CLIFTON MORTGAGE SERVICES
NMLS #852745

Reverse Mortgage Frequently Asked Questions

1. What is a reverse mortgage?

Q. What is a reverse mortgage?
A. A reverse mortgage is a loan that enables senior homeowners, age 62 and older, to convert part of their home equity into tax-free* income—without having to sell their home, give up title to it, or make monthly mortgage payments. The loan only becomes due when the last borrower(s) permanently leaves the home.

** Consult Tax Advisor. Not all products available in all states.*

2. How does a reverse mortgage differ from a home equity loan?

Q. How is a reverse mortgage like a home equity loan? How is it different?
A. Both a reverse mortgage and a home equity loan use the equity you have built up in your home to provide you with readily available cash. They differ in that, with a home equity loan you must make regular monthly payments of principal and interest. However, with a reverse mortgage, you do not make any monthly mortgage payments for as long as you stay in the home.

3. What are the advantages of a reverse mortgage?

Q. What are the advantages of a reverse mortgage?
A. There are many. Here are a few of the most significant:

- **Remain independent.** A reverse mortgage allows you to remain in your home and retain home ownership.
- **Stay in, and RETAIN, your home.** Contrary to popular belief, the bank DOES NOT take your home. the title and deed stay in your name and is passed to your designated heirs just like with any other home that has a mortgage on it. It allows you to remain in your home and retain home ownership.
- **No monthly mortgage payments.** You need not pay back the reverse mortgage loan nor make any monthly mortgage payments until you permanently move out of the home.
- **Tax-free money.** Because the money you receive from a reverse mortgage is not considered income, it is tax free* and will not affect your Social Security or Medicare benefits.
- **Freedom and flexibility.** The money you get from a reverse mortgage is yours to use in any way you choose.

Consult Tax Advisor

Q. I've heard that with a reverse mortgage the lender would own my home. Is this true?
A. It's absolutely false. The borrower retains title to the property. The reverse mortgage lender is merely extending a loan to the borrower.

Because the homeowners retain title, they remain responsible for the payment of property taxes, insurance, utilities, home maintenance, and other expenses — just as they would with a standard first mortgage or home equity loan.

Q. Can I refinance a reverse mortgage, as I would be able to do with a traditional home mortgage?
A. Yes. Refinancing can make sense if your home increases in value or interest rates drop. There must be a tangible benefit to you to do so though.

Q. Is it possible for my loan balance to become greater than the value of my home?
A. No. You can never owe more than what your home is worth. What's more, since the reverse mortgage is what is known as a "non-recourse" loan, the lender cannot seek repayment from your income, your other assets, or your estate. In other words, the house stands for the debt.

Q. Can a reverse mortgage lender take my home away if I outlive the loan?
A. No they cannot. And the loan is not due at that time either. In fact, you don't need to repay the loan as long as you or another borrower continues to live in the house and keep the taxes paid and insurance in force. The loan does not have a term, it is valid until the last borrower leaves the home or passes away.

4. How much money can I get?

Q. How do you determine the amount of cash I am eligible for?
A. The amount you can borrow depends on several factors, including your age, the type of reverse mortgage you select, current interest rates, the location of your home, the appraised value of your home and FHA's lending limits for your area. In most cases, the older you are, the more valuable your home, and the less you owe on it, the more money you can get.

5. How can I use the money I get from a reverse mortgage?

Q. Are there any limits on how I use the money I receive from a reverse mortgage?
A. You can use the money for anything you choose, from daily living expenses, home improvements, healthcare expenses, paying off existing debts, or simply enhancing your retirement years. For many people, the money provides a "financial security blanket," in case unexpected expenses arise.

6. In what ways can I receive the money from a reverse mortgage?

Q. Is there a choice in how I receive the cash from my reverse mortgage?
A. Most definitely. With most reverse mortgages you have a wide range of payment options, one of which should be ideal to meet your financial needs.

- You can choose to receive the money all at once, as a lump sum.
- You can receive equal monthly payments as long as one of the borrowers lives and continues to occupy the property as a principal residence.
- You can choose to receive equal monthly payments for a fixed period of months.
- You can get a line of credit*; which allows you to take funds at times and in amounts of your choosing until the line of credit is exhausted. This is the most popular option, chosen by more than 60% of reverse mortgage borrowers.
- You can opt for a combination of the line of credit and monthly payments for as long as the borrower(s) remains in the home.
- Or, finally, you can choose any combination of the above.

**Note: in Texas, lines of credit are not permitted by state law.*

7. What requirements or restrictions are involved in the reverse mortgage process?

Q. Who can qualify for a reverse mortgage?
A. Seniors 62 years of age or older qualify. All owners on title and deed must meet the minimum age requirement. There are no income, health or credit qualifications.

Q. Can my current income influence my ability to get a reverse mortgage?
A. No. Since reverse mortgage borrowers need not make monthly repayments, there are no income qualifications.

Q. I still owe money on a first or second mortgage. Can I still get a reverse mortgage?
A. Yes. You may be eligible for a reverse mortgage even if you still owe money on a first or second mortgage. The funds you would receive in the reverse mortgage would be used to pay off whatever existing mortgages you have on the property.

Q. Can I get a reverse mortgage on a second home or resort property I own?
A. Unfortunately no. Reverse mortgages may only be taken out on your primary residence.

Q. What kinds of homes are eligible for a reverse mortgage?
A. First and foremost, the reverse mortgage must be on the borrower(s) primary residence, that is, where they live most of the year. Most reverse mortgages are taken on single family, one-unit homes, detached or attached (i.e. town homes). A reverse mortgage can also be granted on condominiums, ***if*** the Condominium development is FHA approved. Some programs also accept two-to-four unit buildings that are owner-occupied. and manufactured homes built after June 1976. Mobile homes and cooperatives are generally not eligible for a reverse mortgage

Q. Would a home that is in a "living trust" be eligible for a reverse mortgage?
A. Yes. In most cases a homeowner who has put his or her home in a living trust can usually take out a reverse mortgage. A review of the trust documents would be made by the reverse mortgage lender to determine if anything in the living trust would be unacceptable.

8. When must a reverse mortgage loan be repaid?

Q. When will I have to pay the principal and interests cost of this loan?
A. Your reverse mortgage loan becomes due and must be paid in full when one or more of the following conditions occurs: (a) the last surviving borrower passes away or sells the home; (b) all borrowers permanently move out of the home; (c) the last surviving borrower fails to live in the home for 12 consecutive months due to physical or mental illness; (d) you fail to pay property taxes or insurance; (e) you let the property deteriorate, beyond what is considered reasonable wear and tear, and do not correct the problems.

9. What is owed when a reverse mortgage loan is repaid?

Q. What has to be repaid when the loan becomes due?
A. When the last surviving borrower permanently moves out of the home or passes away, the reverse mortgage loan becomes due. The reverse mortgage principal, interest charges, and service fees (such as closing cost fees) are paid from sale of the house or other assets of the estate. The home may also be refinanced into the heirs' names, at which time the loan is paid off. HUD grants a standard 6 month time frame for this to occur. If the loan is not paid off within the 6 months due to market conditions, HUD will typically grant an additional 6 month period.

Q. Can more be owed than the home is worth when the loan is due?
A. NEVER. With a reverse mortgage FHA fully insures against this. If the home passes to your heirs and is sold or refinanced and the Market value is less than the loan balance, FHA covers the shortfall. This holds true if you vacate the house and the loan becomes due.

11. How will a reverse mortgage affect my estate?

Q. If I take a reverse mortgage, will I still have an estate that I can leave to my heirs?
A. When you sell your home or no longer use it for your primary residence, you or your estate must repay the lender for the cash received from the reverse mortgage, plus interest and service fees. Any remaining equity belongs to you or your heirs. It's important to remember that ***you can never owe more*** than the home's appraised value when it is sold. None of your other assets will be affected by your reverse mortgage loan.

Q. Must the heir or the last surviving borrower sell the property to repay the reverse mortgage loan?
A. No. Repayment may be accomplished by refinancing the reverse mortgage with a traditional "forward" mortgage loan, or through the use of other assets.

12. What are the costs and fees?

Q. Other than repaying the principal and interest, what kinds of fees are involved in a reverse mortgage?
A. Most reverse mortgages have an application fee (which may cover the cost of a credit report and an appraisal), an origination fee, closing costs, insurance, and a monthly servicing fee. These charges can be paid by the reverse mortgage itself, making them no immediate burden to the borrowers; the costs are added to the principal and paid at the end, when the loan becomes due.

Q. How much cash will I have to come up with to cover origination fees and other closing costs?
A. One of the real benefits of a reverse mortgage is that you can use the money you get from your home's equity (dependent upon final calculations) to pay for the various fees that are part of the loan costs overall. The costs are simply added to your loan balance, and you pay them back, plus interest, when the loan becomes due—that is when the last surviving borrower permanently moves out of the home or passes away.

Q. Are reverse mortgage interest rates fixed or variable?
A. All reverse mortgages have variable rates that are tied to a financial index and will vary according to market conditions.

Q. What is "TALC" and why should I know about it?
A. TALC is short for "Total Annual Loan Cost." It combines all of the costs of a reverse mortgage into a single annual average rate and can be very useful when comparing one type of reverse mortgage to another.

Reverse mortgages vary considerably in features, benefits, and costs. It's not always easy to compare "apples to apples." If you are considering a reverse mortgage, be sure to ask the lender or counselor to explain the TALC rates for the various reverse mortgage products.

13. Are there tax consequences? What about my Social Security and Medicare benefits?

Q. What are the tax consequences of a reverse mortgage? What about my Social Security and Medicare benefits?
A. Because reverse mortgages are considered loan advances and not income, the IRS considers them not to be taxable. Similarly, having a reverse mortgage should not affect your Social Security or Medicare benefits.

If you receive SSI, Medicaid, or other public assistance, your reverse mortgage loan advances are only counted as "liquid assets" if you keep them in an account past the end of the calendar month in which you receive them. You must be careful not to let your total liquid assets become greater than these programs allow. It may be wise to consult your tax advisor on this.

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Another tax fact to bear in mind: interest on reverse mortgages is not deductible on your income tax returns until the loan is paid off entirely. This is due to the fact that the interest has not actually been paid until then, it has only accrued.

Q. If I take on a reverse mortgage, how will it affect my government benefits?
A. The funds from a reverse mortgage do not affect regular Social Security or Medicare benefits. You should discuss the impact of a reverse mortgage on federal, state or local assistance programs with a professional advisor, such as your local Area Agency on Aging (toll free at 1-800-677-1116), an independent reverse mortgage consultant*, or a tax attorney.

** A list of approved counseling agencies is posted on the Internet by the U.S. Department of Housing and Urban Development, at www.hud.gov.*

14. What advice should I get before taking a reverse mortgage?

Q. I understand that I must meet with an unbiased counselor before completing my reverse mortgage application. What does that accomplish?
A. This is a federally mandated feature of the reverse mortgage process and is designed for your protection. The counselor, who is from an independent government-approved housing counseling agency, explains in detail the pro's and con's of all your reverse mortgage alternatives. He or she will discuss a reverse mortgage's costs and financial implications, should tell you about any government or nonprofit programs for which you may qualify, and advise you on any proprietary reverse mortgages that may be available in your area.

Find out if a reverse mortgage is right for you.
Call to schedule your personal and confidential appointment.

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