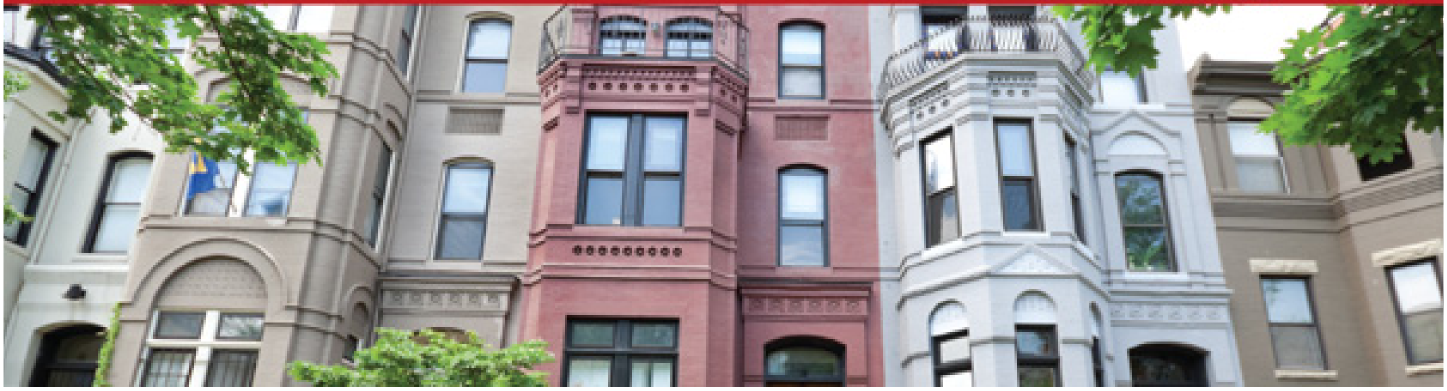
Things You Don't Know about Reverse Mortgages



Frequently Asked Questions about Reverse Mortgage

The District of Columbia Department of Insurance, Securities and Banking (DISB) frequently fields questions on reverse mortgages at its various community presentations. Below are some frequently asked questions to help District residents better understand how reverse mortgages work. Before getting a reverse mortgage consider these tips and feel free to reach out to DISB to make sure that you are a dealing with an authorized, licensed mortgage lender.

What is a reverse mortgage?
A reverse mortgage is a loan that lets homeowners 62 and older borrow against the equity in their homes. Homeowners can take out their equity without having to sell the home. Reverse mortgages can help some seniors stay in their homes while getting income in retirement.

How do I receive the money from a reverse mortgage loan?This depends on the type of loan, the lender you choose, and the payment option that you select. Most reverse mortgages today are insured by the Federal Housing Administration (FHA) as part of its Home Equity Conversion Mortgage (HECM) program. With a HECM loan, you can receive your money in one of 3 ways: as a line of credit, in monthly installments, or a lump sum. You can also receive a combination of monthly installments and a line of credit.

What are the requirements to be eligible for a reverse mortgage?
Requirements for a reverse mortgage include:

- you are a homeowner 62 years of age or older
- you own your home outright or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan
- you have the financial resources to pay ongoing property charges including taxes and insurance
- you must live in the home.

You are also required to receive consumer information free or at very low cost from a HECM counselor prior to obtaining the loan. You can find a HECM counselor online or by calling 1-800-569-4287.

Can I apply for a HECM even if I did not buy my present house with FHA mortgage insurance?
Yes. You may apply for a HECM regardless of whether or not you purchased your home with an FHA-insured mortgage.

What types of homes are eligible?
To be eligible for the FHA HECM, your home must be a single family home or a 2-4 unit home with one unit occupied by the borrower. HUD-approved condominiums and manufactured homes that meet FHA requirements are also eligible.

What are the differences between a reverse mortgage and a home equity loan?
With a second mortgage, or a home equity line of credit, borrowers must make monthly payments on the principal and interest. A reverse mortgage is different, because it pays you – there are no monthly principal and interest payments. With a reverse mortgage, you are required to pay real estate taxes, utilities, and hazard and flood insurance premiums.

Will we have an estate that we can leave to our heirs?
When the home is sold or no longer used as a primary residence, the cash, interest, and other HECM finance charges must be repaid. All proceeds beyond the amount owed belong to your spouse or estate. This means any remaining equity can be transferred to heirs. No debt is passed along to the estate or heirs.

How much money can I get from my home?
The amount varies by borrower and depends on:

- Age of the youngest borrower or eligible non-borrowing spouse
- Current interest rate; and
- Lesser of appraised value or the HECM FHA mortgage limit of $625,500 or the sales price

If there is more than one borrower and no eligible non-borrowing spouse, the age of the youngest borrower is used to determine the amount you can borrow.

Should I use an estate-planning service to find a reverse mortgage lender?
FHA does NOT recommend using any service that charges a fee for referring a borrower to an FHA-approved lender. You can locate a FHA-approved lender by searching online at www.hud.gov or by contacting a HECM counselor for a listing. Services rendered by HECM counselors are free or at a low cost. To locate a HECM counselor, search online or call 1-800-569-4287 toll-free, for the name and location of a HUD-approved housing counseling agency near you.

How do I receive my payments?
For adjustable interest rate mortgages, you can select one of the following payment plans:

- Tenure- equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- Term- equal monthly payments for a fixed period of months selected.
- Line of Credit- unscheduled payments or in installments, at times and in an amount of your choosing until the line of credit is exhausted.
- Modified Tenure- combination of line of credit and scheduled monthly payments for as long as you remain in the home.
- Modified Term- combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.
- For fixed interest rate mortgages, you will receive the Single Disbursement Lump Sum payment plan.
- Single Disbursement Lump Sum - a single lump sum disbursement at mortgage closing.

How does a reverse mortgage affect my other benefits?
A reverse mortgage may change you monthly income. So if you receive Social Security, Medicare and Medicaid, you should consult your financial advisor and the appropriate government agencies for any impact on taxes or government benefits.

What if I change my mind and no longer want the loan after I go to closing? How do I do this?
By law, you have three calendar days to change your mind and cancel the loan. This is called a three day right of rescission. The process of canceling the loan should be explained at loan closing. Be sure to ask the lender for instructions on this process. Mortgage lenders differ in the process of canceling a loan. You should ask for the names of the appropriate people, phone numbers, fax numbers, addresses, or written instructions on whatever process the company has in place. In most cases, the right of rescission will not be applicable to HECM for purchase transactions.

When do we pay off the loan?
The reverse mortgage loan is paid off at closing.

More Information

The mission of the Department of Insurance, Securities and Banking is two-fold: 1) protect consumers by providing equitable, thorough, efficient, and prompt regulatory supervision of the financial services companies, firms, and individuals operating in the District of Columbia; and 2) develop and improve market conditions to attract and retain financial services firms to the District of Columbia. This information is courtesy of the U.S. Department of Housing and Urban Development and the Consumer Financial Protection Bureau.

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