

The Process of Getting a Reverse Mortgage

1. Awareness

Consumer (i.e., senior homeowner or adult child) learns about reverse mortgages or particular product from article, ad, direct mail, word-of-mouth, etc.

2. Action

Consumer seeks more information, by contacting a lender, HUD, Fannie Mae, AARP, National Center for Home Equity Conversion, or financial planner.

3. Counseling

If required, consumer gets counseling. For HECM loans, counseling is mandatory and must be received from a HUD-approved “housing agency” (nonprofit counseling agency). For Fannie Mae Home Keeper loans, consumer education is required. This is usually provided by a HUD-approved housing agency, or by a Fannie Mae HomePath specialist (telephone counseling). The counselor explains different options available to consumer and makes certain he/she is eligible for a reverse mortgage [i.e., generally 62/65 or older, and own the home free and clear or nearly so].

4. Application/Disclosure

Consumer fills out application for reverse mortgage with lender, and selects payment option: fixed monthly payments for life, fixed monthly payments for finite period, lump sum payment, line of credit, or combination of monthly payments and line of credit. Consumer decides (if option is available) whether to purchase deferred annuity as part of transaction. Lender discloses to consumer the estimated total cost of the loan, as required by federal Truth in Lending Act. Lender collects money for credit report (if applicable) and home appraisal. Consumer provides lender with required documents [i.e., photo identification, verification of Social Security number, copy of deed to home, information on any existing mortgage(s) on property, counseling certificate (if required)].

5. Processing

Lender processes loan, ordering appraisal (to determine value of home), title work, lien payoffs, credit report, and verification of deposit (if required). Appraiser prepares appraisal report. If structural problems are noticed or suspected, physical inspection of home is ordered.

6. Underwriting

After receiving all pertinent information and data, lender finalizes loan parameters with consumer (i.e., payment option, annuity or not, frequency of loan interest rate adjustments), packages loan, and submits package to underwriting department, for underwriting and final approval.

7. Closing

Following approval, closing (signing) of loan is scheduled. Initial and expected interest rates are set. These affect the amount of funds available to consumer, along with the age of borrower(s) and value of the home. Closing papers and final figures are prepared. Closing costs are normally financed as part of loan. Previous payments by consumer for appraisal and credit reports may be refunded or used to reduce the closing costs financed. Lender or Title Company has consumer sign loan papers.

8. Disbursement

Consumer has three business days after signing papers in which to cancel the loan (“three-day right of rescission”). Upon expiration of this period, the loan is

disbursed — consumer gets access to the funds, in the form of the payment option selected (i.e., monthly checks, etc.). Any existing debt on the home is paid off. A new lien is placed on the home. The borrower may use the loan proceeds for any purpose. The interest rate charged on the loan generally is adjusted periodically (i.e., monthly or yearly). During the life of loan, service disburses monthly payments to the borrower (if this option is chosen), advances line of credit funds to the borrower upon request, collects any repayments by the borrower on the line of credit, and sends periodic statements to the borrower.

9. Repayment

Consumer doesn’t make any monthly mortgage payments to lender during the life of the loan. The reverse mortgage becomes fully repayable upon: the death of the borrower or last co-borrower; the sale of the home by the borrower; a permanent move from the home by the borrower (i.e., to a nursing home, or another event after which the home is no longer the borrower’s principal residence). The loan may be repaid by the borrower or borrower’s heirs/estate, with or without a sale of the home. The repayment obligation generally can’t exceed the home’s value or sales price. If a deferred annuity has been purchased as part of the transaction, this will usually provide continued monthly income to the borrower even after the sale of, or move from, the home.

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