a branch of the U.S. Department of Housing and Urban Development, is the most popular reverse mortgage product currently available. More than 70,000 reverse mortgages of all types have been made, including more than 13,000 HECM loans in 2002 alone.

What Is a Reverse Mortgage?

This special type of mortgage allows you – the senior homeowner – to access the equity you’ve built up in your home and use the money however you wish – all while letting you stay in your home. It’s called a reverse mortgage because the flow of payments is reversed from a traditional mortgage. The lender makes payments to you, or arranges a line of credit that is available for your use. This differs from a traditional mortgage used to purchase or refinance a home in which you must make monthly mortgage payments to the bank.



Who Can Get a Reverse Mortgage?

To qualify, you must:

- Be at least 62 years old. In the case of a couple or co-owners, both must be 62 if their names appear on the title to the home.¹
- Be a homeowner with equity in your home. You may qualify even if you have an outstanding balance on your first mortgage. Single-family homes and qualified condominiums, townhouses, manufactured homes, and 1- to 4-family owner-occupied residences are eligible. Reverse mortgages are available only for homes occupied by owners as a principal residence.



¹ If one spouse or co-owner is under 62, that person’s name must be removed from the title so that the other person can qualify for the reverse mortgage.



JOHN AND HELEN FOY'S NEED:
Lifestyle Enhancement

Redlands, California

In their 70s, John and Helen Foy are premier examples of today's empowered seniors – they are full of vigor and travel continuously, enjoying their retirement.

Life-long motorcycling enthusiasts, the Foys obtained an FHA reverse mortgage to supplement their income so they could continue to enjoy their lifestyle – riding throughout the country on their Harley-Davidson.

If you're looking for "Papa" John and "Mama" Helen, you'll probably find them cruising the Pacific Coast Highway on their Harley – thanks to a reverse mortgage.

In addition, you should expect to be staying in your current home for several more years and not be concerned with giving your home debt-free to your children or heirs after you are gone. (See p. 9, “When Does the Loan Have to Be Repaid?”)

Are There Any Restrictions on What I Can Do With the Money?

No. The only limitation is your imagination. You can use the money available from a reverse mortgage however you wish: for extra spending money, travel, prescription drugs or in-home health care, home repairs and improvements, long-term care or home health-care insurance, gifts to your children and grandchildren, or simply to pay bills. Some seniors have even used reverse mortgages to continue their education.



How Much Money Can I Get?

This depends on a few factors, including your age, the value of your home, and your built-up home equity. Other factors are the type of reverse mortgage product and the payment option that you select. Calculators that can help determine how much money would be available to you from different reverse mortgage products and payment options, given your specific circumstances, are available at a few Internet Web sites and through most reverse mortgage lenders or reverse mortgage counselors.

What Kinds of Reverse Mortgage Products Are Available?

The most popular type in the U.S. today is the Home Equity Conversion Mortgage (HECM). This reverse mortgage product is insured by the federal government, specifically by the Federal Housing Administration (FHA), the same federal agency that insures the well-known FHA loans that many younger households use to purchase their first home.

Other widely available reverse mortgage products include the Fannie Mae Home Keeper loan and the Financial Freedom Cash Account plan. The latter is a “jumbo” reverse mortgage product offered by Financial Freedom Senior Funding Corporation in many, but not all, states. The HECM and Home Keeper reverse mortgages are available in every state.

How Can I Receive My Money?

You, the consumer, decide how you want to receive your money from a reverse mortgage. In general, your payment method options are: (1) a lump-sum upfront payment; (2) a line of credit (the most popular); (3) monthly payments for as long as you live in your home (or for a pre-determined, shorter period); or (4) a combination of monthly income and a line of credit.

How Much Does a Reverse Mortgage Cost?

Many of the same costs that apply to home purchase mortgages also apply to reverse mortgages. You can expect to be charged an origination fee, a mortgage insurance fee, an appraisal fee, and certain other standard closing costs. In most cases, these fees and costs are capped and may be financed as part of the reverse mortgage.

When Does the Loan Have to Be Repaid?

For as long as you remain in your home, the reverse mortgage stays outstanding and you don't make any monthly payments to the bank. The loan becomes due when you no longer occupy your home as a principal residence. That is, if you (1) sell the house; (2) permanently move out of the house; or (3) pass away (the last surviving borrower).

At this point, the loan amount due is equal to the sum of the total funds you received from the mortgage, the initial fees and closing costs financed as part of the loan, plus accrued interest. To protect you, the repayment amount cannot exceed the value of your home at the time the loan is repaid. And the house doesn't have to be sold to pay off the loan. You, your children, or heirs always have the option of paying off the loan and keeping the house.



Where Can I Find a Reverse Mortgage Lender?

It is mostly specialized lenders that offer reverse mortgages today. To locate one in your state, call NRMLA (1-866-264-4466, toll-free) or visit our Web site (www.reversemortgage.org).

What Else Should I Know?

- Before you can be obligated to pay any fees, you must complete an educational session with an approved reverse mortgage counselor. A reverse mortgage lender can refer you to an agency in your area. Or you can contact HUD's Housing Counseling Clearinghouse (1-800-217-6970 or www.hudhcc.org).
- You hold title to your house during the term of the reverse mortgage, not the lender, just like with a conventional home mortgage.
- You will never, under any circumstances resulting from the reverse mortgage, be forced to leave your home. You can remain in it for as long as you like, provided you make your real estate property tax and insurance payments.
- Your credit history is not a factor in determining eligibility for a reverse mortgage.
- There are no minimum or maximum income requirements to qualify for a reverse mortgage.
- Funds received from a reverse mortgage are tax free.
- Your line of credit can grow. If you choose a HECM reverse mortgage with a line of credit payment option, the size of the line of credit will increase annually for inflation.
- A reverse mortgage will not affect regular Social Security payments. Depending on your situation, a reverse mortgage may affect the benefits you receive, if any, from the federal Supplemental Security Income (SSI) program, or state-administered programs like Medicaid. If this is the case, we suggest you consult with your local Area Agency on Aging, a reverse mortgage lender, or other benefits expert.

Code of Conduct

Members of the National Reverse Mortgage Lenders Association are mindful that the soundness, usefulness, prosperity, and future of the Reverse Mortgage industry depends upon the honor and integrity of all persons engaged in the business.

Each member of this association agrees to observe and maintain the following standards of conduct in dealing with the senior community and their families:

- (1) Treat all clients with respect and dignity.
- (2) Protect the client's privacy and confidentiality and not distribute personal financial information to any third party without permission from the client.
- (3) Encourage clients to discuss the loan transaction with family members and/or other trusted advisors.
- (4) Inform clients at no charge about all of the member's reverse mortgage programs and assist each client to determine the program most suitable for his or her needs.
- (5) When estimating potential reverse mortgage benefits, clearly and accurately identify all costs.

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- (6) Take reasonable steps to check out the background and procedures of third parties before accepting referrals of business from them, and refuse to accept referrals from those that are found unacceptable. Members shall disclose to clients any third party with a financial interest in the reverse mortgage transaction.
- (7) Not imply to a borrower that he or she is obligated to purchase any other product or service offered by the member or any other company in order to obtain a reverse mortgage.
- (8) Pay all loan proceeds directly to the borrower, except to retire existing debt, pay a contractor from the borrower's repair set-aside account, or pay property taxes or hazard insurance premiums from the borrower's set-aside account for taxes and insurance.
- (9) Employ individuals who have passed a background check and are found to be of good moral character.
- (10) Report any suspected violations of the Code of Conduct to the National Reverse Mortgage Lenders Association, and cooperate with all their investigations.
- (11) Make a good-faith effort to resolve concerns received from clients about a reverse mortgage transaction.

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