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Q&A with Reverse Mortgage Expert

On Behalf of Interested Seniors, NewRetirement.com Asks Jim Mahoney Questions About Reverse Mortgages

Many times a day NewRetirement.com receives email and phone calls from Seniors who have questions about reverse mortgages. Often their questions aren't answered by articles found in the mainstream press, which typically only introduce the reverse mortgage product. Since most Seniors wouldn't have the chance, on their behalf we decided to ask an industry pioneer and expert on the subject their questions.

Jim Mahoney is the Chief Executive Officer of Financial Freedom Senior Funding Corporation, the nation's largest reverse mortgage lender and servicer. He is also the Co-Chair of the National Reverse Mortgage Lenders Association (NRMLA), a national association for firms that originate, service, and invest in reverse mortgages. NRMLA members make and service more than 90 percent of all reverse mortgages in the U.S.

NewRetirement.com: Welcome Mr. Mahoney; we're very excited to have an opportunity to talk to you about reverse mortgages. Before we get to the Seniors' questions, can you give us a little background on Reverse Mortgages?

Mr. Mahoney: I'd be happy to. Everyone's needs are unique – but a desire to enjoy a full life is universal. For many seniors, this means having enough money to supplement their retirement income, pay for health care expenses or simply establish a cash reserve for emergencies.

Many of these seniors are discovering that their homes can make their golden years a little more comfortable financially. Increasingly, the home has become a versatile and surprisingly liquid asset to spin off large amounts of cash. This cash can help an elderly homeowner cover unexpected expenses, prepare for the future, or enjoy a more fulfilling lifestyle. Reverse mortgages can be a key to unlocking their home's cash potential.

A growing number of retirees - and their adult children – have been obtaining these innovative loans in recent years to augment income, pay for home renovation and repair, or pay off existing debt.

But despite increased popularity, even some of the most basic facts about reverse mortgages are often misunderstood.

The most common misconception we hear is, "A reverse mortgage is where the bank gives you money and then takes your house." Fortunately, that couldn't be further than the truth.

When we get to your questions, I hope to help dispel some of these myths.

But first, it is important to answer: what is a reverse mortgage?

This special type of mortgage allows the senior homeowner to access the equity they've built up in their home and use the money however they wish – all while letting them stay in their home. It's called a reverse mortgage because the flow of payments is reversed from a traditional mortgage. The lender makes payments to you.

NewRetirement.com: Thanks for that background and explanation about the basic idea of a reverse mortgage. Now to the questions Seniors are asking us. Most of our visitors know this, but some do not and want to know: **"How does someone qualify for a reverse mortgage?"**

Mr. Mahoney: To qualify, you or your spouse must be 62 years old and be a homeowner. It's also important to point out that you may qualify for a reverse mortgage even if you're still paying down a first mortgage. Single-family homes,

town homes, condominiums and a co-ops are eligible.

NewRetirement.com: Once they know they qualify, the next question is usually, ***"How much money can I get?"***

Mr. Mahoney: This depends on a few factors, including your age, the value of your home, and your built-up home equity. Several websites, including Financial Freedom's, have a reverse mortgage calculator that can help you estimate how much you could receive under different products and payment options.

NewRetirement.com: We also have a [reverse mortgage calculator](#) on our site. Ours breaks out the options of: the HECM, which stands for Home Equity Conversion Mortgage; the FannieMae HomeKeeper®; and, the Cash Account™, also known as a Jumbo Reverse Mortgage. OK. So logically, then next question folks ask is: ***"How can I receive my money?"***

Mr. Mahoney: Well, there are four different ways to get money through a reverse mortgage. The consumer decides ultimately how they want to receive their money from a reverse mortgage. In general, there are three payment method options: the first is a lump-sum upfront payment; or the second a line of credit, which is the most popular; or the third, monthly payments for as long as you live in your home. Seniors can also opt to choose a combination of monthly income and line of credit.

NewRetirement.com: In a lot of the press coverage, the fees associated with a reverse mortgage are represented as a significant disadvantage relative to other loans. Perhaps as a result, a common concern is that a reverse mortgage is very costly. We frequently hear the question: ***"Aren't reverse mortgages very expensive?"***

Mr. Mahoney: Not exactly, many of the same costs of home purchase mortgages apply to reverse mortgages. A borrower can expect to be charged an origination fee, an upfront mortgage insurance fee, an appraisal fee, and certain other standard closing costs. In most cases, these fees and costs are capped and may always be financed as part of the reverse mortgage.

NewRetirement.com: OK. A closely related question we hear is: ***"How much will I owe when my reverse mortgage comes due?"***

Mr. Mahoney: Typically, the amount owed to the lender includes the amount borrowed to date, which is the loan "principal", plus the amount of accrued interest, plus the accrued insurance premiums, if applicable, plus servicing fees, and other costs and fees that were financed as part of the loan amount at origination. In no event will the repayment amount ever exceed the value of the home at the time that the loan comes due.

NewRetirement.com: A different type of concern is related to confusion about the meaning of a non-recourse loan. Our visitors often voice their confusion by asking: ***"Is it true that the bank owns your home after you get a reverse mortgage?"***

Mr. Mahoney: That couldn't be further than the truth. The borrower owns their home and title throughout the life of the reverse mortgage, just the same as with a regular home purchase mortgage. Once you permanently move out of your home or pass it to your estate, the loan must be repaid.

NewRetirement.com: And then what happens if they move out of their house after they get a reverse mortgage?

Mr. Mahoney: Once they no longer occupy their home as their principal residence for more than one year, the reverse mortgage comes due and must be repaid.

NewRetirement.com: Not surprisingly, many Seniors worry they'll end up leaving their children with this debt. They often want to know: ***"What happens when I pass my home to my heirs?"***

Mr. Mahoney: Once their home is passed to their heirs, the reverse mortgage comes due. The heirs may either pay the balance due on the reverse mortgage by replacing the reverse mortgage loan with a conventional loan and keep the home, or sell the home and use the proceeds to pay off the reverse mortgage. If they sell the home, they get to keep any excess sales proceeds.

NewRetirement.com: And finally, although most of our callers plan to use a reverse mortgage to pay off debt or fix up their homes, others ask: ***"Are there any restrictions on what I can do with my money?"***

Mr. Mahoney: Absolutely not! The only limitation is imagination. They can use the money however they wish. Seniors have used the money to supplement their income for everyday living expenses, purchase prescription drugs or in-home health care, home repairs and improvements, long-term care, gifts to their children or grandchildren and so on. Some seniors have used their money for travel, hobbies, and to continue their education.

NewRetirement.com: Well, that's great to know. Mr. Mahoney, thanks a lot for taking the time to talk with us and answer some of our visitor's top questions about reverse mortgages. This sort of reverse mortgage information can often be confusing, but you've laid it out so it's much easier to understand.

Mr. Mahoney: Thanks for giving me the opportunity to help explain to your audience some of the details about reverse mortgages.

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