

The mortality tables used to calculate the amount of money that you can borrow in a reverse mortgage use high life expectancies. As a result, you may not be able to borrow as much money as you might expect.

You should consult an attorney concerning the impact of receiving monthly payments from a reverse mortgage on your eligibility for Medicaid long term care benefits.

REVERSE MORTGAGES



Reverse mortgages provide an opportunity for senior citizen homeowners, 62 years of age or older, to obtain money by borrowing against the equity in their home. In the traditional mortgage situation, the homeowner makes regular monthly payments to the lender which over time will decrease the loan balance. A reverse mortgage works in the opposite way. Payments flow from the lender to the homeowner. With a reverse mortgage, a homeowner is able to convert existing home equity to cash by borrowing money secured by a mortgage against his or her home. In most cases, the homeowner is obligated to repay the loan balance only if the homeowner is no longer living in the home. The homeowner can receive lifetime monthly payments, lump sums for any purpose, a credit line or any combination of these options.

**THIS BROCHURE SHOULD NOT BE USED
IN PLACE OF LEGAL ASSISTANCE. BEFORE
SIGNING MORTGAGE LOAN DOCUMENTS,
SEEK LEGAL ADVICE**



**REAL PROPERTY LAW SECTION
STATE BAR OF MICHIGAN**

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State Bar of Michigan

ELIGIBILITY

The homeowner must be 62 years of age or older. If the home is held jointly by husband and wife, both must be at least 62 years of age. The

age of the youngest homeowner determines the eligibility. This age restriction was established based upon life expectancy statistics.

There are no income or credit restrictions required to qualify for a reverse mortgage. The borrower, however, must own his or her own home and occupy the home as a primary residence. Lenders also may require that existing debt encumbering the home be repaid

BASIC FEATURES

- The homeowner is the borrower, or mortgagor. They retain title to the home, and remain responsible for paying all costs associated with the home including property taxes and insurance.
- Loan repayment is not required unless the mortgagor: (1) sells the home; (2) dies; or (3) has not lived in the home for over 12 months.
- In most instances, the reverse mortgage must be the first mortgage against the property.
- Available proceeds depend on various factors including the value of the home, current interest rates and the borrower's age. The older the borrower the greater the amount that can be borrowed due to life expectancy.
- Outstanding loan balance will never exceed the value of the home.
- Typical mortgage fees and closing costs are charged.

LOAN TYPES

There are three primary reverse mortgage lenders:

Federal Housing Administration (FHA)/ Department of Housing and Urban Development (HUD) has the majority of the market. The Home Equity Conversion Mortgages ("HECM") are insured by the FHA. With the HECM program, borrowers can choose whether to take the loan proceeds in a single lump sum, as fixed monthly advances, as a line of credit, or as a combination of the two. HECM loans generally offer the largest loan advances of any reverse mortgage and permit the borrower to use the funds for any purpose.

The Federal National Mortgage Association (Fannie Mae) has a higher loan advance limit than the FHA.

Financial Freedom Senior Funding Corporation is a private lender and has no maximum limit.

Though not as readily available, there are other state and local agencies that also offer reverse mortgages. Such agencies may require that the proceeds be used for a specific purpose and may only be available to individuals with low or moderate incomes.

Additionally, banks, mortgage companies and other private lenders offer reverse mortgages which are backed by the companies that develop them. These companies decide which lenders may offer the loans unlike HECM loans which may be offered by any lender approved by the FHA.

CONSIDER YOUR OPTIONS

Before you choose a reverse mortgage for your home, examine and compare all alternatives. Important considerations include

- The rate of interest, which may fluctuate or be fixed depending upon the particular type of mortgage obtained.
- The fees and other closing costs.
- The loan repayment terms.

Proceeds from a reverse mortgage should not generally affect eligibility for retirement, survivor, disability or Medicare benefits, but may affect eligibility for assistance under some federal and state programs such as Medicaid. Keep in mind that you generally will have three days after signing a reverse mortgage agreement to send a written cancellation notice.

Recognize that reverse mortgages are not for everyone.

Reverse mortgages are more costly than conventional mortgages because the interest and the mortgage insurance premium (which the homeowner is not directly paying) are added to the principal balance each month. Interest and mortgage insurance fees will increase over time as they compound and interest is charged on interest.

A reverse mortgage reduces the equity in a home quickly because each payment received by the homeowner is extra debt secured by a mortgage on the house. The homeowner's estate is diminished for future generations.