REVERSE MORTGAGE WORKS
A Division of Banc of California, N.A.

MYTHS OF REVERSE MORTGAGES

1. A reverse mortgage sells the home to the bank

Lenders are not in the business of owning homes — they wish to make loans and earn interest. The homeowner keeps the title to the home in their name. What the lender does is add a lien onto the title so that the lender can guarantee that it will eventually get paid back the money it lends.

2. Heirs will not inherit the home

The estate inherits the home as usual but there will be a lien on the title. The lien is whatever proceeds were received from the reverse mortgage plus accrued interest.
For example, let's assume someone takes out a reverse mortgage and owes $50,000 after 5 years. Then the homeowner passes away and the estate sells the house for $250,000. The lender gets $50,000 and the estate inherits $200,000.

A reverse mortgage is a "non-recourse" loan which means that the HECM borrower (or his or her estate) will never owe more than the loan balance or value of the property, whichever is less; and no assets other than the home must be used to repay the debt. Non-recourse means simply that if the borrower (or estate) does not pay the balance when due, the mortgagee's remedy is limited to foreclosure and the borrower will not be personally liable for any deficiency resulting from the foreclosure.

3. The homeowner could get forced out of the home

The HECM reverse mortgage was created specifically to allow seniors to live in their home for the rest of their lives. Because the homeowner typically receives payments from a reverse mortgage instead of making payments to a lender, the homeowner can never be evicted or foreclosed on for non-payment. However, it is the homeowner's responsibility to maintain the home in good condition, keep property insurance current, and pay the property taxes.

4. Someone can outlive a reverse mortgage

The reverse mortgage becomes due when all homeowners have moved out of the property for 12 consecutive months or passed away.

5. Social Security and Medicare will be affected

Government entitlement programs such as Social Security and Medicare are not affected by a reverse mortgage. However, need-based programs such as Medicaid can be affected. To remain eligible for Medicaid, the homeowner needs to manage how much is withdrawn from the reverse mortgage in one month to ensure they do not exceed the Medicaid limits. You should consult with a qualified financial advisor to learn how a reverse mortgage could impact eligibility of some government benefits.

6. The homeowner pays taxes on a reverse mortgage

The proceeds from a reverse mortgage are not considered income and are not taxable. Furthermore, the interest on reverse mortgage can be tax deductible when it is repaid. Consult a tax advisor for more information.

7. There are large out-of-pocket expenses

A majority of closing costs are normally paid for using loan proceeds. Typically the only out-of-pocket expense is the cost of the counseling and appraisal. If requested, some lenders will agree to finance the counseling fee into the loan.

8. A reverse mortgage is similar to a home equity loan

The only similarity between a reverse mortgage and a home equity loan is that both use the home's equity as collateral.

- Any homeowner can apply for a home equity loan. A homeowner must be at least age 62 to be eligible for a reverse mortgage.
- A home equity loan must be repaid in monthly payments over 5 or 10 years. A reverse mortgage is typically not paid back until the homeowner moves out of the property for 12 consecutive months or passes away.*
- A home equity loan requires stable income and a solid credit score. A reverse mortgage does not consider a minimum income or credit score.
- A home equity loan that charges no closing costs may have a higher interest rate over the life of the loan. A reverse mortgage charges upfront closing costs but generally has lower interest over the course of the loan.

* Reverse mortgage borrowers must still make property tax and insurance payments.

Contact your local Mortgage Banker for more information!

The content of this document was not provided by or endorsed by HUD or the FHA. Other loan programs are available that may meet your financial needs.

Mark Anthony Erskine
CRMP, CSA
First Vice President
NMLS 819525 BRE ID 01421196
1420 Rocky Ridge Road, Suite #250,
Roseville, CA 95661
(877) 212-4002
Mark.Erskine@bancofcal.com
www.reversemortgageworks.com

Only work with a Local Certified Reverse Mortgage Professional

Mark Anthony Erskine has more than 20 years of experience as a Financial Services Professional, Investment Banker and Private Business Owner. As a licensed Securities, Insurance and Mortgage Broker, Mark has provided comprehensive Wealth Management to thousands of individuals and businesses. He is a Certified Senior Advisor (CSA), and a Certified Reverse Mortgage Professional (CRMP).