Many older homeowners have substantial equity in their homes, but do not qualify for typical home equity loans because they do not have the income or resources required to make the monthly payments. A reverse mortgage allows an older homeowner to access their equity without requiring a monthly payment. The money can be used for any purpose and can help older homeowners live independently in their own homes.

The most common reverse mortgage is the federally insured Home Equity Conversion Mortgage (HECM). There is also an increasing variety of private or “proprietary” reverse mortgages; such as the Fannie Mae Home Keeper Mortgage.

Who is eligible?

To qualify for a reverse mortgage,

- All borrowers must be at least 62 years old,
- Must occupy the home as their principal residence
- Must have a relatively small amount of debt against the property (typically, no more than half the value of the property).
- Any Mortgage debt against the property must be paid prior to securing a reverse mortgage or paid with the proceeds from the reverse mortgage.

How much can be borrowed?

The amount one can borrow through a reverse mortgage varies with individual situations, but will never be the whole value of the home. The HECM “principal limit,” or maximum loan amount, is based on the age of the youngest borrower, the expected interest rate, and the home value (subject to lending limits set by the U.S. Department of Housing and Urban Development). In the HECM program, loan amounts are usually in the range of 30-80% of the home value, with younger borrowers receiving the lower and older borrowers receiving the higher amounts.

Proprietary loans, such as the Home Keeper, use different formulas to calculate loan amounts, usually provide a lower percentage of home value, and may have higher or no limits on home value.

What payment options are available?

- The tenure (lifetime) option makes equal monthly loan advances to the borrower for an unlimited time, as long as they live in the home.
- The term option makes equal monthly payments for a fixed period of time, selected by the borrower.
- The line-of-credit option allows the borrower to draw up to a maximum amount of cash when needed and in amounts of his or her choosing.
- The modified tenure and modified term options combine a monthly payment with a line of credit.

The HECM offers all of these options and the freedom to switch from one option to another. Proprietary loans may offer more limited choices.

Is a Reverse Mortgage the Best Alternative?

Only you know your particular circumstances and can make that decision. Anyone who applies for a reverse mortgage must receive face-to-face counseling from a state-certified housing counselor who will help them understand the way a reverse mortgage works and look for alternatives. There is no charge for this service.

Counseling must include information about other available options to meet the homeowner’s needs, the financial implications, costs and benefits of a reverse mortgage, possible tax consequences, and possible effects on public benefits, the effect on the borrower’s estate and heirs, and when the loan will become due. Counselors are trained to look at your situation as a whole and help you find options that meet your needs.

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What is a reverse mortgage?

A reverse mortgage is a loan secured by home equity. There are no limitations as to how money from a reverse mortgage may be used. No payment is due until the homeowner moves to a different principal residence, sells the home, or dies. However, interest accrues and compounds on the borrowed funds until the loan is paid off. This causes the loan balance to grow larger and larger as time passes.

During the loan period, the owner remains responsible for property taxes, homeowner's insurance and home maintenance. As long as any borrower lives in the home and meets these obligations, they cannot be forced to sell or vacate the home, even if the loan balance exceeds the home's value.

When the last remaining borrower dies, sells or moves, the loan balance plus accrued interest becomes due and payable. A surviving borrower or the heirs may sell the home, repay the loan and keep any balance; or may repay the loan using other funds and keep the home. If the loan exceeds the value of the property, the borrower or their heirs will owe no more than the value of the property and no additional financial claims can be made against the heirs or the estates property

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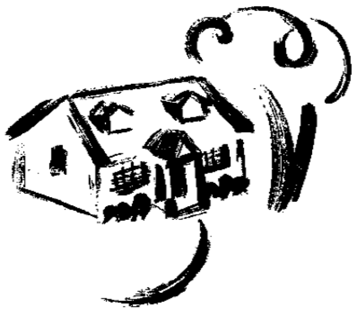


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