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# THE REVERSE MORTGAGE INSIDER

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## Who's a Reverse Mortgage Candidate?

Recently the CBS Early Show featured a financial speaker segmenting several types of senior homeowners who might find a reverse mortgage useful:

**The Need-Based Candidate**, who has a chronic monthly cash flow crunch or is facing a major expense such as a medical or disability need, foreclosure threat, or divorce settlement. Just paying off an existing mortgage with the reverse loan will free up dollars for other needs.

**The Financial Planner Type**, who may want to use the tax-free cash from a reverse mortgage instead of dipping into their retirement funds for whatever they need or want. Many seniors fear their savings may not last, or wish to keep their tax bracket lower.

**The Enhanced Lifestyle Candidate**, who might like to use the available funds to make life easier and more enjoyable, perhaps by purchasing a second home, traveling, remodeling, or gifting children or grandchildren.



## Foreclosure Prevention with a Reverse Mortgage

Rising numbers of home foreclosures are taking place in Minnesota, as well as nationwide. The elderly have not been immune from the lure of low initial “teaser” rates of adjustable rate mortgages and other unsuitable home financing programs for those on limited, fixed incomes. Seniors who are falling behind in their mortgage payments may avoid foreclosure with a reverse mortgage.

An ideal prospect is a homeowner, age 62 and older, who has built up considerable equity through the years and is more recently unable to keep up with mortgage obligations. They may be experiencing financial stress due to ballooning interest rates or any number of unforeseen life events. Once they fall behind, their mortgage debt can increase significantly and

quickly. Thus, it is important for the senior to look into their options sooner rather than later.

Unlike a home equity loan or conventional mortgage, a reverse mortgage does not require any repayment as long as the borrower lives in the home. Any existing lien or mortgage must be paid off with the proceeds of the reverse mortgage and, when there is enough equity to do this, the home can be saved from the foreclosure process.

The best course of action is always to first contact the lender to see if a repayment schedule can be worked out. But a reverse mortgage can sometimes save the day. If you know someone who might be a candidate, please urge them to investigate their options.

## Tax Tidbits

- Loan advances from a reverse mortgage are tax-free and do not affect the borrower's tax bracket. The funds are considered to be a loan by the IRS, not reportable income.
- Because you are not making payments on your reverse mortgage, the mortgage interest accruing is not deductible; once the loan comes due and the interest is actually paid you or your heirs can claim a tax deduction.
- Closing costs for a reverse mortgage are not tax deductible.
- Reverse mortgages do not impact entitlement programs such as Medicare. SSI and Medicaid are not affected if care is taken to spend all the cash in the month it is taken.
- The homeowner is responsible to keep payment of property taxes and homeowners insurance premiums current.

## IN THE NEWS

### LEGISLATION ADVANCES THROUGH CONGRESS

The long-awaited FHA Modernization legislation may reach congress for a vote and on the President's desk this summer. Its centerpiece authorizes \$300 billion in FHA refinancing to help homeowners having trouble meeting their mortgage payments. President Bush has threatened to veto the bill as too expensive. The latest version would impact reverse mortgages by setting one national FHA lending limit of a proposed \$550,000, opening the FHA reverse mortgage (HECM) to co-ops and a plan for home purchases, and reducing costs on homes over \$200,000.

### CROSS-SELLING DISALLOWED

Many of the major reverse mortgage lenders and the National Reverse Mortgage Lenders Association (NRMLA) have taken a vigorous stand against the potential misuse of the reverse loan when seniors

are pressured to take out reverse mortgages to invest the proceeds, often into deferred annuities. Deferred annuities may make the invested funds unavailable without paying a substantial withdrawal penalty if the senior later has a pressing need to access the money. The reverse mortgage by itself offers flexibility. Funds left in a line of credit grow without accruing interest charges, remaining readily accessible and tax-free.

### COUNSELING FUNDS SHORTFALL

Although reverse mortgage counseling is mandated by HUD, funds to pay the independent counselors have been running short. HUD recently issued a directive to permit counseling agencies to charge a fee for the counseling session (capped at \$125.) Agencies are permitted to accept payment from lenders and HUD allows lenders to include the fee as part of the borrower's closing costs. Many counselors are still not charging, but this is the wave of the future. No lender is allowed to steer borrowers to any particular counselor and the reverse is also true.

## Same Experienced Service, New Name

At the beginning of 2008, we launched Reverse Mortgage Marketplace, a division of Marketplace Home Mortgage, LLC. Our parent company, Marketplace Home Mortgage, has been serving the residential and commercial mortgage needs in Minnesota since 1995. In the last year Marketplace Home Mortgage has doubled in size from 40 loan officers to now over 70. The company is employee owned, based in Minnesota, and serves all of Minnesota, North Dakota, Iowa, Nebraska, and Wisconsin.

At Reverse Mortgage Marketplace, we have increased our product offerings which now include the FHA HECM fixed rate mortgage. In addition, we are continuing to add the best new and innovative products available in the expanding Reverse Mortgage industry.

We are pleased to be able to continue to offer our personal and professional guidance to our clients by helping them understand the various home equity products for seniors and their planning options.

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# THAT'S A GOOD QUESTION...

## ***What is the FHA mortgage insurance premium and why is it necessary?***

The mortgage insurance premium (MIP) guarantees that you will receive your promised loan advances and not have to repay the loan for as long as you live in your home, no matter:

- how long you live there;
- what happens to your home's value; and
- what happens to your lender.

You pay for this insurance in two parts:

- 2% of your home's value (or the lending limit in your area, whichever is less) is charged "upfront" at closing; and
- 0.5% is added to the interest rate charged on your rising loan balance.

This two-part MIP can be financed with the loan. The MIP also guarantees that your total debt can never be greater than the value of your home at the time the loan is repaid. It makes it possible for you to keep getting your monthly loan advances or growing creditline as promised even if:

- you live much longer than others your age;
- your home's value grows very little, not at all, or declines, or;
- your loan balance catches up to—and then is limited by—the value of your home.

As a government program, HECM insurance does not make a profit. The premiums paid by all borrowers are used to continue making loan advances to—and limit the amount owed by—the borrowers who live the longest and whose home values grow the least or decline.

## ***Can you explain the service fee set-aside?***

"Servicing" a loan is everything lenders or their agents do after closing the loan. This includes sending payments to you, making or changing loan advances at your request, transferring insurance premiums to the Federal Housing Administration (FHA), sending account statements, and monitoring your obligations under the loan agreement.

The servicing fee ranges from \$30 to \$35 per month.

To finance this fee with the loan, a lender is required to "set aside" a prescribed dollar amount and deduct it from your available loan funds. This total amount is **not added** to your loan balance at closing. Instead, the monthly fee is added to your loan balance each month.

The FHA requires lenders to "set aside" enough to pay the monthly fee every month until the borrower would reach age 100. Since few borrowers live to age 100, the total amount set aside overstates the actual amount likely to be charged on most loans.

On traditional "forward" mortgages, the cost of servicing is added to the interest rate. So you may not have seen this fee before, but you've paid it.

## **What is a Reverse Mortgage?**

A reverse mortgage enables homeowners, age 62 and older, to convert part of the equity in their home into tax-free\* cash. There are no income or credit qualifications and no monthly payments to make.

The property must be your primary residence. The amount that can be borrowed is based on a formula using the youngest borrower's age, home value, and current interest rates.

Even seniors with a current mortgage may qualify, but the proceeds must first be used to repay any debt on your home. The remaining dollars can be taken as: a lump sum, monthly checks, or a line of credit which makes cash available when you need it and grows in value through the years. You may use these funds for any purpose.

You always retain the title and can continue to live in and own your home. You remain responsible for home maintenance, property taxes, and insurance.

Repayment is due—of any funds advanced to you, the closing costs and accrued interest—when the last borrower permanently leaves the home. The amount due will never exceed the value of the home, regardless of the loan balance. Any remaining equity always belongs to you or your heirs.

You are required to take part in a counseling session with an approved housing counselor who will review the loan and discuss all options available to you.

\*Consult your tax advisor

Marketplace Home Mortgage, LLC is pleased to now offer reverse mortgages to our senior homeowners with the same attentive service you have always come to expect from us. We have built a strong reputation as an outstanding mortgage banking firm serving the lending needs of individual homeowners and homebuyers, real estate professionals and builders throughout Minnesota.



## Say No to Credit Cards

You can slow and even stop the flow of credit card offers coming in your mail. Call the toll free number 1-888-567-8688 or visit [www.optoutprescreen.com](http://www.optoutprescreen.com). Both are operated by the three major credit bureaus and are free of charge. You will have to provide your name, address and social security number. Per the Federal Trade Commission website, this information will be used to process your request to opt out.

You can also opt out other family members if you are their legal guardian. You may still get offers from charities, alumni associations and companies you do business with, such as your current credit card company.

Opting out lasts for 5 years. You can make it permanent by following up your opt out request with a written request. If you have joint credit with a spouse or partner, you both have to opt out. If you change your mind and want a new credit card, you can always “opt in”.

## Reverse Mortgage Marketplace

A DIVISION OF MARKETPLACE HOME MORTGAGE, LLC

### Reverse Mortgage Specialists



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