



Using Home Equity as a Retirement Asset

Reverse Mortgage Basics



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Thank you for exploring your reverse mortgage options with Service First Mortgage. 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 Service First Mortgage Branch Manager, Richard Woodward. He 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:

- + 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**



Benefits of a Reverse Mortgage

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 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.

+ 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 Service First Mortgage Branch Manager, Richard Woodward 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 Service First Mortgage Branch Manager, Richard Woodward 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 Service First Mortgage Branch Manager, Richard Woodward 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 Situation

Mary and John qualify for \$165,465 in reverse mortgage funds. They opt to receive \$500 per month, for as long as they 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.

Case Studies Cont.

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 Situation

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.



Choose from our other specialized reverse mortgage products that best suit your lifestyle.

Proprietary jumbo HomeSafe® reverse mortgage.



The home financing tool for people who want to retire as well as they've lived.

HomeSafe® was designed specifically for owners of high-value homes. If you're 62 or older, now you can access even more of your home's equity and put it to work wherever you want — giving you more control over your assets, investments and cash flow.

- + Loan amounts of up to \$2.25 million – significantly higher than a HECM allows
- + No mortgage insurance premium
- + No initial disbursement limitation – you take the full amount of your funds at closing
- + Condominiums appraised at \$500,000 or more do not require FHA approval

HECM for Purchase

A reverse mortgage can even help you buy a home that better suits your lifestyle.

Instead of paying all cash or taking out a traditional mortgage, you can finance part of the purchase price using a reverse mortgage—so there are no monthly mortgage payments.* This can help you to:

- + Spend less money out of pocket. Preserve more of your savings, instead of spending it on your home.
- + Get more home for your money. A HECM for Purchase reverse mortgage could help you to more comfortably afford upgrades, or a more expensive home.
- + “Right-size” your home, relocate to a more suitable neighborhood, or move closer to family.



* 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.

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 with Service First Mortgage, a licensed Branch Manager, Richard Woodward will serve as your guide through the entire loan process. Here's a basic overview of what you can expect. To learn more, contact us today.

Education

Your Service First Mortgage Branch Manager, Richard Woodward 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.

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.)

Application

Your Branch Manager, Richard Woodward 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.

Property Appraisal, Loan Processing and Approval

Your Branch Manager, Richard Woodward 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.

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



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This material is not from HUD or FHA and has not been approved by HUD or any government agency.

FHA insures fixed interest rate Home Equity Conversion Mortgages (HECMs), as well as annual and monthly adjustable interest rate HECMs. Fixed interest rate mortgages are limited to the Single Disbursement Lump Sum payment option where there is a single, full draw at loan closing and the mortgage does not provide for future draws by the mortgagor under any circumstances. Adjustable interest rate mortgages provide for five, flexible payment options and allow for future draws. The disbursement of mortgage proceeds during the first 12-month disbursement period is subject to an initial disbursement limit as determined by requirements set by the Secretary.

The HomeSafe® reverse mortgage is a proprietary product of Finance of America Reverse LLC (FAR), and is not affiliated with the Home Equity Conversion Mortgage (HECM) program.

HomeSafe® is currently available in AZ, CA, CO, CT, DC, FL, HI, IL, LA, NJ, OR, PA, RI, SC, TX, VA, WA.

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