Understanding Reverse Mortgage

PrimeLending®

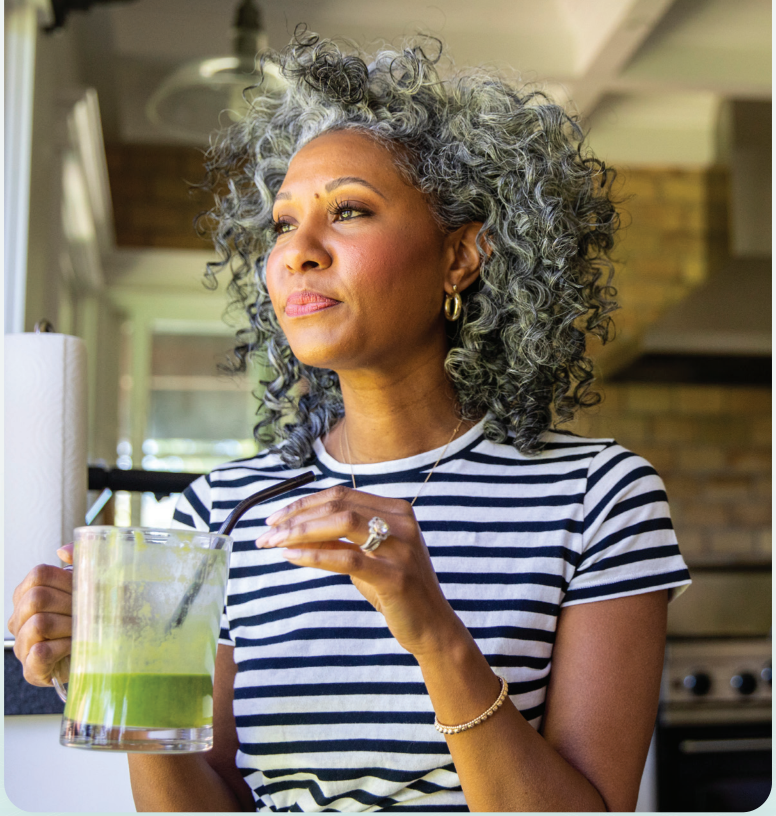
Whether you're a senior looking for an additional source of income or a caregiver trying to help a loved one access their home's equity, this guide will provide detailed information on what a reverse mortgage is, how it works, and eligibility requirements.

Our goal is to provide you with a thorough understanding of a reverse mortgage so that you can make an informed decision about whether or not this financial product is right for you.

What is a Reverse Mortgage?

A reverse mortgage is a unique type of loan that allows homeowners to access the equity in their homes without the need for regular payments. Unlike traditional mortgages, where borrowers make monthly payments to pay down the loan balance, with a reverse mortgage, the balance rises as interest accrues and is added to the outstanding loan balance. This is why it is called a "reverse mortgage."

Despite the different payment structure, borrowers still maintain ownership of their home and are responsible for paying taxes and insurance. Additionally, they have the option to make payments on the loan if they choose to. Overall, a reverse mortgage can be a valuable financial tool for qualified homeowners looking to supplement their retirement income.



Who Qualifies for a Reverse Mortgage?

To be eligible for a reverse mortgage, borrowers must meet certain criteria established by the Department of Housing and Urban Development (HUD)[1], which oversees the program.

Age
Borrowers must be at least 62 years old.

Occupancy
The property must be the borrower's primary residence.

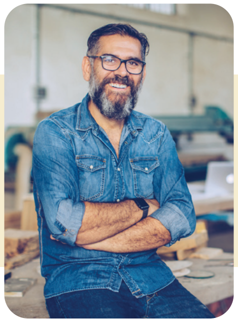
Property type
The property must be a single-family home, a 2-4 unit home with one unit occupied by the borrower, a HUD-approved condominium, or a manufactured home that meets HUD requirements.

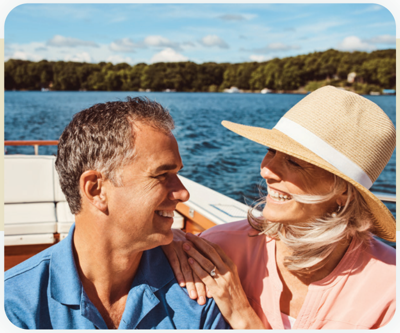
Financing
The property must be free and clear of any outstanding mortgages or liens, or the proceeds from the reverse mortgage must be used to pay off any existing mortgages or liens.

Property Condition
Your home must meet the required property standards and you must be willing to make repairs needed for your home to qualify for a reverse mortgage.

HUD Counseling
Counseling from a HUD-approved reverse mortgage counseling agency is required to discuss your eligibility, the financial implications of the loan, and other alternatives.

Additionally, the borrower must meet certain financial qualifications, such as demonstrating the ability to pay property taxes, insurance, and maintain the property and the lender will also check credit history and the income and assets of the borrower.





How are Reverse Mortgages Different from Home Equity Loans?

Reverse mortgages offer greater flexibility than traditional home equity loans or Home Equity Line of Credit (HELOC). Unlike a HELOC, a reverse mortgage does not require borrowers to make regular payments of principal and interest. Additionally, reverse mortgage borrowers are required to pay FHA (HUD) mortgage insurance.

On the other hand, a HELOC is a bank product that is relatively inexpensive and quick to obtain, but borrowers must meet traditional income and debt ratios in order to qualify. This means that borrowers may be required to make monthly payments of at least interest only early in the term of the loan and payments may increase later in the loan to include principal payments as well.

However, with a reverse mortgage, the line of credit is guaranteed by HUD and the lender cannot lower or close it at will. Since the loan is insured by HUD, if anything were to happen to the lender, the loan would be assigned to a new lender or HUD, and the loan would remain in effect as written.

HOW IS HUD INVOLVED IN REVERSE MORTGAGES?

The Department of Housing and Urban Development (HUD), plays a key role in the reverse mortgage process by insuring the loan. This means that in order for a lender to offer reverse mortgages, the lender must be approved by HUD.

HUD also requires all borrowers to attend counseling with a HUD-approved counselor and assigns a HUD case number to track the origination of the loan. The appraisal must be completed and reviewed by HUD before the loan can be approved.

After the loan closes, the lender must deliver certain documents to HUD for insuring the loan. The legal documents that borrowers sign also state that the lender may call the loan due and payable if HUD does not insure the loan within 9 months, so it's important for borrowers to assist the lender if they are contacted and asked for additional information. At PrimeLending, our team of mortgage experts is committed to guiding you through the reverse mortgage process and ensuring that you get the best terms and service.

Is a Reverse Mortgage a Good Idea?

When it comes to considering a reverse mortgage, it's important to weigh the pros and cons and determine if it's the right financial option for you.

Pros of a Reverse Mortgage:

- Allows borrowers to access the equity in their home without the need for regular payments.
- Provides additional income to help cover living expenses and improve standard of living.
- No monthly mortgage payments are required.
- Provides additional funds for retirement for those with limited financial resources.
- Can be used to pay off existing mortgages or consolidate other debts.

Cons of a Reverse Mortgage:

- The balance of the loan increases over time as interest accrues.
- Borrowers are still responsible for paying taxes and insurance.
- If you don't live in the home as your primary residence, the loan becomes due.
- Interest rates can be higher than traditional loans.
- If not used correctly, it can affect the inheritance of your heirs.
- If your home is not maintained, the loan becomes due.

How Much Does a Reverse Mortgage Cost?

The cost of a reverse mortgage can vary depending on a number of factors. Some of the costs associated with a reverse mortgage include:

Origination Fee

This fee is charged by the lender for processing the loan and can range from 0-2% of the loan amount.

Mortgage Insurance Premium

Reverse mortgage loans require mortgage insurance to protect the lender in case the loan balance exceeds the value of the property. The cost of the mortgage insurance premium can vary depending on the loan amount and the value of the property.

Interest

Reverse mortgages accrue interest just like any other loan, and the interest rate can vary depending on the market and the type of loan.

Closing Costs

These are standard closing costs associated with any mortgage loan and can include fees for title insurance, credit reports, and other closing-related expenses.

Appraisal Fee

An appraisal is required to determine the value of the property, and the cost can vary depending on the location and type of property.

It's important to note that some of these costs, such as the origination fee and closing costs, can be financed as part of the loan and added to the loan balance. PrimeLending will provide you with an estimate of the costs as part of your application process.

Next Steps

The process for a reverse mortgage typically involves the following steps:

1. **Connect with a PrimeLending loan officer to review your eligibility and discuss options**
2. **Complete the mortgage application**
3. **Attend HUD counseling**
4. **Complete property appraisal**
5. **Closing and funds disbursement**

If you have any questions or are interested in exploring the possibility of a reverse mortgage, please reach out to a loan officer at PrimeLending.

Our loan officers will be able to provide you with more detailed information and help you determine if a reverse mortgage is the right choice for you.

Why PrimeLending

PrimeLending is dedicated to providing professional service, personal guidance and timely results at every step of the home loan process. We've been relentlessly perfecting the mortgage experience for our customers since 1986, offering mortgage options for just about every situation.

Contact us today to learn about reverse mortgage!

These are brokered loan products. Not available in the following states: NY, NC, or HI. All credit decisions for brokered loan products will be made by the third-party lender. Restrictions and limitations apply.

1) Reverse Mortgages are neither "endorsed" nor "approved" by the Federal Government. The FHA (Federal Housing Administration) provides certain insurance benefits for lenders and borrowers in connection with the lender's HECM loans; the FHA does not make or originate loans. It is strongly advised that you consult with your family and / or trusted financial planner when considering any reverse mortgage loan. You must still live in the home as your primary residence, continue to pay required property taxes, homeowners' insurance, and maintain the home according to FHA requirements. Failure to meet these requirements can trigger a loan default that may result in foreclosure. As required by FHA, you will be charged an up-front mortgage insurance premium (MIP) at closing and, over the life of the loan, you will be charged an annual MIP based on the loan balance. Your current mortgage, if any, must be paid off using proceeds from your HECM loan. If your home needs repairs to be eligible for a HECM loan, you may be able to use the proceeds of the loan to accomplish this. Generally, the money received is not considered income and could be tax free, please consult your tax advisor and appropriate government agencies for any effect on taxes or government benefits.

EQUAL HOUSING LENDER