



# REVERSE MORTGAGES 101

## REVERSE MORTGAGE COSTS

These four ingredients can be combined in several different ways by lenders:

- **Origination fees** – Relates to home's value – maximum is set by the government. Lenders may charge less, but larger lenders tend to charge the max. Smaller lenders may compete through lower origination fees or even credits to also offset other closing costs.
- **Other closing costs** - Fees vary and relate to typical costs for opening a mortgage – titling and appraisal charges – as well as payment for the mandatory counseling session. Some lenders provide credits to cover these costs.
- **Servicing Fees** – Lenders are allowed to charge up to \$35 per month, but it has become common to charge no explicit servicing fee, instead including it in the margin rate.
- **Margin Rate** – Ongoing cost related to outstanding balance. Affects both the initial principal limit factor and subsequent growth rate of the principal limit. The lender's margin is part of the expected rate, and a higher lender's margin implies a higher expected rate, which in turn implies a lower principal limit factor. For example, a 62-year-old with a \$400,000 home could see their initial principal limit fall from \$190,000 to \$145,600 by choosing a 4% lender's margin instead of a 3% lender's margin.

## SPENDING OPTIONS

Spending options for adjustable-rate HECM reverse mortgages include:

1. **Lump-Sum Payment:** Take out a large amount at the beginning, though not necessarily the full amount available.
2. **Tenure Payment:** Works like an income annuity, with a fixed monthly payment guaranteed to be received as long as the borrower remains eligible. Allows for additional spending from the reverse mortgage even when the line of credit has been fully used.
3. **Term Payment:** A fixed monthly payment is received for a fixed amount of time.
4. **Line of Credit:** Home equity does not need to be spent initially, or ever. A line of credit can be used for a variety of contingencies later in retirement. Distributions can be taken from the remaining line of credit until it has been used in its entirety.

QUESTIONS? Call Steve Haney, The Mortgage Doctor at: (719) 266-5500