Spectra Mortgage

REVERSE MORTGAGE

MYTHS VS. FACTS

Reverse Mortgages are not well understood by homeowners, financial planners, investment advisors, accountants or attorneys. Reverse Mortgages can provide the following benefits:

1. Supplement and manage retirement income and increase monthly/annual cash flow;
2. Maintain and build wealth in retirement;
3. Free up capital when purchasing a new home in retirement;
4. Manage tax liabilities more efficiently and at a lower overall cost;
5. Help people remain in the home without the fear of being forced to move due to financial reasons;
6. Provide significant benefits for surviving spouses;
7. Offer a source of capital and liquidity for needs such as home improvements, healthcare costs and possibly long-term care.

Beginning in 2012 Reverse Mortgages have transformed from a product of last resort to a key component of an individual retirement income strategy. In addition, a Reverse Mortgage can provide the peace of mind that a homeowner can remain in their current home for as long as they want.

HERE ARE SOME COMMON MYTHS ABOUT REVERSE MORTGAGES ALONG WITH THE REAL FACTS.

MYTH #1: A Reverse Mortgage is a loan of last resort for desperate people.

FACT: Reverse Mortgages have evolved from strictly a needs-based product to a solution that many financial planners recommend as an important component of a comprehensive retirement plan and a retirement income strategy. Among the reasons people use a Reverse Mortgage are the ability to supplement income and increase monthly cash flow, increase access to liquid assets, extend the life of other financial assets, minimize income taxes, and gain financial flexibility in retirement.

MYTH #2: When you get a Reverse Mortgage, the Bank owns the home, you no longer do.

FACT: This is by far the number one misconception that people have. The truth is a homeowner retains title and 100% ownership with a Reverse Mortgage.

MYTH #3: The bank gets your home when you pass away and not your children or other beneficiaries.

FACT: When a homeowner passes away, their ownership interest goes into their estate or is transferred to the joint tenant the same as if there were not a Reverse Mortgage on the property.

MYTH #4: My kids or other beneficiaries will be on the hook for a big liability.

FACT: Borrowers can leave their home to their kids or other beneficiaries. When the borrowers pass away, the beneficiaries have the same options as they do if there is a regular mortgage on the property. Additionally, a Reverse Mortgage is non-recourse so the beneficiaries are never responsible under a Reverse Mortgage.

MYTH #5: The bank can foreclose if you owe more than the house is worth.

FACT: The only requirements to remain in the home are that the property taxes and insurance are paid, the HOA dues (if applicable) are current, the house is reasonably maintained, and that the last surviving borrower or an eligible non-borrowing spouse does not vacate the house for more than 12 consecutive months. Even if you owe more than the house is worth, the bank CANNOT foreclose if you continue to meet these requirements.

MYTH #6: You can only get a Reverse Mortgage if you do not currently have a mortgage.

FACT: This is not true. One of the primary benefits of a Reverse Mortgage is the ability to pay off an existing mortgage and not have monthly payments for principal and interest.

MYTH #7: My spouse can be forced to move out of the home if I die.

FACT: Borrowing spouses and eligible non-borrowing spouses can remain in the home after the co-borrower or the primary borrower passes away. The spouse only needs to continue to meet the conditions of the loan (see item 5 above). In many ways this provides more protection than a regular mortgage. This factor is one of the prime non-financial benefits of a Reverse Mortgage.

MYTH #8: I cannot ever sell my house if I have a Reverse Mortgage.

FACT: While a Reverse Mortgage is better suited for people who plan to remain in the home long-term, if circumstances change the home can be sold at any time. You simply sell the home, pay off the balance with the proceeds of the sale, and the remaining equity is yours to keep. No different than any other mortgage. A Reverse Mortgage does not have a prepayment penalty.

MYTH #9: Social Security and Medicare will be affected.

FACT: A Reverse Mortgage will not have any effect on your Social Security payments or Medicare benefits. However, there could be an impact on Medicaid or other public assistance programs that are means tested. Talk to your adviser to make sure you fully understand the impact if you have means tested benefits.

MYTH #10: I will have to pay taxes on the money I get from a Reverse Mortgage.

FACT: The proceeds from a Reverse mortgage, whether paid in a lump sum or periodically, are not subject to income tax. Consult a tax advisor for more information.

MYTH #11: Reverse mortgages are extremely costly.

FACT: The fees will vary depending on the type of Reverse mortgage selected and the strategies that are being pursued. In some (not all) cases the costs will be higher than a traditional mortgage, however, the benefits can be much more significant than a traditional mortgage as well. A cost benefit analysis can be analyzed once there is an understanding of the benefits that can be derived. In most cases, the borrower will include the costs associated in the loan amount and will not have any out-of-pocket costs.

MYTH # 12: Reverse Mortgage interest rates are higher.

FACT: Reverse mortgages are guaranteed by the Federal Housing Authority (FHA). FHA interest rates on a Reverse mortgage are very comparable to traditional mortgage rates.

MYTH #13: Reverse mortgages have hidden risks that can cost you your home.

FACT: The terms of a Reverse mortgage are very clear. A borrower must pay their property taxes, homeowner's insurance, keep the property in good repair and must maintain the property as their primary residence. These obligations are not hidden. In fact, it can be argued that a regular mortgage carries substantially more risk of losing the house than a Reverse Mortgage.

MYTH #14: A Reverse Mortgage will use up all my equity and reduce the amount available for inter-generational wealth transfers to my kids, grandkids or other beneficiaries.

FACT: The common belief is that a Reverse Mortgage reduces equity, thereby reducing the value of the estate for the homeowner's heirs and this is presented as a negative. Current research and thinking on Reverse Mortgages show this is not necessarily the case:

1. The belief that equity is reduced is often not true since the amount of the mortgage, the length of time it is outstanding, and the appreciation rate of the house could result in an increase in equity;

2. Even in situations where the equity is reduced this is not a weakness, it is by design. A basic underlying philosophy of a Reverse Mortgage is that the homeowner can make better use of their equity than their heirs or other beneficiaries. This can allow them to be self-sufficient and in a better position to fund their retirement, enhance their quality of life, and effectively manage all their assets.

3. When used in a strategic manner, the use of a Reverse Mortgage can result in a greater ability to pass on wealth since it can be used to preserve other financial assets that can continue to grow.

The desire to preserve home equity is often psychological and can lead to a less efficient retirement. Under the concept of retirement income efficiency, home equity and other financial assets are equivalent, and they should be looked at in total rather than in isolation. While taking money from the Reverse Mortgage may reduce the home-equity component, it does not necessarily reduce the overall net worth or value of the total assets since other financial assets can grow rather than be drawn down.

Retirement income efficiency is defined as: using assets in a way that allows for more spending and/or more wealth over time.

If you are interested in discussing reverse mortgages, contact

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EQUAL HOUSING LENDER

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