The *New* Reverse Mortgage: A **Smart** Choice.

Learn how it can help you take advantage of the existing equity in your home, and live the life you've earned.

NewReverseMortgage.org

NewReverseMortgage.org is an educational portal produced by the National Reverse Mortgage Lenders Association (NRMLA) with the participation of NRMLA members to help keep consumers informed about the latest developments in reverse mortgage programs, including the Home Equity Conversion Mortgage (HECM) program.

NRMLA is a membership organization that represents the reverse mortgage industry. The member companies participating in this effort are approved by the Department of Housing and Urban Development and have committed to NRMLA's Code of Ethics and Professional Responsibility.

> **"Accessing home equity will become increasingly important in a world where retirement needs are expanding—people are living longer and face rapidly rising health care costs —and the retirement system is contracting... Reverse mortgages offer a mechanism for tapping home equity for those who want to stay in their home."**
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> —*Boston College Center for Retirement Research*, Alicia H. Munnell and Steven A. Sass, "The Government's Redesigned Reverse Mortgage Program"

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Retire With Confidence

You've made a lot of smart decisions in your life—like investing in your home. So don't stop now. Find out how the New Reverse Mortgage can be the smart financial tool that lets you take advantage of the existing equity in your home, and live the life you want.

What *is* a reverse mortgage?

Reverse mortgages were originally created in the 1980s to help Americans age 62 and older convert part of the equity in their home into money that could be used during retirement. Recent changes to the program have made it a more effective way for eligible homeowners to gain greater financial flexibility while maintaining ownership of their home. In fact, financial research coming out of prominent universities demonstrates how a reverse mortgage can extend the life of your nest egg, and significantly increase the likelihood that you will have enough money longer into your retirement.

How it works:

A reverse mortgage allows you to access some of the equity you've built up in your home, and convert it into cash or a line of credit. It can also be used to finance the purchase of a home that better fits your needs. The loan amount you qualify for is calculated based on a number of factors, including the age of the youngest homeowner, the appraised value of your home, the loan options you choose, and prevailing market interest rates.

Unlike a traditional mortgage or home equity loan or home equity line of credit, you are not required to make any monthly mortgage payments. You will still be responsible for property taxes, maintenance, and insurance. As long as you meet those responsibilities, the loan balance is not due until the last remaining homeowner no longer uses the home as their primary residence, or the home is sold.

So, What's *New*?

You might be familiar with reverse mortgages. But recent changes and new program guidelines make the New Reverse Mortgage worth reconsidering as part of your comprehensive retirement plan. Here's what's new.

It's safer for you.

- New loan limitations help preserve your home equity funds for a longer period of time. Plus, mandatory mortgage insurance provides additional protection.

Rates and fees are lower than you might expect.*

- With the low fee and interest rate options offered by many lenders, today's reverse mortgage may compare favorably with a traditional home equity line of credit (HELOC) or home equity loan alternative.[1]

Financial advisors whave discovered new ways of using a reverse mortgage line of credit.

- With its growth feature and new options that reduce up-front costs, the reverse mortgage line of credit option can be used in new and innovative ways as part of a long-term retirement funding strategy.
- It can help reduce portfolio spend-down risk, and help your savings last longer.
- It may provide more security, control and peace of mind than a traditional home equity line of credit.

Your heirs are more clearly protected.

If your heirs want to keep the home, they may pay off the remaining loan balance, or 95% of the appraised value–whichever is lower. If they don't want to keep the home, it's listed for sale and the loan balance is paid off with the proceeds received. They never have to repay more than the value of the home. And once the loan is repaid, any remaining equity belongs to you or your heirs.

*Rates and fees vary by lender.
[1] Source: http://www.mybanktracker.com/heloc

What Are the Advantages?

Using a reverse mortgage as part of your comprehensive retirement plan can help you make the most of your retirement. The New Reverse Mortgage provides these great additional advantages and options.

No more monthly mortgage payments.

- There are no monthly mortgage payments required as long as you comply with your loan agreement and live in the home.* (As with a traditional home loan, you will still be responsible for property taxes, insurance, and maintenance.)
- If you have an existing mortgage or other debts, and substantial home equity, you can use a reverse mortgage to pay off those debts and reduce your monthly expenses.
- Or, if you own your home free-and-clear, you can get the additional funds you need with no minimum monthly repayments required.

Keep your home.

- You retain complete ownership of your home, with your name on the title.

Federally insured by the U.S. government.

- Most of today's reverse mortgages (also known as Home Equity Conversion Mortgages, or HECMs) are insured by the Federal Housing Administration (FHA).
- This insurance guarantees that you will receive your funds.
- It also ensures that you or your estate will never owe more than your house is worth if you sell it to repay the loan.

Tax-free, with no restrictions.

- The proceeds from a reverse mortgage are generally not considered taxable income. And there are no restrictions on how you can use the money; however, access to some of your funds may be limited for the first 12 months of the loan. For tax issues, you should consult a qualified tax advisor.

Defer Social Security.

- A reverse mortgage could help you delay receiving your Social Security benefits. The longer you wait to access Social Security, the more you will receive when you do.[2]

How Can I Use the Proceeds?

The proceeds from a reverse mortgage can be used for most anything, whether it's to supplement retirement income to cover daily living expenses, repair or modify your home, pay for health care, pay off existing debts, cover property taxes, or prevent foreclosure. Today, more homeowners and financial planners are using reverse mortgages as a key part of their long-term retirement strategy.

Here are some smart ways to use the New Reverse Mortgage to help meet your retirement goals:

- Pay off a traditional mortgage, to eliminate monthly mortgage payments*
- Make retirement savings last longer
- Preserve investment accounts during market downturns with a "standby" line of credit[3]
- Supplement income with monthly tenure payments
- Use a line of credit to build a safety net for unplanned emergencies, home repairs, and healthcare expenses
- Afford to retire earlier, or else wait until later to maximize lifetime Social Security benefits[4]
- Buy a home that better fits your needs[5]
- Support "aging in place" expenses, including caregiving and home modifications

* A reverse mortgage is a home-secured debt that must be repaid at maturity.
[2] Social Security Benefits estimator available at www.ssa.gov/estimator/
[3] "Reverse Mortgages: What Advisors Should Know," by Paul Norr, www.bankinvestmentconsultant.com/blogs/reverse-mortgages-what-advisors-should-know
Research at Texas Tech University and elsewhere suggests that the current structure of reverse mortgages may help stabilize retirement income. One powerful application is using the reverse mortgage line of credit option as a Bear Market Standby Account.
Shaun Pfeiffer, Ph.D.; John Salter, Ph.D., CFP®, AIFA®; Harold Evensky, CFP®, AIF®, "Increasing the Sustainable Withdrawal Rate Using the Standby Reverse Mortgage," Journal of Financial Planning 26 (12).
[4] Source: www.ssa.gov/retire2/delayret.htm
[5] A significant down payment is required to purchase a home with a reverse mortgage.

Case Study

Here's just one example that shows how a reverse mortgage can be used.

The Situation

Mary and John, both age 70, have an appraised home value of $300,000 and no mortgage. They have saved well for retirement, but could use some extra funds to improve their financial flexibility. They'd also like to establish a cash reserve that will give them easy access to additional funds should they need them, to avoid dipping into income-producing invested assets.

The Solution

Mary and John qualify for $156,450 in reverse mortgage funds. They opt to receive a steady stream of payments of $500 per month, for as long as they live in their home. This helps offset their daily expenses and healthcare costs.

After $80,445 are set aside to cover the lifetime advances (known as "tenure payments"), this leaves them with an additional $76,005 that they take as a line of credit, which they can draw upon as needed. As an added benefit, the unused line of credit grows over time, regardless of home value—providing more available funds. If their expenses increase in the future, they can change the amount of the tenure payments (thereby reducing the line of credit); or they can draw funds from their credit line.

"Some financial advisers think that even relatively affluent retirees could benefit from reverse mortgages—using them as an income stream that could help them lower their tax bills or avoid ill-timed sales of other investments."

— *Wall Street Journal*, Matthew Heimer, "Retirees Get Creative with Reverse Mortgages"

Illustration is for educational purposes only and assumes a borrower age 70 who resides in California and an adjustable initial interest rate of 2.403% with a margin of 2.250%, and financed fees in the amount of $8,249.95. Note: Rates may increase for adjustable rate loans. Rate quote generated on 04/09/2014. Rates are subject to change.

Is It Right For Me?

Chances are, you're looking for ways to maximize your retirement savings and income. Today, more and more financial advisors are recommending the use of a reverse mortgage as an important part of a balanced retirement plan. There are even different types of reverse mortgage products to fit your specific needs.

You can choose to receive your funds as:

- **A Line of Credit.** Use your proceeds now or access them in the future, when you want or need them. Since you are charged interest only on the proceeds that you take, a line of credit can give you the greatest degree of cost control. And unlike a traditional home equity line of credit (HELOC), a reverse mortgage line of credit cannot be reduced or revoked, as long as the terms of the loan are met; and the unused line of credit grows, giving you more available funds.
- **A Lump Sum Payout.** Many use this option to pay off an existing mortgage or other debt, or to cover a large expense.
- **Monthly Payments.** Supplement your retirement income by receiving a payment each month—either for a set period of time, or as long as you live in your home.
- **A Combination Plan.** Choose a combination of the above.

Does my home qualify?

Eligible property types include single-family homes, two- to four-unit properties, manufactured homes (built after June 1976 and titled and taxed as real property under state law), condominiums, and townhouses. Co-ops do not qualify.

Are there special requirements?

To be eligible for a reverse mortgage, all borrowers on the loan must be at least 62 years old, your home must be used as your primary residence, and you must have sufficient home equity. You'll also need to:

- Receive reverse mortgage counseling from an independent counselor who's approved by the U.S. Department of Housing and Urban Development (HUD), before applying for a loan
- Review with your counselor and assess your finances and make sure you can fulfill your monthly obligations, such as insurance and real estate tax payments

What If I Have An Existing Mortgage?

You may qualify for a reverse mortgage even if you still owe money on an existing mortgage. However, any existing indebtedness must first be paid off. You can pay off the existing mortgage with your reverse mortgage proceeds, money from your savings, or assistance from a family member or friend

For example: Let's say you owe $100,000 on an existing mortgage. Based on your age, home value, and prevailing interest rates, let's say you qualify for $125,000 under the reverse mortgage program. In this scenario, you will be able to pay off your existing mortgage and still have $25,000 to use as you wish, including paying for the total costs of obtaining your new loan.

When Does It Have to Be Repaid, and What About My Heirs?

The reverse mortgage loan balance is due to be paid when the last surviving homeowner no longer uses the home as a primary residence (moves away for 12 months), sells the home, or passes away. The reverse mortgage is a non-recourse loan, which means no debt will be passed on to any heirs. In addition, if the loan balance is less than the market value of the home when it is sold, the homeowner or heirs receive the remaining equity.

For example: Let's assume you take out a reverse mortgage and the outstanding balance after 10 years is $100,000. When the last homeowner passes away, the estate sells the house for $250,000. The lender gets $100,000 to pay off the loan, and the estate gets $150,000, which may be used to pay selling or settlement costs.

How Does the Interest Work on a Reverse Mortgage?

With a reverse mortgage, you are charged interest only on the proceeds you receive. Both fixed and variable interest rates are available. Interest is not paid out of your available loan proceeds, but is instead added to the balance of your loan (the amount owed) and compounds over the life of the loan until repayment occurs.

How Do I Get More Information?

Connect with a trusted reverse mortgage lender, share your concerns, and learn more about your options.

If you are a resident of Colorado, New Jersey, Pennsylvania, Delaware or Washington and would like to learn more about reverse mortgages from a participating lender, visit our website, **NewReverseMortgage.org** and click on "Lenders." Each participating lender is available to educate you further about the New Reverse Mortgage and answer any questions you may have.

"The three legs of the traditional retirement 'stool' (Social Security benefits, pensions, and personal savings) have been considerably weakened… Current and future retirees need to re-examine their views and consider including a reverse mortgage as a part of their retirement plan."

— *Journal of Financial Planning*, David W. Johnson, Ph.D., and Zamira S. Simkins, Ph.D., "Retirement Trends, Current Monetary Policy, and the Reverse Mortgage Market"

To hear real reverse mortgage stories from real people, in their own words, visit **NewReverseMortgage.org** and click on "Testimonials."

This information has been provided for you by the National Reverse Mortgage Lenders Association, with support from these Reverse Mortgage lenders:

American Advisors Group (AAG) NMLS ID: 9392
(855) 313-7275

Generation Mortgage Company NMLS ID: 1319
(800) 601-0594

Liberty Home Equity Solutions NMLS ID: 3313
(800) 303-1436

One Reverse Mortgage NMLS ID: 2052
(888) 900-1125

Security 1 Lending NMLS ID: 107636
(855) 980-0985

Urban Financial of America, LLC (UFA) NMLS ID: 2285
(800) 203-2726

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