Reverse Mortgages

# What is It?

A reverse mortgage allows an older (at least age 62) homeowner (or husband and wife homeowners) to convert the equity in a home into cash without selling the home or incurring additional mortgage payment obligations. In a reverse mortgage, the lender makes payments (loan amounts) to the homeowner. [In a regular or forward mortgage, the homeowner makes payments (loan repayments) to the lender.] The homeowner in a reverse mortgage generally does not have to repay the reverse mortgage loan until the homeowner dies, sells the home, or moves from the home.

A retired homeowner may have substantial equity in his home. Equity is the value of the home in excess of any outstanding mortgage balance. How can the homeowner utilize the equity to provide income for retirement?

The homeowner could sell the house, but then the homeowner would need to live somewhere else. This might be appropriate where the homeowner wishes (or is forced to) to downsize, move to a different location (perhaps, closer to family or to a warmer climate), or move into specialized housing (e.g., a retirement home or village, or assisted living).

The homeowner might refinance the home with a regular mortgage or a home equity loan. However, a retired homeowner might not qualify for a regular mortgage or a home equity loan since the retired homeowner no longer has wage income. Furthermore, with a regular mortgage or home equity loan, the retired homeowner would be required to make monthly payments to repay the loan, which may be a burden in retirement.

In the appropriate circumstances, the reverse mortgage allows the homeowner to access the home equity. The homeowner is not required to have wage income to qualify for a reverse mortgage. Furthermore, the homeowner is not required to make payments to the lender. There is considerable flexibility in how payments are received by the homeowner. The homeowner does incur certain expenses with regard to the reverse mortgage. However, such amounts are generally financed as part of the reverse mortgage and the loan does not have to be repaid until the homeowner dies, sells the home, or moves from the home. And the homeowner can continue to live in the home.

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# What Types of Reverse Mortgages are there?

Mortgages are of three basic types:

1. *Single purpose reverse mortgage* loans are provided by some state and local government agencies and non-profit lenders. They are generally low cost. However, they are usually available only to persons with moderate to low incomes. Also, the amount borrowed must generally be used for home repairs or improvements.

2. *Home equity conversion mortgages (HECMs)* are federally insured reverse mortgages regulated by the U.S Department of Housing and Urban Development (HUD). They are provided through private lenders who must be FHA (Federal Housing Authority) approved. The amount borrowed can generally be used for any purpose.

Most reverse mortgages are HECMs. HECMs generally offer the largest reverse mortgage loan amount available for homes of average value. Most of the discussion about reverse mortgages in this chapter relates principally to HECMs. The aggregate maximum amount of outstanding HECMs may be subject to a cap.

3. *Proprietary reverse mortgages* are offered by some private lenders. They are not insured by the federal government. Proprietary reverse mortgages are used almost exclusively for jumbo loans, i.e., large loans that exceed the dollar limits for HECMs. They are usually the most expensive type of reverse mortgage.

# How does it Work?

1. With respect to a HECM (see above), a homeowner, at least age 62, meets with a counselor from a HUD approved housing counseling agency. The counselor provides information to the homeowner about the loans’ costs, financial implications, and alternatives. (It appears that proprietary reverse mortgages sold to Fannie Mae by private lenders require similar counseling.)

2. The homeowner applies for a reverse mortgage. This is generally with a private lender who is HUD approved to offer HECMs.

3. The homeowner incurs expenses, much like with a regular mortgage, such as origination fees and other closing costs. The lender sets the fees and costs, but some fees and costs are capped by HUD.

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There are a couple of special fees with reverse mortgages. A HECM mortgage is federally insured. This insures the homeowner against the lender’s default. It also insures that the homeowner (or the homeowner’s estate) owes no more than the value of the home, even if the value of the home declines and on the triggering date (i.e., death, sale of home, or move from home) is less than the mortgage balance owed by the homeowner. The cost of this insurance is 2% of the maximum claim amount that may be borrowed at origination, plus a 0.5% annual premium paid monthly for the life of the loan based on the mortgage balance. In addition, the lender can charge a monthly service fee.

If the homeowner wishes, all of these costs can be wrapped up into the reverse mortgage, and no out of pocket payments are required by the homeowner. All costs wrapped up into the reverse mortgage do accrue interest expense. The yearly insurance charge and monthly service fee are periodic expenses and do not accrue interest until after the expense is incurred.

4. A maximum claim amount (total amount of equity that can be borrowed) is determined. The maximum claim amount is the lesser of the equity in the home (an appraisal is required) or the current dollar amount limitation for FHA insured houses in the geographic region that the home is located in (FHA insurance limit).

5. The maximum amount that can be borrowed is determined by the age of the borrower (youngest borrower where husband and wife are co-owners and borrowers), the maximum claim amount (see above), and the expected average interest rate. Generally, the more valuable the home, the older the homeowner, and the lower the interest rate, the more that can be borrowed. This amount can change as the homeowner gets older and interest rates change.

6. The homeowner selects a payout method. The homeowner can change the payout method at a later time for a fee. There are five payout methods.

*Tenure Option.* Fixed monthly payments (similar to an annuity) are made to the homeowner until the homeowner dies, moves, or sells the home. This option can provide monthly income for life.

*Term Option.* Fixed monthly payments (similar to an annuity) are made to the homeowner for a number of years, or until the homeowner dies, moves, or sells the home. Payments are generally higher than with the tenure option since payments will stop when the term ends. This option can provide monthly income for a period of years.

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*Line of Credit Option.* The homeowner can request a loan advance at any time (prior to death, moving, or selling the home) up to the amount of the principal limit. Interest is charged only on amounts after they are actually borrowed. This option is extremely flexible and can provide funds for uncertain future needs.

*Modified Tenure Option.* This is a combination of the tenure option and the line of credit option. The homeowner sets aside a portion of the principal limit to be used as a line of credit. The balance provides fixed monthly payments to the homeowner until the homeowner dies, moves, or sells the home. This option can provide monthly income for life, plus funds for uncertain future needs.

*Modified Term Option.* This is a combination of the term option and the line of credit option. The homeowner sets aside a portion of the principal limit to be used as a line of credit. The balance provides fixed monthly payments to the homeowner for a number of years, or until the homeowner dies, moves or sells the home. This option can provide monthly income for a number of years, plus funds for uncertain future needs.

7. The homeowner picks an interest rate method. The interest rate is adjustable (it is not fixed) and is adjusted either monthly or annually. The interest rate is based on the 1-year U.S. Treasury constant maturity rate (the HECM rate). With monthly adjusting, the interest rate for the next month is equal to the HECM rate for the current month plus 1.5%. With annual adjusting, the interest rate for the next year is equal to the HECM rate for the current year plus 3.1%. However, the interest rate is subject to a cap for the maximum amount that the interest rate can increase for any period and a cap for the maximum interest rate that can ever be charged for the life of the reverse mortgage.

8. If a balance is owed on a prior mortgage on the home, the mortgage must be paid off immediately. Funds from the reverse mortgage can be used for this purpose.

9. The mortgage balance goes up with a reverse mortgage, as payments are made (additional amounts are borrowed) and interest and expenses incurred. [With a regular mortgage, the account balance goes down as payments are made.]

10. The homeowner continues to live in the home and maintain it, and pays home insurance and property taxes.

11. When the homeowner dies, moves, or sells the home, the reverse mortgage becomes due and payable. If the home decreases in value and is worth less than the account balance, the amount owed by the homeowner (or his estate or heirs) is limited to the value of the home. If the home is worth more than the account balance, the homeowner (or his estate or heirs) are entitled to the excess.

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# When is the use of such a Device Indicated?

1. The homeowner is at least age 62.

2. The homeowner has substantial equity in the home, with low or no mortgage balance owed.

3. The homeowner lives in the home and plans on living in the home for a substantial period of time.

4. The homeowner would like to access the equity in the home to provide cash for other needs, such as for retirement income.

# What are the Requirements?

1. The homeowner must meet with a counselor from a HUD approved housing counseling agency, prior to applying for a reverse mortgage.

2. The homeowner (or homeowners in the case of husband and wife co-owners) must be at least age 62.

3. The homeowner (or homeowners in the case of husband and wife co-owners) must live in the home as the primary residence. If the homeowner dies, moves, or sells the home, the reverse mortgage becomes due and payable. A homeowner could live in a nursing home or medical facility for up to 12 months without causing the reverse mortgage to become due and payable.

4. The home must generally be a single-family dwelling or a two to four unit property that the homeowner owns and occupies. Townhouses, detached homes, FHA-approved units in condominiums, and some manufactured homes are eligible.

5. The home must meet FHA property standards and flood requirements.

6. The homeowner must continue to maintain the home and pay home insurance and property taxes.

# Advantages

1. A reverse mortgage allows access to home equity without selling the home or incurring additional mortgage payment obligations.

2. The homeowner can continue to live in the home.

3. There is no risk of default by virtue of not making payments (since the homeowner does not make monthly mortgage payments). The lender (or mortgage holder) can generally get the house (or the loan amount from the house) only when the homeowner dies, moves, or sells the home. However, the homeowner must maintain the home and pay home insurance and property taxes.

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4. The homeowner does not have to make any out of pocket expenses; everything can be financed with the reverse mortgage.

5. Amount owed when reverse mortgage becomes due and payable (homeowner dies, moves, or sells home) will never exceed the value of the home.

6. Payments received by homeowner can be used for any purpose, including for retirement income.

7. Homeowner has great flexibility as to how payments are received from the reverse mortgage.

8. There are no income requirements with a reverse mortgage (as there are with a regular mortgage.)

9. There are no credit requirements.

10. Payments received by the homeowner from the reverse mortgage are not included in income for income tax purposes.

# Disadvantages

1. Reverse mortgages are expensive (even if expenses do not need to be paid out of pocket). With all the upfront expenses (origination fees, closing costs, the HECM insurance, etc.), a reverse mortgage should not be used if the homeowner plans to, or may, move sometime in the near future.

2. A reverse mortgage generally reduces home equity. To the extent home equity is used up, it is not available for other purposes and may reduce net worth. Home equity could increase if the home appreciates faster than the reverse mortgage draws down equity.

3. Interest expense from a reverse mortgage is not currently deductible. It may be deductible when the reverse mortgage becomes due and payable (homeowner dies, moves, or sells home).

4. A reverse mortgage could reduce eligibility for needs based benefits such as supplemental social security or Medicaid.

# What are the Tax Implications?

1. Payments received by the homeowner from the reverse mortgage are not included in income for income tax purposes.

2. Interest accrues on the reverse mortgage, but the interest is not deductible as it accrues. The interest may be deductible as qualified residence interest when the reverse mortgage becomes due and payable (generally, when the homeowner dies, moves, or sells the home).

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However, the reverse mortgage will generally be treated as home equity indebtedness, and the amount of home equity indebtedness on which interest is deductible is limited to $100,000. (If the mortgage was partly used to pay off a mortgage that was acquisition indebtedness, part of the mortgage may be treated as acquisition indebtedness which has a $1,000,000 limit.) Furthermore, the homeowner would need to itemize deductions on the income tax form in order to claim the deduction. Also, the allowance of itemized deductions phases out if the homeowner has certain levels of adjusted gross income. For alternative minimum tax purposes, the deduction of interest would be limited to the interest on the amount of indebtedness prior to refinancing and would be severely limited.

# What are the Social Security, Medicare, and Medicaid Implications?

1. A reverse mortgage does not affect regular social security and Medicare benefits.

2. The retention of payments from a reverse mortgage may affect qualification for benefits under supplemental social security, Medicaid, and other needs based programs. Also, a reverse mortgage generally reduces home equity and home equity may be excluded from counted assets in some needs based programs.

# How it is Done – An Example

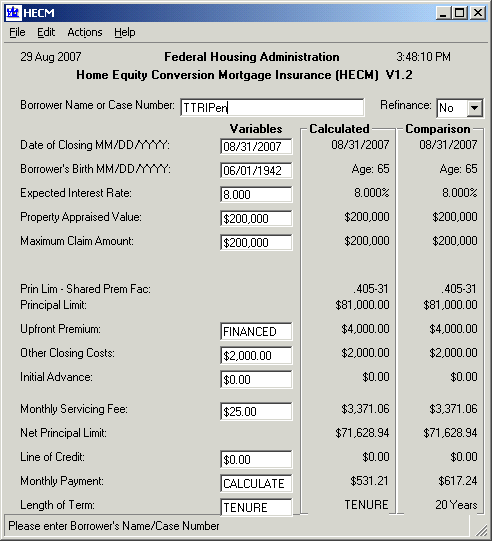
Mary is age 65 and retired. She owns and lives in a single family residence with an appraised value of $200,000. Her mortgage has been paid off and she has $200,000 of equity in the home. She plans on living in the home the rest of her life, if possible. She would like to get some of the equity out of the home to provide some additional retirement income. It has been suggested to her that a reverse mortgage might be just the right thing.

Mary meets with a counselor from a HUD approved housing counseling agency. The counselor provides information to Mary about the loans’ costs, financial implications, and alternatives. Mary likes that she can borrow the home equity without incurring additional mortgage payment obligations and that she can even wrap the expenses into the reverse mortgage and thus incurs no out of pocket expenses. And she can continue to live in the home for the rest of her life, if she wishes.

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Mary is interested in seeing what monthly payments she could receive from the reverse mortgage for life, or alternatively, for the next 20 years. She would wrap up all costs into the reverse mortgage. Assume the upfront premium would be $4,000, other closing costs would be $2,000, and the monthly serving fee would be $25. With payments for 20 years, Mary could receive monthly payments of $617.24 from the reverse mortgage. With payments for life, Mary could receive monthly payments of $513.21 from the reverse mortgage. See FHA calculation of payment amounts in Figure 1.

**Figure 1**



Reverse Mortgages

Figure 2 shows an FHA projected amortization schedule for the reverse mortgage for 20 years. Figure 3 shows an FHA projected amortization schedule for the reverse mortgage for life. In both projected amortization schedules, interest is assumed to stay constant at 8% and the home is assumed to grow at a constant 4% appreciation rate. However, actual interest and appreciation rates will vary over time from those projected.

**Figure 2**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Federal Housing Administration  Home Equity Conversion Mortgage (HECM) Program (V1.2)  Amortization Schedule - Annual Projections | | | | | | | | | | | |
| Borrower Name/Case Number: | | | | TTRIP | | Refinance: | | | | No | |
| Age of Youngest Borrower: | | | | 65 | | Initial PropertyValue: | | | | $200,000 | |
| Expected Interest Rate: | | | | 8.000% | | Beg. Mortgage Balance: | | | | $6,000 | |
| Maximum Claim Amount: | | | | $200,000 | | Expected Appreciation: | | | | 4% | |
|  | | | |  | | Initial Line Of Credit: | | | | $0.00 | |
| Initial Principal Limit: | | | | $81,000 | |  | | | |  | |
|  | | | |  | | Monthly Payment: | | | | $617.24 | |
| Initial Advance | | | | $0.00 | |  | | | |  | |
|  | | | |  | | Monthly Servicing Fee: | | | | $25.00 | |
| Financed Closing Costs: | | | | $6,000 | |  | | | |  | |
| NOTE: Actual interest charges and property value projections may vary from amounts show. Available credit will be less than projected if funds withdrawn from line-of-credit. | | | | | | | | | | | |
| **Yr** | **Age** | **--------------Annual Total--------------** | | | | | **---------End of Year Projections--------** | | | | | |
| **Loan Balance** | **Line of Credit** | **Principle Limit** | | **Property Value** | |
| **SVC Fee** | **Payment** | **MIP** | **Interest** | |
| 1 | 65 | 300 | 7,407 | 53 | 842 | | 14,601 | 0 | 88,159 | | 208,000 | |
| 2 | 66 | 300 | 7,407 | 97 | 1,558 | | 23,963 | 0 | 95,952 | | 216,320 | |
| 3 | 67 | 300 | 7,407 | 146 | 2,336 | | 34,152 | 0 | 104,433 | | 224,972 | |
| 4 | 68 | 300 | 7,407 | 199 | 3,184 | | 45,242 | 0 | 113,664 | | 233,971 | |
| 5 | 69 | 300 | 7,407 | 257 | 4,107 | | 57,312 | 0 | 123,711 | | 243,330 | |
| 6 | 70 | 300 | 7,407 | 319 | 5,111 | | 70,449 | 0 | 134,646 | | 253,063 | |
| 7 | 71 | 300 | 7,407 | 388 | 6,204 | | 84,747 | 0 | 146,547 | | 263,186 | |

Reverse Mortgages

**Figure 2**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Yr | Age | --------------Annual Total-------------- | | | | ---------End of Year Projections-------- | | | |
| **Loan Balance** | **Line of Credit** | **Principle Limit** | **Property Value** |
| **SVC Fee** | **Payment** | **MIP** | **Interest** |
| 8 | 72 | 300 | 7,407 | 462 | 7,393 | 100,309 | 0 | 159,501 | 273,713 |
| 9 | 73 | 300 | 7,407 | 543 | 8,688 | 117,247 | 0 | 173,599 | 284,662 |
| 10 | 74 | 300 | 7,407 | 631 | 10,097 | 135,681 | 0 | 188,944 | 296,048 |
| 11 | 75 | 300 | 7,407 | 727 | 11,630 | 155,746 | 0 | 205,645 | 307,890 |
| 12 | 76 | 300 | 7,407 | 831 | 13,300 | 177,583 | 0 | 223,822 | 320,206 |
| 13 | 77 | 300 | 7,407 | 945 | 15,116 | 201,351 | 0 | 243,606 | 333,014 |
| 14 | 78 | 300 | 7,407 | 1,068 | 17,094 | 227,220 | 0 | 265,139 | 346,335 |
| 15 | 79 | 300 | 7,407 | 1,203 | 19,246 | 255,375 | 0 | 288,574 | 360,188 |
| 16 | 80 | 300 | 7,407 | 1,349 | 21,588 | 286,019 | 0 | 314,082 | 374,596 |
| 17 | 81 | 300 | 7,407 | 1,509 | 24,137 | 319,372 | 0 | 341,844 | 389,580 |
| 18 | 82 | 300 | 7,407 | 1,682 | 26,912 | 355,672 | 0 | 372,060 | 405,163 |
| 19 | 83 | 300 | 7,407 | 1,871 | 29,932 | 395,182 | 0 | 404,947 | 421,369 |
| 20 | 84 | 300 | 7,407 | 2,076 | 33,219 | 438,183 | 0 | 440,740 | 438,224 |
| 21 | 85 | 300 | 0 | 2,279 | 36,466 | 477,229 | 0 | 479,698 | 455,753 |
| 22 | 86 | 300 | 0 | 2,482 | 39,715 | 519,726 | 0 | 522,099 | 473,983 |
| 23 | 87 | 300 | 0 | 2,703 | 43,250 | 565,979 | 0 | 568,247 | 492,943 |
| 24 | 88 | 300 | 0 | 2,944 | 47,098 | 616,321 | 0 | 618,475 | 512,660 |
| 25 | 89 | 300 | 0 | 3,205 | 51,286 | 671,112 | 0 | 673,143 | 533,167 |
| 26 | 90 | 300 | 0 | 3,490 | 55,844 | 730,747 | 0 | 732,643 | 554,493 |
| 27 | 91 | 300 | 0 | 3,800 | 60,805 | 795,652 | 0 | 797,402 | 576,673 |
| 28 | 92 | 300 | 0 | 4,138 | 66,205 | 866,295 | 0 | 867,885 | 599,740 |
| 29 | 93 | 300 | 0 | 4,505 | 72,082 | 943,182 | 0 | 944,598 | 623,730 |
| 30 | 94 | 300 | 0 | 4,905 | 78,478 | 1,026,865 | 0 | 1,028,092 | 648,679 |
| 31 | 95 | 300 | 0 | 5,340 | 85,440 | 1,117,944 | 0 | 1,118,966 | 674,626 |
| 32 | 96 | 300 | 0 | 5,814 | 93,017 | 1,217,075 | 0 | 1,217,872 | 701,611 |

Reverse Mortgages

**Figure 3**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Federal Housing Administration  Home Equity Conversion Mortgage (HECM) Program (V1.2)  Amortization Schedule - Annual Projections | | | | | | | | | | | |
| Borrower Name/Case Number: | | | | TTRIP | | Refinance: | | | | No | |
| Age of Youngest Borrower: | | | | 65 | | Initial PropertyValue: | | | | $200,000 | |
| Expected Interest Rate: | | | | 8.000% | | Beg. Mortgage Balance: | | | | $6,000 | |
| Maximum Claim Amount: | | | | $200,000 | | Expected Appreciation: | | | | 4% | |
|  | | | |  | | Initial Line Of Credit: | | | | $0.00 | |
| Initial Principal Limit: | | | | $81,000 | |  | | | |  | |
|  | | | |  | | Monthly Payment: | | | | $531.21 | |
| Initial Advance: | | | | $0.00 | |  | | | |  | |
|  | | | |  | | Monthly Servicing Fee: | | | | $25.00 | |
| Financed Closing Costs: | | | | $6,000 | |  | | | |  | |
| NOTE: Actual interest charges and property value projections may vary from amounts show. Available credit will be less than projected if funds withdrawn from line-of-credit. | | | | | | | | | | | |
| **Yr** | **Age** | **--------------Annual Total--------------** | | | | | **---------End of Year Projections---------** | | | | |
| **Loan Balance** | **Line of Credit** | **Principle Limit** | | **Property Value** |
| **SVC Fee** | **Payment** | **MIP** | **Interest** | |
| 1 | 65 | 300 | 6,374 | 50 | 796 | | 13,520 | 0 | 88,159 | | 208,000 |
| 2 | 66 | 300 | 6,374 | 89 | 1,422 | | 21,705 | 0 | 95,952 | | 216,320 |
| 3 | 67 | 300 | 6,374 | 131 | 2,103 | | 30,613 | 0 | 104,433 | | 224,972 |
| 4 | 68 | 300 | 6,374 | 178 | 2,844 | | 40,309 | 0 | 113,664 | | 233,971 |
| 5 | 69 | 300 | 6,374 | 228 | 3,650 | | 50,862 | 0 | 123,711 | | 243,330 |
| 6 | 70 | 300 | 6,374 | 283 | 4,528 | | 62,348 | 0 | 134,646 | | 253,063 |
| 7 | 71 | 300 | 6,374 | 343 | 5,484 | | 74,848 | 0 | 146,547 | | 263,186 |
| 8 | 72 | 300 | 6,374 | 408 | 6,524 | | 88,454 | 0 | 159,501 | | 273,713 |
| 9 | 73 | 300 | 6,374 | 478 | 7,656 | | 103,263 | 0 | 173,599 | | 284,662 |
| 10 | 74 | 300 | 6,374 | 555 | 8,887 | | 119,380 | 0 | 188,944 | | 296,048 |
| 11 | 75 | 300 | 6,374 | 639 | 10,228 | | 136,922 | 0 | 205,645 | | 307,890 |
| 12 | 76 | 300 | 6,374 | 730 | 11,688 | | 156,015 | 0 | 223,822 | | 320,206 |

Reverse Mortgages

**Figure 3**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Yr | Age | --------------Annual Total-------------- | | | | ---------End of Year Projections--------- | | | |
| **Loan Balance** | **Line of Credit** | **Principle Limit** | **Property Value** |
| **SVC Fee** | **Payment** | **MIP** | **Interest** |
| 13 | 77 | 300 | 6,374 | 830 | 13,276 | 176,795 | 0 | 243,606 | 333,014 |
| 14 | 78 | 300 | 6,374 | 938 | 15,005 | 199,412 | 0 | 265,139 | 346,335 |
| 15 | 79 | 300 | 6,374 | 1,055 | 16,886 | 224,028 | 0 | 288,574 | 360,188 |
| 16 | 80 | 300 | 6,374 | 1,183 | 18,934 | 250,820 | 0 | 314,082 | 374,596 |
| 17 | 81 | 300 | 6,374 | 1,323 | 21,163 | 279,981 | 0 | 341,844 | 389,580 |
| 18 | 82 | 300 | 6,374 | 1,474 | 23,589 | 311,718 | 0 | 372,060 | 405,163 |
| 19 | 83 | 300 | 6,374 | 1,639 | 26,229 | 346,261 | 0 | 404,947 | 421,369 |
| 20 | 84 | 300 | 6,374 | 1,819 | 29,103 | 383,858 | 0 | 440,740 | 438,224 |
| 21 | 85 | 300 | 6,374 | 2,014 | 32,231 | 424,777 | 0 | 479,698 | 455,753 |
| 22 | 86 | 300 | 6,374 | 2,227 | 35,635 | 469,313 | 0 | 522,099 | 473,983 |
| 23 | 87 | 300 | 6,374 | 2,459 | 39,340 | 517,786 | 0 | 568,247 | 492,943 |
| 24 | 88 | 300 | 6,374 | 2,711 | 43,372 | 570,544 | 0 | 618,475 | 512,660 |
| 25 | 89 | 300 | 6,374 | 2,985 | 47,761 | 627,965 | 0 | 673,143 | 533,167 |
| 26 | 90 | 300 | 6,374 | 3,284 | 52,538 | 690,461 | 0 | 732,643 | 554,493 |
| 27 | 91 | 300 | 6,374 | 3,609 | 57,737 | 758,481 | 0 | 797,402 | 576,673 |
| 28 | 92 | 300 | 6,374 | 3,962 | 63,396 | 832,514 | 0 | 867,885 | 599,740 |
| 29 | 93 | 300 | 6,374 | 4,347 | 69,555 | 913,091 | 0 | 944,598 | 623,730 |
| 30 | 94 | 300 | 6,374 | 4,766 | 76,258 | 1,000,790 | 0 | 1,028,092 | 648,679 |
| 31 | 95 | 300 | 6,374 | 5,222 | 83,554 | 1,096,240 | 0 | 1,118,966 | 674,626 |
| 32 | 96 | 300 | 6,374 | 5,718 | 91,495 | 1,200,128 | 0 | 1,217,872 | 701,611 |
| 33 | 97 | 300 | 6,374 | 6,259 | 100,137 | 1,313,198 | 0 | 1,325,521 | 729,676 |
| 34 | 98 | 300 | 6,374 | 6,846 | 109,544 | 1,436,263 | 0 | 1,442,685 | 758,863 |
| 35 | 99 | 300 | 6,374 | 7,486 | 119,782 | 1,570,206 | 0 | 1,570,206 | 789,217 |

Reverse Mortgages

Mary notes that in the projected amortization schedules there is a beginning mortgage balance of $6,000 from the upfront costs wrapped into the reverse mortgage. She notices that in addition to payments to Mary, there are service fees, insurance premiums, and interest that accumulates in the loan balance. In contrast with a regular mortgage, the loan balance increases over time. The line of credit is $0 because this option was not selected. The difference between the property value and the loan balance for any year is Mary’s projected equity in the home. The projected amortization schedules use a maximum age of 99.

Mary’s advisor points out, for comparison purposes, that if Mary were to elect the reverse mortgage payments for 20 years option and set aside the difference in payments for the 20 year option and the life option ($617.24 - $513.21 = $86.03) in a side fund that earned 5% annually after tax and then essentially annuitized that side fund at the end of 20 years with monthly payments of about $513.21, the payments would last for about another 6 to 7 years (to age 91 or 92).

Mary is in good health and probably will live much longer than normal life expectancy. She would like to live in the house for life, if at all possible. She realizes that if she is unable to live in the house, the house can be sold and she will be entitled to any value in excess of her loan balance at the time. She would like the payments to continue to her as long as she is living in the house. Mary decides that she will select the payments for life option.

# Where can I find out more about it?

1. The U.S Department of Housing and Urban Development (HUD), www.hud.gov.

2. Federal Housing Authority (FHA) (part of HUD), www.fha.gov.

3. National Reverse Mortgage Lenders Association (NRMLA), www.reversemortgage.org.

4. Fannie Mae, www.fanniemae.com.

5. AARP, www.aarp.org.