Reverse Mortgage:
A Revealing Look at the Pros and Cons - Mistakes and Traps to Avoid

By BizMove Management Training Institute

Other free books by BizMove that may interest you:

Free starting a business books

Free management skills books

Free marketing management books

Free financial management books

Free Personnel management books

Free miscellaneous business management books

Free household management books

Table of Contents

Special Bonus:

8. Sixty One Ways to Save Money

1. The Single Most Critical Factor in Getting the Best Reverse Mortgage Terms.

Once you consider applying for a Reverse Mortgage, one of the first things you need to do is choose a lender. Choosing a reliable and reputable Reverse Mortgage lender that offers a good rate is the single most critical factor in getting a good reverse mortgage loan.

So what is exactly a Reverse Mortgage

Perhaps you have heard the term “Reverse Mortgage”; someone may have suggested one to you. If you’re 62 or older – and looking for money to finance a home improvement, pay off your current mortgage, supplement your retirement income, or pay for healthcare expenses – you may be considering a reverse mortgage. It’s a product that allows you to convert part of the equity in your home into cash without having to sell your home or pay additional monthly bills.

In a “regular” mortgage, you make monthly payments to the lender. In a “reverse” mortgage, you receive money from the lender, and generally don’t have to pay it back for as long as you live in your home. The loan is repaid when you die, sell your home, or when your home is no longer your primary residence. The proceeds of a reverse mortgage generally are tax-free, and many reverse mortgages have no income restrictions.

Reverse mortgages may be more expensive than traditional home loans, and the upfront costs can be high. That’s important to consider, especially if you plan to stay in your home for just a short time or borrow a small amount. Reverse mortgages loans are widely available, have no income or medical requirements, and can be used for any purpose.

How much you can borrow with a reverse mortgage depends on several factors, including your age, the type of reverse mortgage you select, the appraised value of your home, and current interest rates. In general, the older you are, the more equity you have in your home, and the less you owe on it, the more money you can get.

You can choose among several payment options. You can select:

* a “term” option – fixed monthly cash advances for a specific time.

* a “tenure” option – fixed monthly cash advances for as long as you live in your home.

* a line of credit that lets you draw down the loan proceeds at any time in amounts you choose until you have used up the line of credit.

* a combination of monthly payments and a line of credit.

You can change your payment option any time for about $20.

What are the features of the loan

Reverse mortgage loan advances are not taxable, and generally don't affect your Social Security or Medicare benefits. You retain the title to your home, and you don't have to make monthly repayments. The loan must be repaid when the last surviving borrower dies, sells the home, or no longer lives in the home as a principal residence.

In the reverse mortgage program, a borrower can live in a nursing home or other medical facility for up to 12 consecutive months before the loan must be repaid.

If you're considering a reverse mortgage, be aware that:

* Lenders generally charge an origination fee, a mortgage insurance premium (for federally-insured), and other closing costs for a reverse mortgage. Lenders also may charge servicing fees during the term of the mortgage. The lender sometimes sets these fees and costs, although origination fees for most reverse mortgages currently are dictated by law.

* The amount you owe on a reverse mortgage grows over time. Interest is charged on the outstanding balance and added to the amount you owe each month. That means your total debt increases as the loan funds are advanced to you and interest on the loan accrues.

* Although some reverse mortgages have fixed rates, most have variable rates that are tied to a financial index: they are likely to change with market conditions.

* Reverse mortgages can use up all or some of the equity in your home, and leave fewer assets for you and your heirs. Most reverse mortgages have a "nonrecourse" clause, which prevents you or your estate from owning more than the value of your home when the loan becomes due and the home is sold. However, if you or your heirs want to retain ownership of the home, you usually must repay the loan in full – even if the loan balance is greater than the value of the home.

* Because you retain title to your home, you are responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. If you don't pay property taxes, carry homeowner's insurance, or maintain the condition of your home, your loan may become due and payable.

* Interest on reverse mortgages is not deductible on income tax returns until the loan is paid off in part or whole.

* All reverse mortgage lenders must follow HUD rules. And while the mortgage insurance premium is the same from lender to lender, most loan costs, including the origination fee, interest rate, closing costs, and servicing fees vary among lenders.

How is the principle limit of the loan calculated?

Lenders have three methods they may use to calculate the Principal Limit:

• A U. S. Housing and Urban Development ("HUD") origination software that includes calculation of the Principal Limit is available to lenders.

• If the software is not used, lenders are to follow the calculation instructions in the HUD HECM Handbook.

• The Federal National Mortgage Association ("Fannie Mae") has developed software entitled, "MORNET Housing Impact Delivery System", that incorporates HUD approved calculations to determine the Principal Limit.

Can you cancel after closing?

With most reverse mortgages, you have at least three business days after closing to cancel the deal for any reason, without penalty. To cancel, you must notify the lender in writing. Send your letter by certified mail, and ask for a return receipt. That will allow you to document what the lender received and when. Keep copies of your correspondence and any enclosures. After you cancel, the lender has 20 days to return any money you've paid up to then for the financing.

Go to Top

2. Is a Reverse Mortgage Right For You?

Consider the following while thinking on going the Reverse Mortgage route:

* You are committed to staying in your home because you do not want to leave or other housing alternatives are unappealing or unaffordable.

* You want to maintain or enhance your lifestyle to enjoy your "golden years".

* You want a cushion for major expenses such as medical bills, long-term care, or for major home repairs.

* You have a regular need for additional income or to increase cash flow to live on and your only significant asset is your home. Even if you have other financial assets, you may wish to consider using the equity in your home through a Reverse Mortgage as part of a comprehensive retirement plan.

* You want the peace of mind that comes from knowing additional funds are available for your financial needs.

* You have a mortgage and want to eliminate your monthly mortgage payments.

* You do not plan to leave your home to your heirs or you are comfortable knowing that a Reverse Mortgage will reduce if not eliminate the equity in your home that otherwise may be willed to your heirs.

Go to Top

3. Do You Qualify for a Reverse Mortgage?

Different Reverse Mortgage products may offer program plans/options with distinguishable predicates, but most programs:

* Require the youngest borrower to be at least 62 at the time the loan is originated and closed;

* Will offer loans on owner-occupied single-family homes (some programs will also offer loans on 2-4 unit owner-occupied dwellings, on federally approved condominiums, on properties located in planned unit developments, or on manufactured homes affixed to permanent foundations);

* Will not offer loans on most mobile homes or on cooperative apartments, unless the property meets HUD eligibility standards;

* Require your home to be your "principal residence," meaning you must live there more than half of each year;

* Require your home meet at least the general provisions of FHA's minimum property standards (you may be required to obtain independent property inspections by a qualified housing inspector or by a specific professional specialist such as an engineer, architect, or contractor);

* Require you pay in full any existing mortgage or other liens against your home before receiving the Reverse Mortgage, or use an immediate cash advance (initial lump sum payment) from the loan to retire these existing debts. Note: If you cannot pay in full the existing mortgage or other liens against your home, or the equity in your home is insufficient to support a large enough cash advance (initial lump sum payment) to accomplish this objective, you would be unable to obtain a Reverse Mortgage.

Income and credit history are generally not considerations for obtaining a Reverse Mortgage. However, if you are a year or more delinquent in your property taxes or insurance premiums, proprietary products often demand an amount up to three years of these taxes and premiums to be set aside in a reserve/escrow account from the loan proceeds. The reserves established with the lender of the proprietary product are used to pay future property taxes and insurance premiums. Delinquent property taxes or insurance premiums are to be brought current at the time the Reverse Mortgage is originated and the loan escrow closes. If your home is subject to delinquent property taxes or unpaid insurance premiums, a FHA insured Reverse Mortgage might not be available.

Go to Top

4. Advantages and Disadvantages of a Reverse Mortgage

Advantages of Reverse Mortgages

* May help you continue your financial independence and maintain or improve your quality of life.

* Allows you to remain in and keep title to your home.

* The money you receive is generally not considered taxable income. You should consult with an independent tax professional prior to proceeding with a Reverse Mortgage to determine individual tax consequences.

* You make no payments (principal or interest) until the end of the term of the loan (defined to be when the last eligible borrower permanently leaves or sells the home, when you die, when a fixed due date occurs, or at the end of the loan term as it otherwise may be determined).

* You can eliminate mortgage payments by paying off existing loans through an initial payment from the Reverse Mortgage when the loan is originated (the loan escrow closes).

* You can select from several different benefit payment plans/options to meet your needs.

* Your income or credit score is not a consideration in obtaining a Reverse Mortgage, since no payments are required until the loan ends.

* It is possible the principal balance of your Reverse Mortgage will exceed the market value or sales price of your home at any given time during the loan term. However, owing more than the market value or sales price of your home when the Reverse Mortgage becomes due and payable in full may be an issue with some proprietary products. This means you may be personally liable with certain proprietary products, if the balance owing in connection with your Reverse Mortgage exceeds the then market value or sales price of your home (a recourse loan).

Disadvantages of Reverse Mortgages

* They are even more complicated than conventional mortgages, and the consequences of various plans/options are not always obvious.

* They are relatively expensive compared to other alternatives, especially at the time the loan is originated.

* Although the money you receive is typically income tax-free, it may affect your eligibility under existing law for “needs based” public assistance benefits such as Supplemental Security Income (“SSI”) and Medicaid/MediCal.

* May reduce or eliminate the equity in your home affecting the estate to be distributed to your heirs.

* Are often not well understood even by real estate, mortgage, tax or legal professionals. Check out their experience with these mortgages before accepting their advice.

Go to Top

5. Important Questions You Should be Asking Before Choosing a Reverse Mortgage

* How much money do I need?

* Is there a way to meet my needs that does not involve a Reverse Mortgage?

* Will a Reverse Mortgage make my partner or me ineligible for any “needs based” public assistance benefits — now or in the future?

* Does my home qualify for a Reverse Mortgage?

* How much can I borrow through available Reverse Mortgage products?

* How much will it cost me in origination fees, closing costs, interest, monthly or periodic fees, or in related expenses to borrow this money, even if I do not have to pay any “out-of-pocket” funds when the Reverse Mortgage is originated?

* Will I have to sell my home before I die to pay off the Reverse Mortgage?

* If I die and my partner is still living in my home, will he or she have to leave or pay off the Reverse Mortgage?

* Will the Reverse Mortgage become due and payable if I require long-term care and move to an assisted living facility, or to a nursing or convalescent home?

* Will there be anything left for my partner, my heirs, or me when the Reverse Mortgage is fully paid?

* Are there any fees, costs, or other charges due when the Reverse Mortgage is fully paid? Regardless of product, prepayment penalties cannot be demanded when the Reverse Mortgage is partially or fully prepaid.

* What are my continuing financial obligations with a Reverse Mortgage, such as property maintenance, property taxes, insurance premiums, and homeowners association assessments or fees (as applicable)?

Go to Top

6. How Much Money Can You Receive?

The best answer is “it depends.” In general, the amount you can receive depends on seven issues:

1. The Reverse Mortgage product and program plan/option you select.

2. The age of the youngest eligible borrower when you obtain the loan.

3. The appraised value of your home when you obtain the loan.

4. The applicable interest rates (including the amount of adjustments in rate that occur depending upon product selected) and the amount of origination fees, closing costs, expenses, and periodic fees such as MIP and monthly service fees that will have to be paid.

5. The amount of equity in your home at the time of loan origination.

6. Whether the Reverse Mortgage is a FHA insured HECM product or otherwise is subject to HUD guidelines.

7. Whether the Reverse Mortgage is a proprietary product not insured by HUD/FHA.

Reverse Mortgage products typically provide the most cash to the oldest borrowers, who live in the most expensive homes, are located in markets of stable or increasing values, and when mortgage interest rates are low. The youngest borrowers receive the least cash, particularly if they live in less expensive homes located in markets of stable or declining values, and when mortgage interest rates are high. If the Reverse Mortgage is a FHA insured HECM product, you will likely receive more cash by electing a fixed interest rate program that provides for the entire loan proceeds to be funded at the time the loan is originated (when the loan escrow closes).

It is important to remember the amount you receive each month and the total amount you will receive over the life or term of the loan depends on the Reverse Mortgage product and the program plan/option you select. If the Reverse Mortgage is a FHA insured and you have selected a program that pays you monthly payments over the life or term of the loan, the interest rate will be adjustable and not fixed. Should you select a plan/option providing for monthly payments or for a credit line that are disbursed during the life or term of the loan, lenders and secondary market investors are reportedly requiring the use of the HECM adjustable rate program.

The use of an adjustable interest rate will affect the total amount of money you may receive from your Reverse Mortgage. This is because the lender and FHA, as the insurer of the applicable adjustable rate program, must consider the debt you owe will increase by the interest rate (as adjusted) imposed over the life or term of the loan and this rate will adjust to a higher interest rate than your initial rate. For example, if the interest rate adjusts to 10% per annum and the accruing interest compounds annually, the amount owed on your Reverse Mortgage will be substantially greater than the amount borrowed when the loan was originated (at the close of the loan escrow).

The equity in your home should be sufficient to offset the principal sums you receive plus the potential substantial increase in interest rates when the loan program is subject to an adjustable rate and to pay for MIP during the loan term. Pursuant to HUD guidelines, an “Expected Interest Rate” is calculated in an effort to measure the amount of principal you may receive from the Reverse Mortgage (Principal Limit). The “Expected Interest Rate” is constantly recalculated relying upon assumptions regarding the rate of inflation (reflected by adjustments in the LIBOR) and upon an actuarial analyses of your life expectancy, among other related issues.

Go to Top

7. What is “Reverse” About a Reverse Mortgage?

You are probably familiar with conventional mortgages. When you borrow money to purchase or refinance a home, the loan you receive would typically be a conventional mortgage. With conventional mortgages, the payments you make will build equity in your home assuming the market value of your home is increasing or at least remaining stable. You reduce the debt by making regular payments of principal and interest from your income until the loan is fully paid. As you make principal and interest payments, in a stable market your equity (the home’s value minus any mortgage debt) increases and your debt (loan balance) decreases. If you fail to make the required mortgage payments, you could lose your home and any equity you may have through foreclosure. With a Reverse Mortgage, you borrow against the equity in your home to obtain an initial lump sum payment, to produce income (to generate monthly cash flow), to establish a line of credit to use as needed, or a combination of these or other plans/options. The plans/options and combinations of programs from which you may select depend upon the Reverse Mortgage products available when you apply for the loan.

The total amount owing under the Reverse Mortgage must be paid in full at the end of the loan, as defined. You may pay in full the Reverse Mortgage by selling your home, refinancing the loan (assuming sufficient equity exists), or by using other assets or income sources. If your Reverse Mortgage is an FHA insured, your decision is affected by the insurance coverage. You cannot lose your home during the term or life of the Reverse Mortgage for not making payments, since you do not have any monthly payments of principal or interest to make. Remember, you still must pay for homeowner’s insurance coverage, property taxes, the costs incurred to maintain your home, and for assessments or fees imposed by a homeowners association (as applicable). Meanwhile, the debt (the loan balance of the Reverse Mortgage, including interest and fees) increases while the equity in your home decreases.

Go to Top

8. How Much Will a Reverse Mortgage Cost You?

“It depends.” Because costs may significantly vary between lenders and may be difficult to compare.

In general, there are three categories of fees, costs, and expenses:

1. When you apply for a Reverse Mortgage, some lenders charge an application fee. The fee typically includes the charges for an appraisal report to estimate how much your home is worth as of the date of the appraisal, a review of appropriate records to see if you are delinquent on any federally insured loans, for credit reports on you and your partner (if requested by the lender), and for an independent housing inspection should that become necessary.

Should you pay an application fee, this out-of-pocket charge may not be refunded if you later change your mind about accepting the Reverse Mortgage. Some lenders and mortgage brokers may not charge an application fee or any other advance fees such as for appraisal and credit reports. For example, California Real Estate Law prohibits mortgage brokers from imposing advance fees (except for the appraisal and credit reports in the exact amounts paid to each of these service providers) without prior approval from the Department of Real Estate. Many lenders will include these fees at the time the loan transaction closes by paying them from the Reverse Mortgage proceeds and may be required to do so in this manner if it is an FHA insured product. You should ask the lender or mortgage broker about these fees before proceeding with an application for a Reverse Mortgage.

2. As part of the origination and closing of the Reverse Mortgage (signing), certain fees, costs, and expenses are paid by you. Most of them can be financed from the loan proceeds and will accrue interest during the life or term of the loan. Many of these fees are similar to those for conventional mortgages and others are unique to Reverse Mortgages. The two fees that often vary among lenders and mortgage brokers are the origination fee and the ongoing fees for servicing the loan (the monthly or periodic service fee). You should specifically check these fees when comparing Reverse Mortgage products. Monthly service fees typically range from $25 to $35.

3. If the Reverse Mortgage is an FHA insured HECM product, the premiums for the mortgage insurance coverage are imposed both up front and during the life or term of the loan. As of the date of the publication of this book, the upfront FHA Mortgage Insurance Premium (“MIP”) for a HECM product is 2% of the original loan amount up to a maximum of $12,510. This upfront premium is based upon a maximum HECM loan of $625,500. The MIP is also imposed during the life or term of the loan. During the loan term, the MIP is charged monthly and is based upon an annual rate of 0.5% of the outstanding loan balance.

The mortgage insurance coverage extended by HUD/FHA for the payment of the MIP includes the continued monthly or periodic payments due to you, even if the lender or secondary market investor becomes insolvent or ceases to exist. In addition, the FHA insurance coverage includes paying the lender or secondary market investor the difference between the then market value or sales price of your home and the loan balance of your Reverse Mortgage (including principal and accrued interest) when the loan becomes due and payable in full. For example, your home sells in an "arm's length transaction" at $400,000 and the total amount owed on your Reverse Mortgage is $500,000, including accrued interest. The lender or investor should receive the additional $100,000 ($500,000 - $400,000) as a claim against the FHA insurance policy under the coverage extended.

Other Reverse Mortgage products may include shared appreciation or equity participation. In the past, some lenders offered Reverse Mortgage products that shared in the anticipated appreciation of the market value of your home or demand participation in the equity that may remain at the end of the term of your loan.

Go to Top

9. When Will the Reverse Mortgage Loan Term End and How Much Will You Owe When the Loan Matures?

The Reverse Mortgage loan term ends when the last surviving co-borrower dies, moves away and permanently leaves the home; or the home is sold or title to the home is transferred. Some Reverse Mortgage products have established a specified period of time or due date when the loan term ends and the loan becomes due and payable in full. If the Reverse Mortgage product provides for a specified term (for example 10 years), it would become due and payable in full at the end of the specified term.

Some Reverse Mortgage products allow the loan to remain active even though the monthly payments of income or cash flow have ceased. It is also possible the Reverse Mortgage could terminate and become due and payable if you fail to meet your obligations under the terms of the Reverse Mortgage. Depending upon the product and the specific program, lenders of Reverse Mortgages may work with you to meet these requirements, including the payment of property taxes and insurance premiums, the maintenance of your home, and the payment of assessments and fees imposed by your homeowners association (as applicable).

The amount you owe at the end of the Reverse Mortgage loan term (your loan balance) consists of:

* The money you borrowed, including any loan proceeds you used to pay origination fees and other loan closing costs including MIP.

* The accrued interest on the money received and any financed fees, costs, and expenses — up to the loan limit of the Reverse Mortgage (the Principal Limit), which is estimated based upon defined calculations including the anticipated market value of

your home when the loan becomes due and payable in full. With proprietary products, you should ask about whether the loan limit may exceed the market value of your home at the end of the loan term and, in such circumstances, whether your income or assets other than your home can be used by the lender to pay the loan in full (i.e., will the excess portion of the loan be due and payable by you or is the loan non-recourse to you).

* In FHA insured HECM Reverse Mortgage products, the Principal Limits are calculated in the expectation that the amount owing will not exceed the market value or sales price of your home when your loan becomes due and payable in full. The FHA insurance will cover any short fall due the lender or the secondary market investor between the amount owing and the then market value or sales price of your home.

Go to Top

10. How Would You Pay Off the Reverse Mortgage?

In most cases, the loan is due and payable when the last surviving borrower dies or permanently moves from the home, as defined. Some borrowers choose to prepay in full the Reverse Mortgage. There are three ways of paying off the loan:

1. You or your heirs can sell your home and use the proceeds to repay the loan. The sale should cover the loan amount and, depending upon market conditions, the sales proceeds may net more than the loan. Proceeds of the sale beyond what is required to pay off the Reverse Mortgage, if any, belong to you or your heirs (this would be the remaining equity in your home in any such equity exists). With FHA insured HECM Reverse Mortgage products, the lender cannot demand more than the market value or sales price of your home. Your income and other assets and the income and assets of your heirs are safe. Should proprietary products return to the market, these Reverse Mortgages may impose the obligation on your estate or your heirs to pay the amounts owing that exceed the then market value or sales price of your home when the loan becomes due and payable in full.

2. Other assets you or your heirs have may be used to pay off the loan (for example, life insurance, stock, or mutual funds). Thus, the lender or secondary market investor is paid in full and you or your heirs keep your home.

3. If there is enough equity left, you or your heirs may refinance your home (typically with a conventional mortgage) and pay off the Reverse Mortgage with the proceeds of the new loan.

Go to Top

11. Reverse Mortgage Frequently Asked Questions

1. Will a Reverse Mortgage leave me in debt when I die?

With an FHA insured Reverse Mortgage, the amount of your obligation to the lender or secondary market investor will not exceed the then market value or sales price of your home. With proprietary products, it is important to confirm you would not be in debt to the Reverse Mortgage lender or secondary market investor beyond the value of your home when you or your estate is required to repay this loan in full.

When the Reverse Mortgage product complies with HUD guidelines, the Reverse Mortgage lender cannot demand an amount to satisfy this debt in excess of the market value of your home when it sells. If the Reverse Mortgage is a proprietary product, ask whether you are applying for a non-recourse loan. With non-recourse products, the lender or secondary market investor do not have recourse to your income or other assets or to the income or assets of your heirs.

Should the loan term end for some other reason (such as if you move permanently to an assisted living facility or a nursing home), your home will have to be sold or the Reverse Mortgage must be paid in full some other way. If you plan to leave your home to your heirs to inherit, think twice before you obtain a Reverse Mortgage. With a Reverse Mortgage, the most you will be able to leave your children (heirs) is a reduced equity in your home at the time of your death after paying in full the Reverse Mortgage. It is likely that no equity will remain in your home to distribute to your heirs.

2. Is it risky to put myself into debt when I live on a fixed income?

The answer depends on your financial circumstances. There are certainly things to consider. Think of it this way: when you bought your home, you depended on money you did not yet have (your future income) to pay off the loan. With a Reverse Mortgage, the loan is paid in full when required with money or an asset you already have (the value of your home or the equity in your home backed by FHA insurance in a HECM product). An FHA insured lender offering a HECM program cannot require more. It is a way to convert existing home equity into an initial lump sum payment, income or cash flow, or a credit line without having to sell your home.

3. How can I use the money from a Reverse Mortgage?

There are no restrictions on how you use the money from a Reverse Mortgage after the loan is originated and the loan escrow is closed. Some borrowers use the proceeds of the loan to repair or remodel their home. Others use the money to maintain or improve their lifestyle — free themselves from financial worries, take more trips, or keep the money in reserve (a line of credit) to handle future unplanned expenses. Still others receive regular monthly (periodic) payments to help pay their monthly bills or medical expenses. You may consider using a Reverse Mortgage as part of a comprehensive financial plan to ensure you have enough money to last throughout retirement. However, you may be limited when selecting program plans/options if your Reverse Mortgage is a FHA insured HECM.

While you may decide to buy annuities or other insurance or financial products with the proceeds from the Reverse Mortgage, these products may not lawfully be packaged with your Reverse Mortgage. You may not engage in the purchase of any of these products with the proceeds from the Reverse Mortgage until your loan is originated and the loan escrow is closed. It is unlawful for any lender or mortgage broker who helps you to obtain a Reverse Mortgage to package the Reverse Mortgage with an annuity or other insurance or financial product.

Until the Reverse Mortgage is originated, the loan escrow is closed, and your right to cancel the transaction has expired, no person can sell, offer to sell, try to sell, or refer you to someone who will try to sell you an annuity or other insurance or financial product. With limited exception, the proceeds of a Reverse Mortgage should not be used to fund new or existing annuity products or investments, such as stocks, bonds, mutual funds, or variable life insurance products. Prior to electing any investment subsequent to the close of your loan escrow, discuss your financial plans with an independent professional (such as an accountant, legal counsel, or certified or registered financial planner) who is not offering any of the insurance or investment products you are considering.

4. What if one of the borrowers is under 62?

The younger borrower may be asked by the lender to execute a quitclaim deed releasing his/her interest in the home to the older borrower. Because of the significant consequences that may be involved with the use of a quitclaim deed, this option should not be exercised without first obtaining the advice of knowledgeable legal counsel representing you and the younger borrower. This may require separate legal counsel for each party or a waiver of conflict that you and the younger borrower would be required to sign. When the older borrower dies or permanently leaves the home, the Reverse Mortgage becomes due and payable, and the home may have to be sold or refinanced to pay in full the amount owed the lender.

When both borrowers are 62 or older and own the home as joint tenants and one dies or permanently leaves, the Reverse Mortgage does not need to be paid in full. The remaining borrower can continue to live in the home until he/she dies or permanently leaves the home, as defined. Should you and your partner hold title to your home as tenants-in-common or one borrower holds title as his/her sole and separate property, no presumptive right of survivorship exists under most states laws.

5. What is expected of me as a homeowner during the life or term of the Reverse Mortgage?

The general requirements are:

* pay your property taxes on time.

* keep your homeowner insurance premiums paid.

* maintain your home in good repair.

* pay assessments and fees when due to the homeowners association (as applicable).

6. What about interest rates?

Reverse Mortgage products include programs with fixed as well as adjustable interest rates. The interest rates for the Reverse Mortgage product you select will vary depending upon market conditions. The interest rate may also vary depending upon the program you select. HECM loan products are subject to certain limitations regarding the amount of and adjustments in interest rates. Interest rates of proprietary products are typically established by market competition and market conditions operative at the time of your loan application.

Adjustable rate programs can be more complex to evaluate. You do not know and will not be able to control whether interest rates will be high or low. This may create additional uncertainties and make it harder to plan. As previously mentioned, the HECM program you select limits the difference among lenders in adjustable interest rate programs. However, interest rates imposed by Reverse Mortgage lenders are usually a bit higher than for conventional mortgages. You should shop around before deciding on a Reverse Mortgage product, particularly when proprietary products return to the market.

7. What about income taxes?

Typically, the IRS does not consider loan payments or credit line disbursements made to you under a Reverse Mortgage as income. Accordingly, these advances from loan proceeds would generally not be subject to income tax. However, qualified professionals should review your individual tax situation to determine the tax consequences regarding disbursements from a Reverse Mortgage. The interest the lender charges you on the loan may not be deducted until the interest is paid at the end of the life or the term of the Reverse Mortgage. As indicated above, any annuities you elect to purchase with loan proceeds after your Reverse Mortgage is originated and the loan escrow is closed may count as taxable income. Ask a tax professional, a knowledgeable legal counsel, or a HUD counselor or counseling agency for specific advice regarding income taxes and these issues prior to proceeding with a Reverse Mortgage.

Go to Top

Special Bonus:

8. Sixty One Ways to Save Money

Here is a list of tips and ideas that will help you save money in various areas of your life:

Airline Fares

1.You may lower the price of a round trip air fare by as much as two-thirds by making certain your trip includes a Saturday evening stay over, and by purchasing the ticket in advance.

2.To make certain you have a cheap fare, even if you use a travel agent, contact all the airlines that fly where you want to go and ask what the lowest fare to your destination is.

3.Be flexible, if possible. Consider using low fare carriers or alternative airports and keep an eye out for fare wars.

Car Rental

1.Since car rental rates can vary greatly, shop around for the best basic rates. Ask about any additional charges (extra driver, gas, drop-off fees) and special offers.

2.Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.

New Cars

1.You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information.

2.Having selected a model, you can save hundreds of dollars by comparison shopping. Call at least five dealers for price quotes and let each know that you are calling others.

3.Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

Used Cars

1.Before buying any used car:

- Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices found at many libraries, banks, and credit unions.

- Have a mechanic you trust check the car, especially if the car is sold "as is."

2.Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.

Auto Leasing

1.Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments may be lower because you don't own the car at the end of the lease.

2.Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of- lease), and the cost of buying the car at the end of the lease. Keys to Vehicle Leasing: A Consumer Guide, published by the Federal Reserve Board and Federal Trade Commission, is a valuable source of information about auto leasing.

Gasoline

1.You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual.

2.You can save up to $100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

Car Repairs

1.Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:

- is certified and well established;

- has done good work for someone you know; and

- communicates well about repair options and costs.

Auto Insurance

1.You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage.

2.Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverages to at least $500 or, if you have an old car, dropping these coverages altogether. Taking these steps can save you hundreds of dollars a year.

3.Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance

1.You can save several hundred dollars a year on homeowner insurance and up to $50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes.

2.Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition.

3.Make certain your new policy is in effect before dropping your old one.

Life Insurance

1.If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy.

2.If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs.

3.Check your public library for information about the financial soundness of insurance companies and the prices they charge. The July 1998 issue of Consumer Reports is a valuable source of information about a number of insurers.

Checking

1.You can save more than $100 a year in fees by selecting a checking account with a low (or no) minimum balance requirement that you can, and do, meet. Request a list of these and other fees that are charged on these accounts.

2.Banking institutions often will drop or lower checking fees if paychecks are directly deposited by your employer. Direct deposit offers the additional advantages of convenience, security, and immediate access to your money.

Savings and Investment Products

1.Before opening a savings or investment account with a bank or other financial institution, find out whether the account is insured by the federal government (FDIC or NCUA). An increasing number of products offered by these institutions, including mutual stock funds and annuities, are not insured.

2.To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) and treasury bills or notes.

3.Once you select a type of savings or investment product, compare rates and fees offered by different institutions. These rates can vary a lot and, over time, can significantly affect interest earnings.

Credit Cards

1.You can save as much as a thousand dollars or more each year in lower credit card interest charges by paying off your entire bill each month.

2.If you are unable to pay off a large balance, pay as much as you can and switch to a credit card with a low annual percentage rate (APR). For a modest fee, RAM Research Corp. (800-344-7714) will send you a list of low-rate cards. You can obtain a list of low-rate cards by accessing "www.ramresearch.com.cardtrack" on the Internet.

3.You can reduce credit card fees, which may add up to more than $100 a year, by getting rid of all but one or two cards, and by avoiding late payment and over-the-credit limit fees.

Auto Loans

1.If you have significant savings earning a low interest rate, consider making a large down payment or even paying for the car in cash. This could save you as much as several thousand dollars in finance charges.

2.You can save as much as hundreds of dollars in finance charges by shopping for the cheapest loan. Contact several banks, your credit union, and the auto manufacturer's own finance company.

First Mortgage Loans

1.Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. On a $100,000 fixed-rate loan at 8% annual percentage rate (APR), for example, you will pay $90,000 less in interest on a l 5-year mortgage than on a 30-year mortgage.

2.You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year, $100,000 fixed-rate mortgage, just lowering the APR from 8.5% to 8.0% can save you more than $5,000 in interest charges. On this mortgage, paying two points instead of three would save you an additional $1,000.

3.If your local newspaper does not periodically run mortgage rate surveys, call at least six lenders for information about their rates (APRs), points, and fees. Then ask an accountant to compute precisely how much each mortgage option will cost and its tax implications.

4.Be aware that the interest rate on most adjustable rate mortgage loans (ARMs) can vary a great deal over the lifetime of the mortgage. An increase of several percentage points might raise payments by hundreds of dollars per month.

Mortgage Refinancing

1.Consider refinancing your mortgage if you can get a rate that is at least one percentage point lower than your existing mortgage rate and plan to keep the new mortgage for several years or more. Ask an accountant to calculate precisely how much your new mortgage (including up-front fees) will cost and whether, in the long run, it will cost less than your current mortgage.

Home Equity Loans

1.Be cautious in taking out home equity loans. These loans reduce the equity that you have built up in your home. If you are unable to make payments, you could lose your home.

2.Compare home equity loans offered by at least four banking institutions. In comparing these loans, consider not only the annual percentage rate (APR) but also points, closing costs, other fees, and the index for any variable rate changes.

Home Purchase

1.You can often negotiate a lower sale price by employing a buyer broker who works for you not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed.

2.Do not purchase any house until it has been examined by a home inspector that you selected.

Renting a Place to Live

1.Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.

2.Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

Home Improvement

1.Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well established, licensed contractors who have submitted written, fixed-price bids for the work.

2.Do not sign any contract that requires full payment before satisfactory completion of the work.

Major Appliances

1.Consult Consumer Reports, available in most public libraries, for information about specific brands and how to evaluate them, including energy use. There are often great price and quality differences among brands.

2.Once you've selected a brand, check the phone book to learn what stores carry this brand, then call at least four of these stores for the prices of specific models. After each store has given you a quote, ask if that's the lowest price they can offer you. This comparison shopping can save you as much as $100 or more.

Electricity

1.To save as much as hundreds of dollars a year on electricity, make certain that any new appliances you purchase, especially air conditioners and furnaces, are energy-efficient. Information on the energy efficiency of major appliances is found on Energy Guide Labels required by federal law.

2.Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to $100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Home Heating

1.A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they can do this audit for free or for a reasonable charge. If they cannot, ask them to refer you to a qualified professional.

Local Telephone Service

1.Check with your phone company to see whether a flat rate or measured service plan will save you the most money.

2.You will usually save money by buying your phones instead of leasing them.

3.Check your local phone bill to see if you have optional services that you don't really need or use. Each option you drop could save you $40 or more each year.

Long Distance Telephone Service

1.Long distance calls made during evenings, at night, or on weekends can cost significantly less than weekday calls.

2.If you make more than a few long distance calls each month, consider subscribing to a calling plan. Call several long distance companies to see which one has the least expensive plan for the calls you make.

3.Whenever possible, dial your long distance calls directly. Using the operator to complete a call can cost you an extra $6.

Food Purchased at Markets

1.You can save hundreds of dollars a year by shopping at the lower-priced food stores. Convenience stores often charge the highest prices.

2.You will spend less on food if you shop with a list.

3.You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

Prescription Drugs

1.Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist for generic drugs whenever appropriate.

2.Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

Funeral Arrangements

1.Make your wishes known about your funeral, memorial, or burial arrangements in writing. Be cautious about prepaying because there may be risks involved.

2.For information about the least costly options, which could save you several thousand dollars, contact a local memorial society, which is usually listed in the Yellow Pages under funeral services.

3.Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law and, by using it to comparison shop, you can save hundreds of dollars.

Go to Top

# # # #