The Facts About Reverse Mortgages

Myths & Realities of a Reverse Mortgage

As with many financial products, reverse mortgage loans can be complicated and there may be a number of misconceptions about how the product works. Do you know the myths vs. the realities?

Myth No. 1: The lender owns the home.

You will retain the title and ownership during the life of the loan, and you can sell your home at any time. The loan will not become due as long as you continue to meet loan obligations such as living in the home, maintaining the home according to the Federal Housing Administration (FHA) requirements, and paying property taxes and homeowners insurance.

Myth No. 2: The home must be free and clear of any existing mortgages.

Actually, many borrowers use the reverse mortgage loan to pay off an existing mortgage and eliminate monthly mortgage payments[1].

Myth No. 3: Once loan proceeds are received, you pay taxes on them.

Reverse mortgage loan proceeds are tax-free as it is not considered income. However, it is recommended that you consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.

Myth No. 4: The borrower is restricted on how to use the loan proceeds.

Once any existing mortgage or lien has been paid off, the net loan proceeds from your HECM loan can be used for any reason. Many borrowers use it to supplement their retirement income, defer receiving Social Security benefits, pay off debt, pay for medical expenses, remodel their home, or help their adult children. You worked hard for this asset and prudence, along with budgeting, should be the proper approach to enjoying proceeds received from your HECM loan.

Myth No. 5: Only poor people need reverse mortgages.

The perception of the reverse mortgage as an assist for the "poor" borrower is changing - many affluent senior borrowers with multi-million dollar homes and healthy retirement assets are using reverse mortgage loans as part of their financial and estate planning, and are working closely in conjunction with financial professionals and estate attorneys to enhance the overall quality and enjoyment of life.

1 You must live in the home as your primary residence, continue to pay required property taxes, homeowners insurance and maintain the home according to Federal Housing Administration requirements.

Purchase Loan

Purchase can help homeowners buy their next home without monthly mortgage payments. This loan enables borrowers to use the equity from the sale of a previous residence to buy their next primary home in one transaction.

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Unlock Your Home's Equity

We understand that you want to transition easily into the retirement lifestyle of your choice. We are here to help you access a portion of your home's equity and make the most of your retirement years.

Explore Your Options

Whether you are planning on retiring soon or have already started retirement, take a moment to think about how you envision your retirement lifestyle. Even if you have planned, saved and invested carefully, you may have fewer funds than you had expected to meet your goals. Now is the time to consider all of your financial options and make the right decisions for your future.

Option	Pros	Cons
1. Delay retirement or return to work	You continue earning income to pay for your financial obligations.	You may be unable or unwilling to continue working because of poor health or other reasons.
2. Sell your house and downsize	You eliminate or reduce your current mortgage payment and maintenance.	You may want to stay in your current home. You may still have a mortgage. Closing costs add to your financial burden.
3. Obtain a home equity loan or refinance your existing mortgage	You remain in your home. You may be able to lower your monthly mortgage payments and even pay off other debts.	You must still pay your monthly mortgage, plus closing costs for the equity loan.
4. Decrease expenses and modify your lifestyle	You eliminate unnecessary expenses and reduce your monthly cash outflow.	It may be difficult to cut back if you are already living frugally, or you may not want to sacrifice some comforts.
5. Obtain a Home Equity Conversion Mortgage (HECM)	You access tax-free cash to pay off your mortgage and may have additional funds for expenses or financial goals.	The loan balance grows over time and the value of your estate may decrease over time.

A reverse mortgage...

Will it help me?

- Your existing monthly mortgage payment is eliminated
- You stay in your home and maintain the title
- Loan proceeds are tax-free and can be used as you choose
- Your loan is insured by the Federal Housing Administration (FHA)

Did you know?

The HECM is a "non-recourse" loan. If you sell the home to repay the loan, you or your heirs will never owe more than the loan balance or the value of the property, whichever is less; and no assets other than the home may be used to repay the debt.

Stretching Retirement Savings

Using a Reverse Mortgage Loan

The Situation

Perry and Stephen Zimmerman thought they had saved enough for retirement but now at age 67, they are not so sure. They worry every time they look at their retirement account statement. They have been withdrawing about $1,500 per month ($18,000 per year) since they retired two years ago and have $350,000 left in their account. If they continue withdrawing at their current rate, they may be at risk of running out of money in their late-80's.

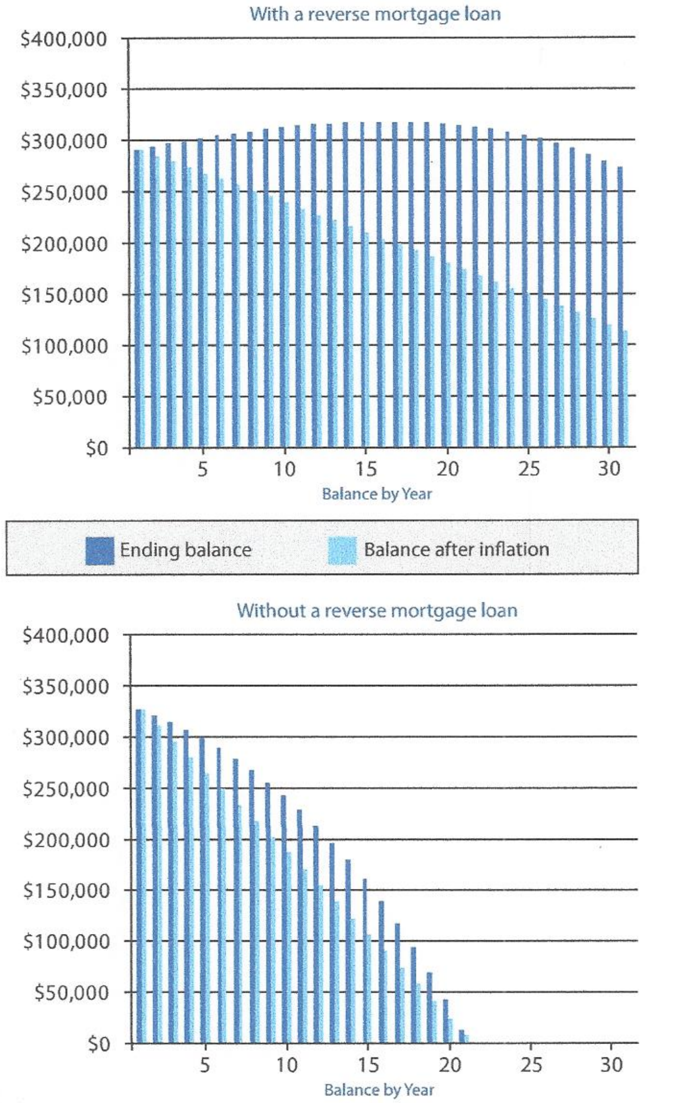
The Solution

A reverse mortgage loan can provide the Zimmermans with an additional source of tax-free funds so that they don't have to withdraw as much from their retirement account.[1]

By using a reverse mortgage line of credit loan with a monthly draw to supplement 45% of their income needs ($8,100 per year), their current retirement account can last over 30 years compared to only 20 years without a reverse mortgage loan.

Example of Savings Spend Down Scenarios[2, 3, 4]

With and Without a Reverse Mortgage Loan



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Deferring Social Security

With a Reverse Mortgage Loan

The Borrower Situation

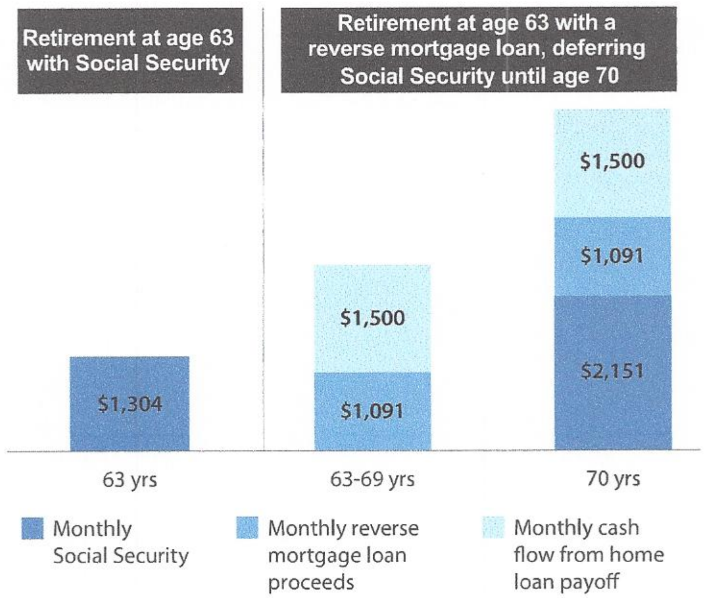
Susan Parker earned $60,000 per year as a systems project manager until she lost her job nine months ago. At 63, she was having a difficult time finding another job and was considering retiring early.

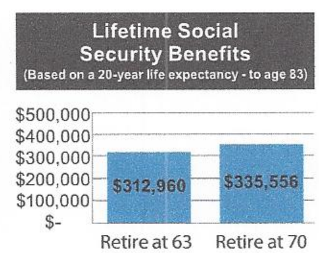
She knew that this would mean lower lifetime Social Security benefits than if she deferred until age 70, but what else could she do? She had exhausted her unemployment benefits and was drawing down on her savings to pay for her mortgage and other living expenses.

The Solution

A reverse mortgage loan helped Susan pay off her existing home mortgage and improved her monthly cash flow by $1,500. She also elected to receive her remaining reverse mortgage loan proceeds in equal monthly payments of $1,091 for as long as she lives in the home. She was in excellent health and expected to live well into her early 80s. With these additional sources of funds, Susan could defer drawing her Social Security benefits until age 70, resulting in increased monthly benefits of $847 or $22,596 over her lifetime.

Sources of Retirement Funding[1,2]





Deferring Social Security from age 63 to 70 resulted in increased Social Security benefits of $847 per month or $22,596 total lifetime (to age 83)

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Purchasing a Home with a HECM for Purchase Loan[1]

Bob and Mary, both 71 years old, want to buy a lower maintenance home. They work with a real estate agent to sell their current residence and look for a new home that fits their needs.

The real estate agent introduces Bob and Mary to a Reverse Mortgage Advisor. The advisor shows the buyers how the HECM for Purchase loan could provide the funds they need for their new home.

Bob and Mary can use proceeds from a HECM for Purchase loan of $147,727 and they can use a cash investment of $152,273 to purchase a new $300,000 home with no monthly mortgage payments.[2]

Home Purchase Price	$ 300,000
Available Loan Amount (Principal Limit)	$ 162,600
Total Settlement Costs	$ (14,873)
Available Loan Proceeds	$ 147,727
Cash Required To Close	$ 152,273
Monthly Mortgage Payment[2]	$ 0

Since the initial disbursement at closing is greater than 60% of the principal limit the mortgage insurance premium is based on a rate of 2.50%, which is a percentage of the lesser of the appraisal value, the purchase price or the maximum lending limit.

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1 This example is based on the youngest borrower, who is 71 years old, a variable rate HECM for Purchase loan with an initial interest rate of 2.430% (which consists of a LIBOR index rate of 0.180% and a margin of 2.250%). It is based on a purchase price of $300,000, origination charges of $5,000, a mortgage insurance premium of $7,500, other settlement costs of $2,373; amortized over 168 months, with total finance charges of $122,466.55 and an annual percentage rate of 4.37%. Interest rates may vary and the stated rate may change or not be available at the time of loan commitment or lock-in.
2 The borrower will be responsible for paying property charges including homeowners insurance, taxes, and maintenance of home for the life of the loan. Interest will accrue on loan balance.

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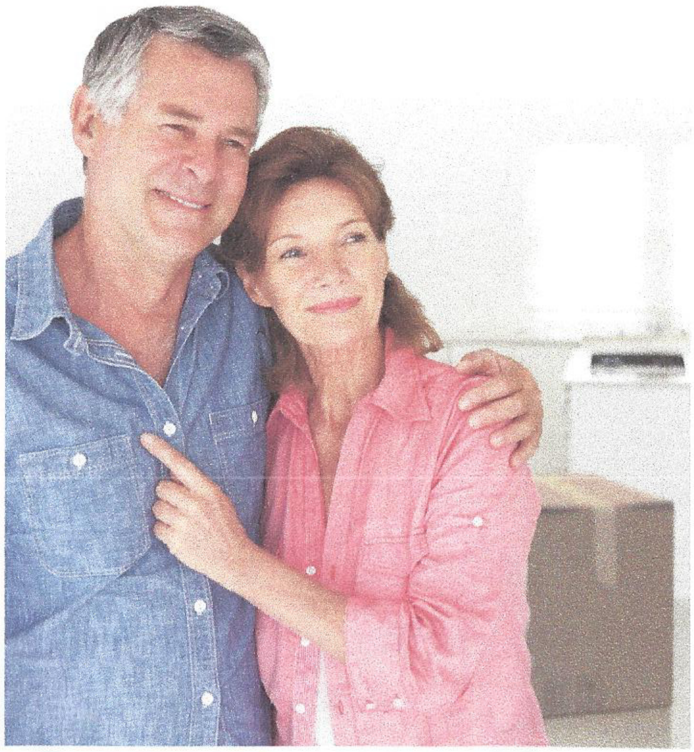
Home Buying In Reverse

Discover the HECM for Purchase Loan



Home Buying Without Mortgage Payments

If you are a homeowner 62 years or older, the Home Equity Conversion Mortgage (HECM) for Purchase loan may help you buy your next home without required monthly mortgage payments.[2]

The HECM for Purchase product is a Federal Housing Administration (FHA) insured home loan that allows seniors to use the equity from the sale of a previous residence to buy their next primary home in one transaction. Regardless of how long you live in the home or what happens to your home's value, you only make one, initial investment (down payment) towards the purchase.

Why Consider a HECM for Purchase Loan

A HECM for Purchase loan can help increase purchasing power and flexibility when buying a primary residence. Many home buyers use the HECM for Purchase loan to:

- Rightsize to a smaller, lower maintenance home
- Buy a home closer to family or friends
- Lower their cost of living during retirement
- Enjoy carefree living in a senior housing community

Best of all, since monthly mortgage payments are not required, a HECM for Purchase loan may help preserve your hard-earned savings and improve cash flow. You will continue to own and maintain the title of your home for as long as the property remains your primary residence.

Customer Benefits

- Eliminates monthly mortgage payments[2]
- Increases your purchasing power
- Preserves your cash

Eligibility Requirements

- Youngest titleholder must be 62 years or older
- Purchased home must be a primary residence occupied within 60 days of loan closing
- Property must be a single family home, 2-4 unit dwelling, or a FHA approved condo
- The difference between the purchase price of the new home and the HECM loan proceeds must be paid in cash from qualifying sources such as the sale of prior residence, homebuyer's other assets or savings
- Borrower must complete a HUD approved counseling session

The amount of money you may receive from a HECM for Purchase loan depends on the age of the youngest titleholder, current interest rates and the lesser of the appraised value, the purchase price or the FHA lending limit. The funds available to you may be restricted for the first 12 months after loan closing, due to HECM requirements.

Safeguards for Borrowers

- Mortgage Insurance Premium (MIP) ensures the amount owed on the loan can never be more than the value of the home at time of sale
- Independent HUD counseling is required prior to loan application
- Lender may only look to the value of the home for repayment; no other assets may be attached if the loan balance grows beyond the mortgaged home value (non-recourse loan)