

# Using Home Equity as a Retirement Asset:

## Reverse Mortgage Basics



# Thank you for exploring your reverse mortgage options. We've created this introductory guide to help get you started on learning more about this versatile retirement financing tool.

For expert guidance that's tailored to your individual needs and concerns, we encourage you to talk to your loan officer. He or she will answer all your questions, give you detailed calculations, and help you make well-informed decisions that are in your best interests.

## Why should I consider a reverse mortgage?

Your retirement funds may come from savings, investment income, and Social Security. But now, there's another source that may help you complete the longevity planning puzzle.



**Reverse mortgages are becoming increasingly recognized by homeowners and financial advisors as a smart and safe way to access an important retirement asset: home equity.**

Most reverse mortgages are government-insured Home Equity Conversion Mortgages (HECMs). You will often hear the terms used interchangeably. Available exclusively to people age 62 and older, a reverse mortgage could help you live more comfortably and be more financially prepared for the future.

For example, you can use a reverse mortgage to »

\* Not tax advice. Consult a tax professional.

\*\* If the borrower does not meet loan obligations, such as keeping current with property taxes and required insurance, then the loan will need to be repaid.

- Avoid selling investments at a loss in a “down” market
- Establish a “stand-by” line of credit that you can tap as needed. 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 over time.
- Supplement retirement income with tax-free\* funds
- Delay collecting Social Security, for a larger monthly benefit
- Pay for medical or long-term care costs
- Finance the purchase of a more suitable home, with no monthly mortgage payments\*\*

## Among the benefits of a reverse mortgage:

- **The ability to use your home equity to help you maintain a more comfortable standard of living, in your own home.**
- **Tax-free\*** loan proceeds you can use however you choose.
- **Great flexibility.** You can choose to take your proceeds as a line of credit; monthly advances for a set period of time; a monthly stream of funds for as long as you live in your home; a lump sum; or a combination of these options.
- **No monthly mortgage payments.** If you qualify and have an existing mortgage, home equity loan or any other type of debt, you can pay it off 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. (As the homeowner, you remain responsible for paying property taxes, homeowners insurance, and homeowner's association dues if applicable.)

\* Not tax advice. Consult a tax

\*\* Your reverse mortgage proceeds will first be used to pay off any existing mortgage balance(s) and/or federal debt.



# Am I eligible?



## To be eligible for a reverse mortgage, you must:

- Be at least 62 years old
- Live in the home as your primary residence
- Have sufficient home equity. Contact your 1st Nations Reverse Mortgage loan officer to find out if you have enough home equity to qualify.
- Not be delinquent on any federal debt
- Participate in a consumer information session held by an independent counselor who's approved by the U.S. Department of Housing and Urban Development (HUD)

## Also, your home must:

- Meet FHA (Federal Housing Administration) property standards and flood requirements
- Be one of the following property types:
  - » Single-family home
  - » Two- to four-unit home with one unit occupied by the borrower
  - » FHA-approved condominium



# How much money can I get?

This depends upon a number of factors, including the age of the youngest borrower or non-borrowing spouse, your home value, the amount of equity, FHA lending limits, the current interest rate, and the reverse mortgage product and payment option you choose. If you have an existing mortgage, your reverse mortgage will first be used to pay that off. Your loan officer can provide you with a quote that's tailored to your specific situation, with no cost or obligation.



## Using Your Proceeds

The following chart shows some common uses for a reverse mortgage, and how you might wish to take your proceeds, depending on how you plan to use them. Talk to your 1st Nations Reverse Mortgage loan officer to help determine the best course of action for you.

I would like to...	Line of Credit	Monthly advances for a set period	Monthly advances for as long as you live in your home	Lump Sum
		Term	Tenure	
Establish a "standby" cash reserve that will be there when I need it	✓			
Supplement my monthly income with a steady stream of funds		✓	✓	
Delay taking Social Security, for a larger monthly benefit	✓	✓		
Make home modifications or repairs	✓			✓
Pay off my existing mortgage or other debts, to reduce monthly expenses				✓
Buy a home that better fits my lifestyle				✓

# Case Studies

The following are just two sample scenarios that show how a reverse mortgage can be a smart retirement planning tool.

## Supplement Monthly Income & Establish a Safety Net

### 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 for monthly expenses. 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 invested assets that are a source of income.

### THE SOLUTION:

Mary and John qualify for \$165,465 in reverse mortgage funds. They opt to receive \$500 per month, for as long as they live in their home. This helps offset their daily expenses and healthcare costs.

After \$81,857 are set aside to cover the lifetime advances (known as "tenure payments"), this leaves them with an additional \$83,608 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.

## Delay Social Security for a Larger Monthly Benefit

### THE SITUATION:

John, age 62 and currently earning \$80,000 per year, wants to delay collecting Social Security to age 66, which will increase his monthly benefit from \$1,426 to \$2,186. He has an appraised home value of \$300,000 and no mortgage.

### THE SOLUTION:

John qualifies for \$149,565 in reverse mortgage funds. He decides to take term payments in the amount needed to “bridge the Social Security gap”—which is \$60,705 (at \$1,264.69 per month x 48 months).

He opts to keep the remaining funds available as a line of credit, which he plans to treat as a cash reserve for emergencies and future needs.

During the first year of his reverse mortgage, he can access a line of credit in the amount of \$68,853. After the first year, he can access an additional \$20,007, for a total of \$88,860 plus growth on any unused line of credit funds.



# How is a reverse mortgage different than a traditional Home Equity Line of Credit (HELOC)?

**A reverse mortgage line of credit offers several distinct advantages over a HELOC:**

- **Greater flexibility in repayment**—no monthly mortgage payments\* are required
- As long as the terms of the loan are met, a **reverse mortgage line of credit cannot be frozen, reduced or revoked** by the lender
- **The unused line of credit grows over time**—giving you more available funds

## What are the costs associated with a reverse mortgage?

In addition to interest, the costs can include a property appraisal fee, origination fee, closing costs, mortgage insurance premium, servicing fee and a modest charge for independent counseling. While closing costs vary based upon the type and size of the loan, they're similar to those for any traditional mortgage. You can roll most of the up-front costs into the loan, so out-of-pocket expense can be minimized. And you can reduce your costs by taking a lower amount of proceeds that are available to you. We will give you a detailed cost breakdown, and explain the different interest and pricing options that you can choose from.

## How and when does a reverse mortgage need to be repaid?

**As long as the terms of the loan are met, a reverse mortgage does not have to be repaid until the home is sold or is no longer the primary residence of at least one borrower (or a non-borrowing spouse who meets certain requirements).**

Usually, the last surviving borrower or their estate sells the home to repay the loan. It can also be repaid in cash from any source, such as other assets, proceeds from a life insurance policy or a loan refinance. Once repaid, any remaining equity belongs to you or your estate, and can be transferred to heirs. In any case, no debt is passed along to your heirs.

\* If the borrower does not meet loan obligations, such as keeping current with property taxes and required insurance, then the loan will need to be repaid.



# The loan process

We'll assist you each step of the way.

As you explore your reverse mortgage options, a licensed loan officer will serve as your guide through the entire loan process. Here's a basic overview of what to expect. To learn more, contact us today.

## 1 Education

Your loan officer will help you determine if a reverse mortgage is the right solution for you —and if so, which type best fits your needs and goals. To help you make an informed decision, we'll answer all your questions, assess your individual needs and financial situation, thoroughly explain everything, and prepare you for your independent counseling session. We encourage you to include your family members and trusted advisor(s) in your decision-making process.

## 2 Independent Counseling

To ensure that you understand all aspects of a reverse mortgage, you're required to have a session with an independent counselor who's approved by the U.S. Department of Housing and Urban Development (HUD). It usually takes about 60 to 90 minutes, and can be done in-person or over the phone. (Some states require face-to-face counseling.)

## 3 Application

Your loan officer will help you complete the application and collect your documentation. He or she will let you know exactly which documents you'll need to provide.

## 4 Property Appraisal, Loan Processing and Approval

Your loan officer will submit the paperwork and we'll process your application. We'll order a home appraisal, which determines the exact value of your home. We'll also order title work and existing mortgage payoff amounts. An underwriter will then review your application for approval.

## 5 Closing

Once the loan is approved and final documents are ready for your signature, we'll contact you to schedule your loan closing, which can take place at your home. Any existing mortgage(s) will be paid off with a portion of the proceeds from your reverse mortgage. After the closing and any applicable rescission period, the loan will fund and you'll receive your money.

# What researchers and the media are saying about reverse mortgages



## **Forbes/Personal Finance:**

“While there are a variety of ways to utilize home equity as part of a retirement income plan, reverse mortgages deserve special attention and consideration. Tapping into your home equity through a reverse mortgage HECM line of credit can be an effective way to reduce your sequence of returns’ risk and avoid selling your investments when they drop in value.”

—Jamie Hopkins, Contributor, “Reverse Mortgages Can Be A Retiree’s Saving Grace,” October 7, 2015

## **Kiplinger/Wealth Creation:**

“In the right circumstances, a reverse mortgage can be a huge benefit; these loans, guaranteed by the federal government, allow seniors age 62 and older to tap their home equity while remaining in their home.”

—Kathy Kristof, “6 Ways to Avoid Outliving Your Retirement Nest Egg,” October 2015

## **The New York Times/Your Money:**

“One approach is a standby reverse mortgage, where borrowers open a line of credit that can be tapped when necessary. Opening a credit line while interest rates are low, even if you don’t need the money now, can result in a larger credit line now than when rates are higher, said John Salter, an associate professor of personal financial planning at Texas Tech University. And the line of credit continues to grow over time.”

—Tara Siegel Bernard, On Retiring, “6 Strategies to Extend Savings Without Working Longer,” August 7, 2015

## **The Wall Street Journal/The Experts:**

“For individuals who are planning to downsize their home, or who are otherwise thinking to move in retirement, an alternative now available is the HECM for Purchase. Downsizing combined with the HECM for Purchase can potentially free up a large amount of home equity and create more liquid financial assets to help sustain a retirement spending objective over retirement.

—Wade Pfau, “The Case for Reverse Mortgages,” December 1, 2014

## **CBS News:**

“Reverse mortgages can provide a way for many Americans to fund a comfortable retirement and may grow in popularity as millions of baby boomers enter their golden years.”

—Aimee Picchi, “Reverse Mortgages May be Ready for a Revival,” June 2, 2014