***Frequently Asked Questions***

**Q. What is the** [**Step-by-Step**](http://srfreedom.com/page4.html) **Procedure to Get A Reverse Mortgage?**

A. After visiting with a [Reverse Mortgage Specialist](http://srfreedom.com/page5.html), the homeowners will talk to an FHA approved counselor to get a third party perspective of the intended reverse program. The counselor will discuss the financial needs and desires of the homeowners and give them possible alternatives to doing a Reverse Mortgage. This counseling insures that homeowners have been given the opportunity to look at all the aspects of the reverse mortgage from a disinterested third party. A Reverse Mortgage is the only home equity loan that requires third party counseling.

**Q. How Is The Money From A Reverse Mortgage Paid To Me?**

A. Proceeds can either be taken in a lump sum at closing, in monthly payments, as a line of credit that can grow, or as a combination of any two of these.

**Q. What Is The Difference Between a Reverse Mortgage and An Equity Mortgage?**

A. An equity mortgage is a mortgage that was obtained to get cash or a line of credit by the homeowner. The typical equity mortgage requires the same qualifications as any other mortgage such as verification of income, assets, and credit history. Equity mortgages are also set up to have monthly payments, and there are differences in the way that equity mortgages are calculated and differences in the way that the lender is protected through a deed of trust. A Reverse Mortgage is actually a type of equity mortgage, but requires no income, asset, or credit qualification, and there are no monthly payments required. The qualification process only requires that the reverse mortgage borrower be able to show they can pay their taxes and insurance on their home.

**Q. How Can I Use The Proceeds From A Reverse Mortgage?**

A. Reverse Mortgage proceeds can be used for anything without limitation. The only thing that requires any type of approval from the lender is if the borrower were to want to use the proceeds to purchase an annuity. This is because the Reverse Mortgage itself can be structured as an annuity at no cost to the homeowner.

**Q. Can I Use A Reverse Mortgage To Purchase A Home?**

A. A reverse mortgage may be utilized to provide purchase money for a home. As an example, if a senior recently sold a home that was bigger than they needed for $200,000 and repurchased a smaller home for $125,000, they could opt for a reverse mortgage on the new home. If the reverse mortgage resulted in $65,000 in net proceeds, you would still have $140,000 left over from the first home sale. This would give you money to invest into an income producing retirement investment program such as mortgage backed securities that would produce a steady monthly income stream, or you can use it any way you like.

**Q. How Much Money Will I get?**

A. The amount of money available on a Reverse Mortgage is based on the value of the home and the age of the borrower. The more valuable the home or the older the borrower, the more money that will be available. Older borrowers are entitled to more money because they will occupy the home for a shorter period of time than younger borrowers. Your reverse mortgage specialist can tell you approximately how much money might be available.

**Q. What If I Already Have A Mortgage?**

A. As long as there is adequate equity in your home, the Reverse Mortgage can be used to pay off your existing mortgage, and any additional available funds will be paid to you. By paying off an existing mortgage, the homeowner actually creates additional monthly cash flow since they no longer have their monthly mortgage payment!

**Q. What Types Of Properties Qualify For A Reverse Mortgage?**

A. Reverse Mortgages can be done on 1 to 4 family homes, certain manufactured homes, condos, townhouses, and co-ops. Manufactured homes must have been built after 1976 and must be on an approved foundation and located in the original location as when they were first purchased from a dealer. Mobile Homes must also be taxed as real estate on deeded property.

**Q. How Long Does It Take To Do A Reverse Mortgage?**

A. The amount of time needed to do a Reverse Mortgage is dependent upon several factors. A homeowner with a home that is free and clear, with no title issues, and has an existing survey can expect to see the process go very quickly. If there are any title issues, or any existing liens, or a survey is required, it could take longer, but usually from 2 to no more than 4 weeks, with most taking less than 3 weeks on average following application and counseling.

**Q. Where Does The Money For Reverse Mortgages Come From?**

A. Reverse Mortgages are funded by mortgage lenders who then sell private mortgage backed securities on the open market that are insured by FHA. The United States government does not fund reverse mortgages.

**Q. What Must The Homeowner Do To Qualify?**

A. Homeowners must be at least 62 years of age and must live in their home. In certain states, the home must be their homestead. There are no credit or income qualifications, and seniors can even do a reverse mortgage if they are in chapter 13 bankruptcy, as long as title to the home is not affected and the court gives them permission to do the reverse mortgage. In some instances, the proceeds of a reverse mortgage must be directed to pay off some of the debts included in a chapter 13 BK, at the direction of the court. The home must meet FHA appraisal standards as well.

**Q. Who Should Take Advantage Of A Reverse Mortgage?**

A. Seniors who either have a need to get money out of their home, or who would like to put the equity in their home to work should consider a reverse mortgage. Seniors who are in need of home repairs, need to pay medical expenses, want to eliminate monthly mortgage payments, pay off student loans, or just want to enjoy retirement should consider a reverse mortgage.

**Q. Are There Instances When A Reverse Mortgage Is Not A Good Idea?**

A. Seniors who have a comfortable retirement income and have adequate savings to pay for any unforseen contingencies might not need to do a reverse mortgage. If you intend to sell your home or move within 2 or 3 years, the loan closing costs may make doing a reverse inadvisable.

**Q. How Are Lenders Able To Do A Mortgage With No Monthly Payments?**

A. All reverse mortgages accrue interest. They are only available to seniors because the older a homeowner is, the shorter the actual term of the mortgage will be. The interest rates for reverses are adjusted either monthly or annually based on either the 10 year Treasury Bills or the LIBOR rate, or they may be fixed rate loans. Basically, investors such as Ginnie Mae are making reasonable interest on Reverse Mortgages and mortgage backed securities from reverse mortgages are selling well, they just don't collect monthly payments.

**Q. Are The Proceeds From A Reverse Mortgage Taxable?**

A. None of the proceeds from a reverse mortgage are considered taxable income.

**Q. Will The Reverse Mortgage Affect Social Security, Medicare, or Medicaid?**

A. Because the proceeds of a reverse mortgage are actually a loan, there is no effect on Social Security or Medicare. If the proceeds from a reverse Mortgage are taken in the form of cash and are placed in savings or other liquid investment, they could possibly affect Medicaid, but not very often. Proceeds that are used to pay off a mortgage, repair the home, pay off loans, or spent any other way, will not affect Medicaid.

**Q. Who owns The Home After Doing A Reverse Mortgage?**

A. The home always remains the property of the homeowner.

**Q. What Happens To The Home When the Homeowner Dies Or Decides To Move?**

A. When the last remaining owner passes away, the home passes to the rightful heirs according to the homeowner's will. The heirs will need to either sell the home or pay off the Reverse Mortgage within a reasonable time period. If the heirs sell the home, any equity remaining in the home after paying the reverse mortgage goes to the heirs. As an added protection to the homeowners and the heirs, a reverse Mortgage is totally non-recourse. In other words, even if the home were to be worth less than the accrued balance on the Reverse Mortgage at the time of sale, the remaining loan balance would be forgiven. If the owners must move for any reason, the reverse Mortgage must be repaid either by refinancing or selling the home. The owners are given a reasonable time to do either.

**Q. What Happens if I Die And I Don't Have A Will?**

A. Every good Reverse Mortgage Specialist should ask if you have a will as part of the application process, and if you don't have a will they will recommend that you get one! If you die without a will, the disposition of your home and assets become the responsibility of a court appointed trustee and your heirs end up with little say in the disposition of your property. Most probate trustees are mainly interested in settling the estate the fastest way possible and as a result your property may be sold for far less than it is really worth and your heirs may end up with nothing, or may end up having to actually pay to settle other debts you may have left behind. A will is something that is too inexpensive not to have, and instructions and forms are available online.

**Q. Can I Make Payments On A Reverse Mortgage?**

A. A reverse mortgage, or HECM (Home Equity Conversion Mortgage) is a flexible loan. Borrowers can make payments on a reverse mortgage if they like, or they can pay interest only, or not make payments at all. It is up to the homeowner to decide. Payments are always applied toward mortgage insurance premiums, financed fees, and accrued interest first before they will actually begin to reduce any principle.

**Q. Since There Are No Payments, Is There Possibility Of Foreclosure While In The Home?**

A. The only way that a home can be foreclosed on while the borrower is still alive and living in the home is through what is known as a technical default. Grounds for a technical default exist if the homeowner fails to maintain the property, fails to pay taxes and assessments, fails to maintain hazard insurance on the property, or if it is discovered that the borrower committed fraud in obtaining the loan. If the borrower were to allow a superior lien to be placed against the property, the loan can be in default as well. Such liens are usually liens for ad velorem taxes, although they can be created by a Mechanic's and Materialman's lien (M & M Lien) following repairs or improvements to the house. While technically an M & M lien is not normally considered a first lien, it is a lien that must be cleared before a property can be sold, and thus acts as a first lien.

**Do I Have To Live In The House I Do The Reverse Mortgage On?**

A. The house should be your primary residence, but you are not required to live there all the time. You must occupy the home from time to time and at least sometime in any given 12 month period. There are many seniors who actually use the proceeds from a Reverse Mortgage to purchase or pay off a vacation home, and who actually spend more time at the vacation home than their primary residence.

**Q. What Happens If I Have Filed Bankruptcy Or Need To File bankruptcy?**

A. You can still do a Reverse Mortgage if you have filed Chapter 13 bankruptcy as long as there is adequate equity in your home, however, the proceeds of the Reverse Mortgage may have to be applied to some debts in the bankruptcy, depending upon the judges decision. In the case of a chapter 7 bankruptcy, it must be dismissed or discharged before doing a reverse mortgage. In a chapter 13, the judge will probably agree to the reverse mortgage, but any funds obtained might have to be applied to discharge of certain debts in the bankruptcy. If you have a prior bankruptcy that has been dismissed or discharged there are no problems associated with doing a reverse Mortgage as long as there is nothing that would affect title to the property. If you should have to file bankruptcy after taking out a reverse mortgage, the only thing that could be affected would be any benefit from the reverse mortgage which has not been paid to you, such as a line of credit. In such instances, it would be advisable to check with your BK attorney and go ahead and pull any remaining unpaid funds from the reverse mortgage prior to filing.