

# REVERSE MORTGAGE GUIDE







# CONTENTS

|  |           |
|--|-----------|
| <b>Introduction</b> .....  | <b>3</b>  |
| <b>Contacting a Company</b> .....  | <b>4</b>  |
| What is a Reverse Mortgage? .....  | 4         |
| Loan Purpose .....   | 5         |
| Product Choice .....   | 5         |
| Proceed Utilization .....  | 6         |
| Health Concerns .....  | 7         |
| Age & Marital Concerns .....   | 8         |
| Title Issues .....   | 9         |
| Qualification .....  | 9         |
| <b>Reverse Mortgage Counseling:</b>                                      |           |
| <b>Why, What and How</b> .....   | <b>15</b> |
| What You Can Expect .....  | 12        |
| How to Find an Approved<br>Reverse Mortgage Counselor .....              | 13        |
| Application & Document Collection .....                                  | 14        |
| <b>The Appraisal: Determining Value<br/>for a Reverse Mortgage</b> ..... | <b>15</b> |
| How Value is Determined .....  | 15        |
| How to Prepare for a Home Appraisal .....                                | 16        |
| Repair Issues .....  | 16        |
| <b>Processing and Underwriting</b> .....                                 | <b>18</b> |
| <b>Closing and Funding</b> .....   | <b>19</b> |
| <b>Life of Loan Issues</b> .....   | <b>20</b> |
| <b>Reverse Mortgage Repayment</b> .....                                  | <b>21</b> |
| <b>Guarding Your Golden Years</b> .....                                  | <b>23</b> |
| <b>About Us</b> .....  | <b>24</b> |





# INTRODUCTION

---

Maybe you didn't start planning for retirement soon enough, maybe you thought you did but had bad advisors, or maybe an emergency or an economic downturn has hindered your plans. If you're in retirement, or you're about to be, and your financial future is uncertain, it doesn't matter how you got here. All that matters is how you're going to make it work so you can enjoy your golden years to the fullest.

One of your options is a reverse mortgage. A reverse mortgage may also be referred to as a Home Equity Conversion Mortgage (HECM) if it is insured by the Federal Housing Administration (FHA) or a proprietary reverse mortgage if it is not. A lot of people have heard about a reverse mortgage but are unclear on the details simply because it's a fairly new product, relatively speaking.

There is no such thing as a one-size-fits-all retirement plan, including reverse mortgages. Some people, for example, may find a conventional Home Equity Line of Credit (HELOC) more suitable. But you want to make sure you can retire comfortably and securely, so where do you begin? This guide, in conjunction with a proposal from one of our loan officers, will give you all the information you need to decide if a reverse mortgage is right for you.

# CONTACTING A COMPANY

The very first thing you'll want to do is contact us for a proposal. Don't use the reverse mortgage "calculators" that are all over the Internet. They are not very accurate, and most of the time they are just collecting your information to sell to several third parties at one time.

We will need to ask you a few basic questions to make sure we understand your situation and your financial need, so we can give an accurate product and usage recommendation.

## What is a Reverse Mortgage?

For those of you unfamiliar with the product, a reverse mortgage is a loan made to older Americans that does not require monthly repayment of either principal or interest. That said, you can opt to make payments on the loan if you so choose. Should you let the interest, and potentially mortgage insurance, accrue, the balance will be repaid when

the last remaining borrower sells the home, passes away, or moves out for over twelve months consecutively.

You must live in the home as your primary residence and make the other

property charge payments – property taxes, insurance, and homeowner's association dues. You must also maintain the property to keep it from being uninsurable or condemned by the local municipality.



## Loan Purpose

One of the most common misconceptions about reverse mortgages is that they are like a HELOC and can be used as a second mortgage, leaving an existing mortgage in place. That is not the case, as all reverse mortgages are first mortgage products, meaning they have to pay off and replace the existing mortgage(s). The most common uses of the loan are:

- Traditional reverse mortgage - similar to a refinance in the regular mortgage market
- Reverse mortgage purchase - the loan is used to buy a home
- Reverse mortgage to reverse mortgage refinance - improving an existing reverse mortgage

It's also worth noting that reverse mortgages are not high loan-to-value ratio (LTV) loans, so if you are looking to borrow 70-100% of your home's value, you'll need to look at a regular mortgage with monthly repayment. It's more common to see an LTV in the 30-65% range, and the older you are the more you can borrow.

## Product Choice

When reverse mortgages were first created in 1987, the only option was a HECM with a variable interest rate at one set margin, which meant that every lender was offering the same exact product. The Department of Housing and Urban Development (HUD) eventually allowed a fixed rate product, and the market became more robust due to interest from investors.

Whether you are a better fit for an FHA HECM or a proprietary reverse mortgage will depend on a number of factors. Proprietary reverse mortgages are primarily used by those

with home values over the FHA lending limit, but there are several niches they fill in addition to that, like the condo market. Proprietary reverse mortgages are also non-recourse loans, meaning the only collateral for the loan is the home. They have an above market interest rate, but no mortgage insurance is required, and the closing costs are much lower.

## Proceed Utilization

There are many different ways that a reverse mortgage can be utilized as part of your retirement plan, such as:

- Eliminating an existing mortgage to increase monthly cash flow
- Establishing a term or tenure monthly payment to increase monthly cash flow
- Setting up a standby line of credit for the future
- Taking out a lump sum for various needs (e.g. - home purchase, divorce, home repairs)
- A combination of these options

There are some questions that need to be answered to help determine the best way to utilize the loan proceeds:

- What are the main goals of taking out the loan?
- How long will the loan term be?
- Is it a primary goal to protect the remaining equity in the home or get access to as much cash as possible?

The only way to get sound, reliable advice is to get in touch with us, so we can put together a proposal specific to your unique situation.



## Health Concerns

One of the issues that often make reverse mortgages more complex than conventional loans is your health. Since the minimum age is 62 to qualify for the HECM, and there is no maximum age limit, there can often be health, age, and capacity issues that factor into how the loan will be established.



Let's review some different scenarios;

**Healthy** – If you are of sound mind, you must participate in the reverse mortgage counseling session, but you are now able to have a power of attorney handle the rest of the process for you. That is a departure from the requirement for a borrowers of sound mind having to handle the entire transaction themselves.

**Limited physically, mentally healthy** – Physical limitations can vary greatly; paralysis due to stroke, macular degeneration, rheumatoid arthritis, etc. If you cannot sign a lengthy set of documents, a mark (usually initials) can be allowed. If that still proves to be difficult, a power of attorney can be used. You will still need to participate in the counseling session.

**Mental incapacity** – If you suspect you or your spouse are beginning to show signs of Alzheimer's or dementia, please bring it to our attention. We will need to speak with you or an adult child about how to proceed under these

circumstances. There would need to have been a power of attorney (POA) in place before the incapacity began or guardianship/conservatorship is required. We will also need a doctor's note in this circumstance addressing when the incapacity began and the level of incapacity.

**Spouse in assisted living** – If your spouse does not live in the property as their primary residence due to their health, you will not be able to move forward without their involvement. See the mental incapacity section above if it applies, or expect the non-resident spouse to be involved in the process.

## Age & Marital Concerns

Given that spouses are not always the same age, and relationships can change over time, there are often age and marital related concerns. Sometimes the borrower is on a second or third marriage and the inheritance issues can be complex.

**Non-borrowing spouses** – To qualify for an FHA reverse mortgage, one must be 62 years of age or older, and for proprietary reverse mortgages, they can be offered to a lower age group. In reference to the more common HECM product, if only one spouse is 62 or older, the age of the younger spouse will be used to calculate the loan amount. Both spouses will remain on the title to the home and the debt will not need to be repaid until the final spouse no longer occupies the property as his/her primary residence or fails to pay the property charges. Keep in mind the younger spouse cannot continue to borrow more funds once the older spouse has passed.



**Separation & divorce** – If you are separated from your spouse, but still legally married, you will need to involve them in the reverse mortgage process to proceed. We have to prepare for the scenario that you will eventually reunite. If you are legally divorced, you can proceed without your ex-spouse, but that person will need to come off the title before the process begins. If that cannot be negotiated as part of the settlement agreement, the ex-spouse will need to be counseled and be taken off title at the loan's closing when they are paid off.

## Title Issues

It is important to speak with an experienced reverse mortgage company when you have questions or concerns about the title to the home. Some common title issues include:

- Title held by deceased parent and not the borrower
- Title held jointly or individually with a deceased spouse
- Title held jointly with an adult child
- Title held in a trust

All of these scenarios should be discussed before an application is ever taken to avoid significant delays later, and to avoid spending money on unnecessary counseling or appraisals.

## Qualification

Once it is decided that a reverse mortgage is a good fit, the first step of the process is to get prequalified by the loan officer. That involves answering some questions by phone or email and having a credit report pulled. There are three parts to reverse mortgage qualification.



**Income** – Enough monthly income is needed to cover the following; all monthly debt listed on the credit report, property taxes, insurance on the home, homeowner’s association dues, maintenance/ utilities calculated at \$0.14 per square foot, all other property charges for any other real estate owned, and a residual income amount to cover

food and living expenses that varies based on the size of your household and region of the country. Retirement assets can be counted as can reverse mortgage proceeds to help a borrower qualify.

**Credit** – For FHA HECMs your credit score isn’t a factor, but for proprietary reverse mortgages it is. For both types of loans, the most recent three year period is scrutinized the most. A factor can be number of payments missed, how late they were, and the type of credit that is derogatory. Generally speaking, older credit issues are not a problem.

**Property Charge History** – The most recent two year period is analyzed to see if any property charges were over thirty days late. That is always property taxes and can include homeowner’s association dues where applicable. It is for all properties owned and not just the subject property. If you were renting in the previous twenty four

months, we have to confirm those payments were made on time.

Exceptions for poor credit or a derogatory property charge history can be given, but the missed payments must be for a short period of time and tied to a very specific life event that can be documented, like loss of a spouse, divorce, loss of employment, or major medical issue.

When one does not meet the income requirements, even with assistance from retirement assets or the reverse mortgage proceeds, the loan will be denied. If the issue is more credit or property charge payment history related, the loan can be offered with a life expectancy set-aside (LESA) for taxes and insurance.

A LESA is a portion of the reverse mortgage proceeds that are segregated from the line of credit for the purposes of paying future taxes and insurance on the property. The amount is the youngest borrower's life expectancy times the property taxes and insurance, roughly speaking. It can be a large amount of money if the property charges are significant, and can cause there to be a shortfall at closing if there isn't enough loan proceeds to cover the amount. LESA's are good for those that have trouble paying their bills on time, or would prefer the ease of having those charges paid by the lender.

# REVERSE MORTGAGE COUNSELING: WHY, WHAT AND HOW



Once prequalified for the loan, you will have to complete a reverse mortgage counseling session with a HUD-approved nonprofit agency. This step is required by law, to make sure that you are making a well-informed decision.

These meetings are not generally closed so you should be allowed to bring any advisors with you that you choose.

Many counseling agencies encourage homeowners who are seeking a reverse mortgage to share the decision with loved ones, especially heirs.

## What You Can Expect

A reverse mortgage counseling session can be in-person or over the phone, but due to the limited number of counselors it's almost always by phone. The details of the meeting, and its length, will depend on the agency you use and your specific situation.

The counselor will discuss some or all of the following:

- How reverse mortgages work
- Financial and tax considerations of a reverse mortgage
- Payment options
- Costs associated with a reverse mortgage
- Your financial situation and goals
- Possible alternatives to a reverse mortgage
- Potential impact on government benefits and any benefits not being utilized that are available

These reverse mortgage counseling sessions are your best chance to get clarification and unbiased answers, so be ready for your meeting. Here are some ways you can prepare:

- Review the requirements for a reverse mortgage, and make sure you qualify.
- Request a proposal to see if you qualify for the amount of money you need.
- Write down a list of your questions and concerns

Counselors are not financial advisors, tax specialists or lenders, but they will help you decide if a reverse mortgage is your best option. At the end of your counseling session, you will receive a certificate of counseling, which must be signed and provided to your loan officer to proceed with the loan.

## How to Find an Approved Reverse Mortgage Counselor

There are several nationwide agencies you can call for an over-the-phone reverse mortgage counseling session, but



if you would rather sit down with a counselor in person, there is an outside possibility there is someone in your area who is HUD-approved.

Here are a couple of ways to find them:

- Ask us for a list of counselors, nationwide and/or specific to your city.
- HECM Counselor Roster – Search online or call (800) 569-4287 to find a local HECM counselor.

## Application & Document Collection

Around the time you have called to schedule your counseling session, we will deliver to you the loan disclosures for signature or e-signature. Each state can have specific requirements on the application process, so it is not always the same.

The documents needed to process your loan are going to vary greatly depending on how complex your situation is. Everyone has to provide proof of DOB/SSN, evidence of homeowner's insurance, proof of income or assets, and a bank statement verifying income deposits.



# THE APPRAISAL: DETERMINING VALUE FOR A REVERSE MORTGAGE

The value of your home is one of the biggest factors in determining how much money you can get from a reverse mortgage, so an appraisal is the next step. Our company is required to order the appraisal, and you will need to pay part or all of the appraisal fee, depending on the circumstances. Due to the Dodd Frank bill in 2010, no one who will benefit from the loan can have a say in the appraiser chosen.

## How Value is Determined

The appraiser will collect public records to find at least four recent, comparable home sales – ideally within the past six months, but mandatorily within the past year. Comparisons analyze factors such as:

- Style and age of the house
- Bed and bath count
- Lot size
- Square footage
- Condition and upgrades
- View
- Other unique features of the property

This helps the appraiser determine what your house might actually sell for in the current market, which is the purpose of the sales comparison approach.

# How to Prepare for a Home Appraisal

Since the appraisal is a big factor in the value of your reverse mortgage, you want to be especially prepared. Here are three things you can do to make the most of this opportunity:

- 1. Get a list of comparable sales from a Realtor** – You want to educate yourself on the likely value of your home, and be prepared to provide the appraiser with some data to get him or her started.
- 2. Have copies of receipts ready** – Make sure you can offer paperwork on any repairs or upgrades that have been completed in recent years, especially in the kitchen or bathroom. A new roof or upgraded appliances will increase the value of the home.
- 3. Clean, and lock up pets** – Appraisers work very hard to be unbiased, but they're human. The first impression of the home's exterior sets the tone. A clean house seems more likely kept in good repair, and annoying pets can get on a person's bad side.

You have to drive this process because you are the only one who will be able to speak with the appraiser before the results are in. Our company cannot have any contact with the appraiser in order to keep the process impartial.

## Repair Issues

An appraisal is not an inspection, but the appraiser is required to note any defects that put the home below the FHA's minimum property standards. Just to be safe, appraisers will often cite any and all deficiencies. Some common repair issues include:

- Missing CO detectors or fire alarms (must meet local code)
- A compromised roof
- Peeling exterior paint
- Wood rot
- Electrical problems
- Lack of a handrail



Repair issues can cause serious delays. Repairs that involve health or safety concerns must always be completed upfront, and verified by a second visit from the appraiser, before the close of the loan. Taking care of obvious repairs before the appraisal will save time, and the cost of a follow-up visit.

A benefit of a reverse mortgage, however, is that other repairs can be completed after the mortgage is closed, with funds from a “repair set-aside” from your proceeds. HUD allows this delay for repairs because they recognize that reverse mortgages are sought by seniors who may not have the necessary funds for all the repairs their home needs.

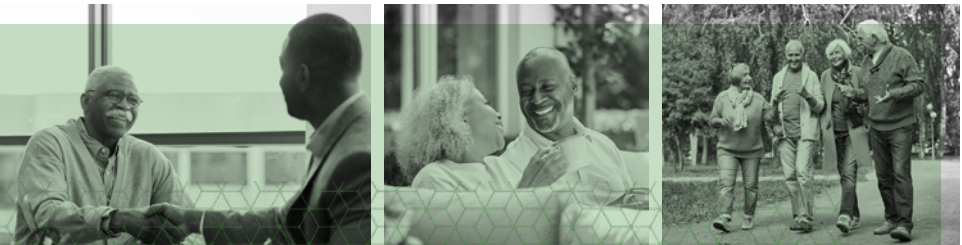
To close the reverse mortgage with the repair set-aside, you will need a contractor’s written estimate for the cost of the required repairs. Your lender will hold 150-200% percent of that estimate from the proceeds of the reverse mortgage. You will have one year to complete the repairs, after which an appraiser will be sent to the home to verify, and then the funds will be released. Any remaining funds in the repair set-aside will be returned to the line of credit of the reverse mortgage.

# PROCESSING AND UNDERWRITING

The lender will start processing paperwork while they are waiting on your appraisal, including:

- Flood certification
- Title report, showing ownership and any liens
- Mortgage payoffs
- An update to your homeowner's insurance policy

Once the appraisal is in, and your loan terms update, your file is then sent to the underwriter for approval. The underwriter will verify all the information and make sure the details of your reverse mortgage complies with laws and regulations. He or she will also make the final determination on the qualification rules. If there are any final issues – such as unpaid liens or bankruptcies – they will be dealt with and cleared up here.



The initial underwriting process can take around three business days, and any conditions on the underwriting report must then be addressed. The time it takes to address the conditions can vary greatly depending on what the issue is. Once all of the conditions have been addressed and reviewed, the mortgage will be labeled “clear to close.”

# CLOSING AND FUNDING

The lender will schedule a closing date and time with you and a notary or attorney (depending on the state), when the loan application is approved. Before signing the closing paperwork, make sure you review the final settlement statement. The non-purchase reverse mortgage goes into a three-day “right of rescission” period after it’s been signed, which gives you three business days to cancel the reverse mortgage without penalty.

Funds are paid out after the right of rescission period is over. If you are using your reverse mortgage to pay of an existing mortgage, those funds will be sent to the lender.

If you chose to receive fixed payments, those funds are distributed on the first business day of each month. Lines of credit are established about 3-4 weeks after the loan funds.

You can change your payment plan at any time by simply requesting a new payment plan agreement form. There may be a small, administrative fee for the change, but it may not exceed \$25. If you do change your payment plan, the change will go into effect on the first business day of the following month.



# LIFE OF LOAN ISSUES

The loan servicer will handle any issues you have during the life of your reverse mortgage loan. They will help with the following:

- Sending monthly statements
- Advancing funds from your line of credit, upon request
- Sending monthly payments, if you choose this payout option
- Collecting any voluntary repayments
- Sending out the annual certificate of occupancy that you must sign and return

The loan servicer will also help monitor your payments for property taxes, insurance, and any association fees, but you are still ultimately responsible for those balances unless you are subject to a LESA. Once funds in a LESA run out, you are responsible for your own property charge payments again.



# REVERSE MORTGAGE REPAYMENT

Your reverse mortgage loan is due at any one of the following “maturity events:”

- The last borrower or eligible non-borrowing spouse on the loan dies
- The property is sold
- The property is no longer your primary residence
- The last borrower on the loan has not resided in the property for twelve consecutive months

The lender can also collect repayment if terms of the agreement are violated, such as:

- The property is allowed to deteriorate, except for reasonable wear
- Property taxes, insurance, or homeowner’s association dues are not paid
- The title to the home is altered without permission from the servicer

When the loan becomes due, you or your heir(s) will owe the amount of money received, the financed closing costs, plus the interest and mortgage insurance, if applicable.

There are three ways that the loan can be repaid:

- 1. Private Resources** - If the surviving spouse, an heir, or your estate has sufficient funds to repay the loan, a simple repayment can be issued.
- 2. Refinance the Debt** - If the party repaying the loan wants to retain the property, the debt can be repaid

using borrowed funds. The servicer will need to see some kind of evidence of the attempt to take out a new loan.

- 3. Sale of the Home** - If the party repaying the loan cannot come up with the full loan balance, the home must be sold, and the proceeds used to repay the debt. If the proceeds from the sale exceed the amount of the loan, the remaining balance belongs to the heir(s). If the property sells for less than the outstanding debt, all of the proceeds must be given to the lender and the debt will be considered paid in full. In these instances, the responsible party can speak with the servicer about issuing them the deed in lieu of foreclosure.

Immediately upon the loan being called due, the party primarily responsible for repayment will receive a thirty-day notice from the loan servicer. This person will need to communicate their efforts to the servicer within the first thirty days, and they will have six months to repay the loan in full. They can request up to two, ninety-day extensions, that must be approved by HUD.

The loan servicers may initiate foreclosure in rare circumstances, such as:

- The party responsible for repayment does not respond to the thirty-day notice
- The ninety-day extension(s) expire
- There are no heirs to help pay off the loan

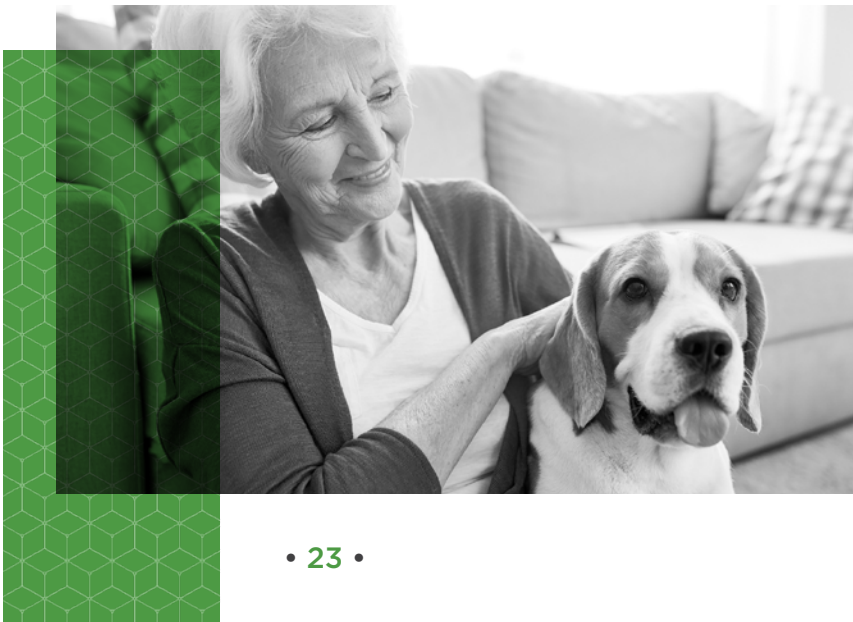
The servicer, if given authority by HUD, is willing to work with a surviving spouse or heir, and extend repayment deadlines. There must be evidence that they are working diligently to repay the loan.



# GUARDING YOUR GOLDEN YEARS

No specific home equity utilization strategy is the perfect fit for every family or every situation, so a reverse mortgage may or may not be right for you. Take the time to compare a reverse mortgage with other home loan options, and speak to other close family members who want the best for you (and whose financial futures may be impacted).

The reverse mortgage process – from the application and counseling, to the right of rescission and flexible payment options – is designed to make sure that you are making the best decision for you and your family. Take advantage of the opportunities and safeguards at each step along the way, and you will be able to enjoy your golden years confidently and comfortably.



# ABOUT US

Premier Reverse Mortgage was founded by Matt Neumeyer in January 2012. After spending many years in the reverse mortgage industry working for others, Matt decided it was time to form a company around his own ideals. These ideals are the core of Premier Reverse Mortgage:

**Experience** - The reverse mortgage industry is a fairly young one, with growth being recent. Every loan officer we have on staff focuses on reverse mortgages only and has significant experience.

**Integrity** - Premier Reverse Mortgage is a member of the National Reverse Mortgage Lender's Association (NRMLA), and follows their code of conduct. Companies offering reverse mortgages that are not members of NRMLA aren't held to the same professional standards.

**Personal Service** - A positive of working with Premier Reverse Mortgage is the personal service that you will receive throughout the loan process. We are a small business that is customer-focused, which is lost at some of the larger organizations in the industry. No obstacle is too large for us to work through, even if it is labor-intensive to solve.





This document was created by Premier Reverse Mortgage and does not come from HUD/FHA nor has it been approved by any government agency.



[premierreverse.com](http://premierreverse.com)

[info@premierreverse.com](mailto:info@premierreverse.com)

800.996.5361

**Premier Reverse Mortgage, LLC NMLS #876293 – to view a mortgage company’s licensing, visit [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org).**

*Premier Reverse Mortgage (PRM) arranges mortgage loans with third party providers. AZ Mortgage Broker License #MB-1036605. CA loans made or arranged pursuant to a CA Finance Lenders Law License #60DBO49918. GA Residential Mortgage Licensee #33765. NJ Licensed by the NJ Department of Banking and Insurance. Licensed Mortgage Broker – NYS Department of Financial Services. Licensed by the Pennsylvania Department of Banking 76502. Licensed by the Virginia State Corporation Commission MC – 6654.”*