

REVERSE MORTGAGES 101

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A reverse mortgage (also known as a home equity conversion mortgage, or HECM) is a loan that lets you convert part of the equity in your home into cash, if you're aged 62 or over.

Unlike a traditional home equity loan or second mortgage, the loan doesn't come due until you no longer live in the home as your principal residence, or you fail to meet basic obligations of the mortgage (which include paying your property taxes, having homeowner's insurance, keeping the property in good repair, etc.).

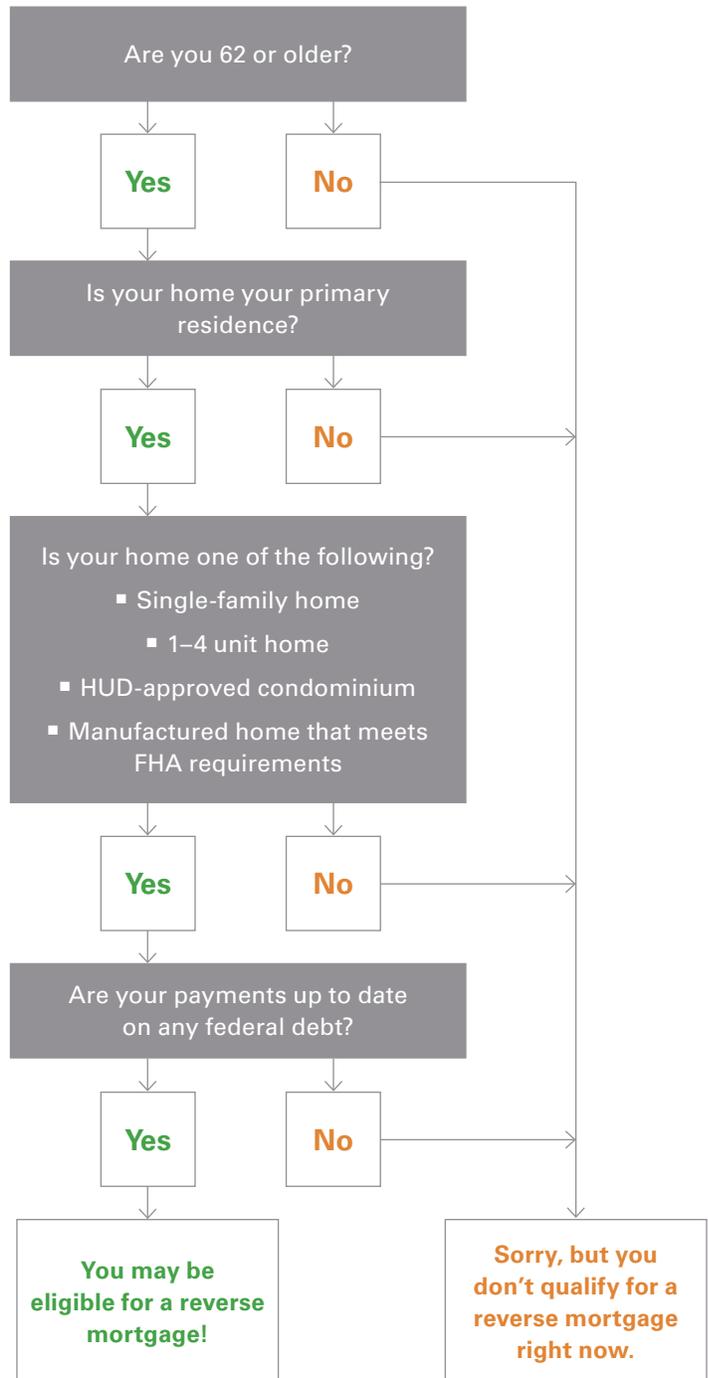
Consider a reverse mortgage if you:

- Have immediate financial needs
- Want to keep living in your home
- Need to supplement your monthly income
- Have debts to pay off
- Desire funds available for potential expenses like medical bills or major home repairs

When making financial decisions about your primary residence, it's important to involve your family members.

Potential PROS of a reverse mortgage
You can stay in your home and retain title to your property.
You can't owe more than your house is worth at the end of the loan.
You make no payments until the loan ends.
The money you receive is tax-free and not usually considered as income.
If you receive Social Security or Medicare benefits, a reverse mortgage probably won't affect them.
Potential CONS of a reverse mortgage
If you don't pay property taxes or homeowner's insurance or keep your home in good repair, you could face foreclosure.
Your heirs won't inherit your home. If it sells after your death for more than the outstanding loan balance, the difference goes to your heirs.
If you're in a financial crisis, the small amount of monthly income from a reverse mortgage probably won't be much help. It's best to consider this option as part of an overall financial strategy.
Unscrupulous companies use reverse mortgages to scam consumers out of cash. Check the list of FHA-approved lenders at www.hud.gov/program_offices/housing/sfh/lender/lenderlist .
If you live with someone whose name isn't on your mortgage, they cannot stay in your home if you move out for more than a year (e.g., for rehab from an illness) or when you die.

Are you eligible for a reverse mortgage?



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How much does it cost to get a reverse mortgage?

You pay costs similar to what you'd pay for a standard mortgage:

- The **origination fee** that compensates the lender for processing the loan.

How much? Depends on your home's value, but capped at \$6,000

- The **mortgage insurance premium** that protects you by guaranteeing two things: that you'll receive your expected payments, and that when the loan comes due, you (or your heirs) won't have to repay more than the value of the home even if the amount due is greater than the appraised value.

How much? 2% of your home's value, plus a monthly premium of .5% of the loan balance

- **Closing costs** from third parties, e.g., appraisal fee, title search/insurance, surveys, inspections, recording fees, taxes, credit checks.

How much? Varies; can be up to several thousand dollars

- A **servicing fee** to lenders and their agents who service the loan.

How much? Capped at \$35 per month

- **Interest payments:** You can choose an adjustable or fixed rate.

How much? Varies; lenders can't adjust the rate by more than 2 percentage points per year or 5 percentage points over the life of the loan

I'm interested. What are my next steps?

If you're considering a reverse mortgage, the Department of Housing and Urban Development (HUD) has two requirements:

- A **meeting with an unbiased, HUD-approved counselor** who'll help you make an informed decision by:
 - Reviewing the costs and features of different types of reverse mortgages
 - Evaluating the pros and cons of a reverse mortgage for your situation
 - Understanding the public and private benefits that could help you stay in your home longer
- To find a counselor near you, call (800) 569-4287 or visit www.hudexchange.info/programs/housing-counseling/customer-service-feedback
- A **financial assessment** that's similar to the underwriting process in a traditional mortgage.

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