REVERSE MORTGAGE FOR PURCHASE GUIDE

PREMIER
REVERSE MORTGAGE
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INTRODUCTION

You may have heard of a reverse mortgage. It's hard not to have these days with all of the commercials on television. Did you know that you can use a reverse mortgage to purchase a home? The Department of Housing and Urban Development (HUD) created the reverse mortgage program in 1987, but only authorized them to be used for purchasing homes beginning January 1, 2009. Most people have trouble wrapping their minds around the concept, so we'll attempt to help explain all of that in this booklet.

In its most simple form, a reverse mortgage purchase loan would provide you with a portion of the purchase price of your new home (let's say 50% for an example), and you would be required to put down the remaining amount with cash. You would move into the home and only be responsible for paying the property taxes, insurance, and any association fees.
The key difference between a reverse mortgage purchase loan and a conventional loan is the lack of required monthly principal and interest payments. The loan is accruing interest and doesn't require payment until you pass away or no longer occupy the property as your primary residence. That said, you can opt to make payments if you'd like.

WHY USE A REVERSE MORTGAGE TO PURCHASE A HOME?

In this section, we will help you identify some of the reasons why you should consider using a reverse mortgage to purchase a home vs. a conventional loan or paying cash. Reverse mortgage purchase loans are not well known, and haven't been researched by many advisors, so we want to help spark the discussion. We'll start by breaking out the three main scenarios we see most often.

Customer With Limited Financing Options

When discussing a customer with limited financing options, we are generally referring to one of two scenarios. The first is a buyer who is limited in their borrowing power by either income or credit scores. When looking to take out a conventional purchase loan, one must prove they can meet the lender's debt to income ratios. There is also a minimum credit score requirement. Qualification for a reverse mortgage isn't based on credit scores, and generally speaking, the most recent three years of credit history is what matters. In regards to the income needed, the debt to income ratios are significantly less restrictive with reverse mortgages.

The second scenario is a buyer who wants to purchase a more valuable home than the cash they have on hand, and has no desire to take on a mortgage payment. Their current monthly cash flow is fine, and they don't want to add the expense of a 30-year mortgage payment. This is a great option for a surviving spouse who believes they are stuck in a home that no longer meets their needs. They don't think they can afford a new home with what they will net from the sale of their existing residence. With a reverse mortgage, they can improve their living situation by getting a home that is a better fit for them, and not have a disruption to their monthly cash flow.

Conventional Loan Buyer

The first thing we'll do here is rule out who wouldn't be a fit for a reverse mortgage purchase. Those who want to put minimal down need to stick with a conventional loan. Reverse mortgage loan amounts can change with interest rates but are generally a much lower percentage of the home value than a conventional purchase loan.

If you are over the age of 62 and purchasing a home with a conventional loan, retired or not, our first question would be about your post-retirement income. If you are planning to live off of your savings in the not-too-distant future, will your income be sufficient to cover the suggested mortgage payment plus all other monthly expenses? If the answer is no, then you have a cash flow problem that could possibly be corrected by using a reverse mortgage for purchase. You may also be itching to retire, but taking on a conventional mortgage at this stage in your life won't allow that.

If you won't have a cash flow problem then we would ask what kind of investment you feel is better for you at this stage of your life? Should you take on a 15-, 20-, or 30-year mortgage with the goal of owning real estate outright, or at least a large equity position? Or should you be putting that money into liquid or semi-liquid investment accounts?

Cash Buyer

When speaking about cash buyers, there are generally two types in our mind. The first is one who has sufficient non-real estate assets to last the rest of their life, so they aren't really a candidate for a reverse mortgage. Why borrow money if you don't need to?

The second is one who may need to access home equity as part of their overall retirement plan if they reach their full life expectancy. There can be serious liquidity issues when one waits to access home equity until all other assets are exhausted. In the current lending environment, it is difficult to take out a sizable conventional loan with social security income and little else, not to mention higher risk of default due to taking on a new monthly payment.

Why exhaust your cash to buy a home free and clear? Leaving a sizable portion of funds in savings will allow you to use that as an emergency fund for the future.

PRODUCT CHOICE

When reverse mortgages were first created in 1987, the only option was a Home Equity Conversion Mortgage (HECM) with a variable interest rate at one set margin, which meant that every lender was offering the same exact product. The Department of Housing and Urban Development (HUD) eventually allowed a fixed rate product, and the market became more robust due to interest from investors.

Whether you are a better fit for an FHA HECM or a proprietary reverse mortgage will depend on a number of factors. Proprietary reverse mortgages are primarily used by those with home values over the FHA lending limit, but there are several niches they fill in addition to that, like the condo market. Proprietary reverse mortgages are also non-recourse loans, meaning the only collateral for the loan is the home. They have an above market interest rate, but no mortgage insurance is required, and the closing costs are much lower as a result.

THE LOAN DETAILS

There is little more important than knowing what your cash out of pocket will look like for a reverse mortgage purchase. We'll explain the various costs below, but it is important to get a detailed estimate before you make an offer on a property. There can be major variations in fees from state to state, and the loan amounts are based on age and interest rate. You should ask us to prequalify you once you determine this is the financing route you want to take.

Upfront Fees

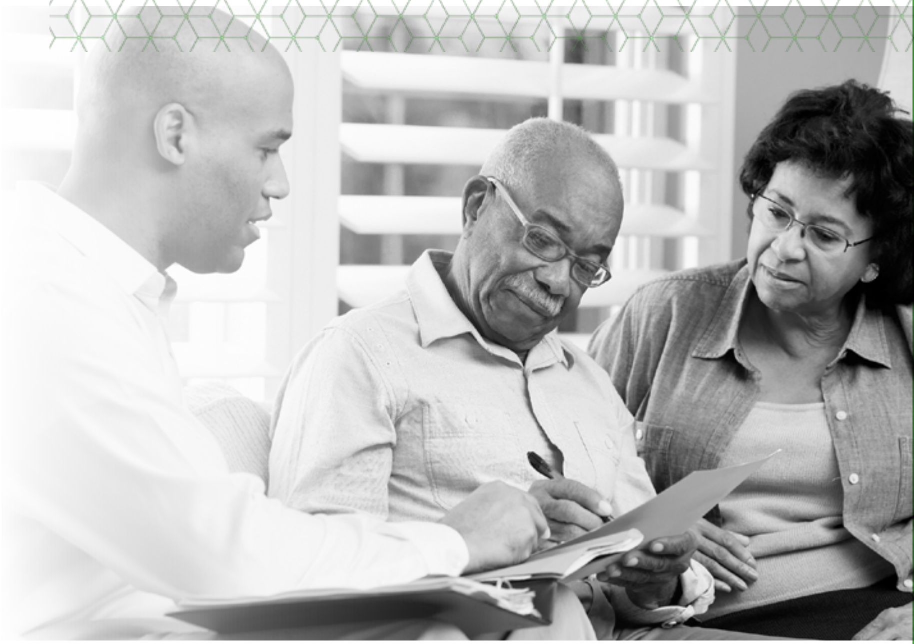
The upfront costs, outside of having to put down an earnest money deposit with your agent, are typically counseling ($150-$200), appraisal ($500-$600), and a property inspection ($400-$600). The counseling fee can often be financed and sometimes the session can be had for zero fee. A home inspection is not required but is often recommended on existing construction.

Financed Fees

The financed fees can be broken into four groups; lender, title, insurance, and state fees.

Lender fees – document preparation, credit report, flood cert, and loan registration fee (MERS).

Title fees – title search, settlement, endorsements, lender's title insurance, and owner's title insurance fee.



Insurance – FHA upfront mortgage insurance premium & the first-year insurance policies for the property (hazard, flood, wind, etc.).

State fees – recording fee & any taxes on the transaction.

Seller Paid Fees

Beginning in 2024, HUD started allowing the seller, builder, or real estate agent to contribute up to six percent of the sales price towards closing costs. In the past they had severely limited what the seller could pay for, but now the credits allowed are more similar to what you see in the forward mortgage market. Given this change in policy, it is advantageous for you to offer a higher purchase price and have the seller contribute to your closing costs. The risk in doing this is that the property must appraise for the purchase price or the loan amount will be reduced.

PROPERTY RELATED ISSUES

In this section we'll discuss property related issues that are advantageous to know about before entering into a contract. It's important to know the rules before you put down an earnest money deposit. Please keep in mind you must be buying the property as your primary residence.

Retaining Other Property

It is very common to sell your previous residence before closing, liquidating the equity for your new home's down payment. We'll need to get a copy of the previous property's settlement statement and document the funds.

When you retain your previous residence, you must qualify to carry that home plus the new home. You will need to prove that you have the income to make all housing payments (principal, interest, taxes, insurance, and association fees). This also applies to someone who owns a second home, investment property, etc.

Acceptable Property Types

- Single family residences
- 2- to 4-Unit properties
- Townhomes
- Condos (must be FHA approved to use a HECM)
- Manufactured homes on owned land (must meet HUD's guidelines)

The following property types are ineligible for a reverse mortgage – co-op units, unapproved condos, and manufactured homes on leased land.

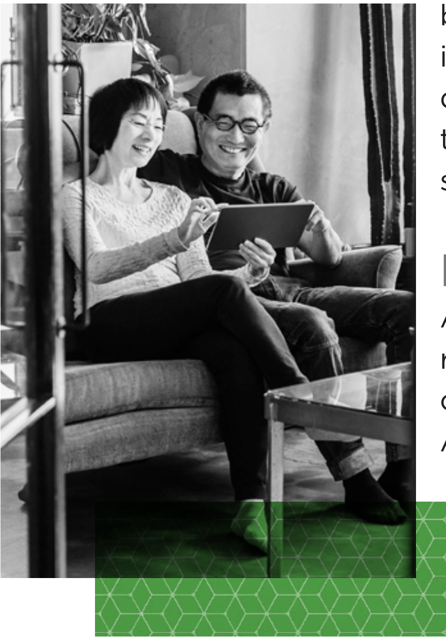
New Construction

With new construction properties, the property will need to be appraised in a completed state. That could mean waiting until the property is fully constructed to have it appraised, or completing the appraisal earlier, and doing a final inspection when the home is completed. At PRM, we do everything in our power to close as near to the date the certificate of occupancy is issued as possible. We recognize that builders care greatly about this issue.

Flipping

HUD has regulations in place to prevent property flipping. A property that was purchased in the past ninety days is not eligible for a reverse mortgage purchase, with a few exceptions. The exceptions include sales from the following parties: government agencies, non-profit organizations approved by HUD, Fannie Mae, Freddie Mac, and sales acquired by inheritance.

If the resale date is 91 to 180 days following the date the seller acquired the property, and the sales price exceeds the previous sales price, additional documentation validating the property's value will be required. Any large increase in value must be supported by documented improvements since the last purchase and be well supported by the appraisal.



Repairs

A home inspection typically isn't required, unless specified in the contract or required by state law. An FHA appraisal is required, and any health, safety, and structural integrity issues will be cited in the appraisal report. All repairs must be completed prior to closing, and this can be structured as a concession by the seller. You will want to lean on your real estate agent's advice when looking to buy a home that is being offered "as is" and has potential repair issues. Being required to repair a home that you do not yet own is a risky proposition.

Related To Seller

All reverse mortgage purchases must be arm's length transactions, meaning the seller and buyer are uninterested parties. If the buyer and seller are related to each other, it is considered a refinance transaction and not a purchase.

REVERSE MORTGAGE COUNSELING:
WHY, WHAT AND HOW

Once prequalified for the loan, you will have to complete a reverse mortgage counseling session with a HUD-approved nonprofit agency. This step is required by law, to make sure that you are making a well-informed decision. Some states have waiting periods after counseling, so it's important to complete this step as early as possible.

These meetings are not generally closed so you should be allowed to bring any advisors with you that you choose. Many counseling agencies encourage homeowners who are seeking a reverse mortgage to share the decision with loved ones, especially heirs.

What You Can Expect

A reverse mortgage counseling session can be in-person or over the phone, but due to the limited number of counselors It's almost always by phone. The details of the meeting, and its length, will depend on the agency you use and your specific situation. The counselor will discuss some or all of the following:

- How reverse mortgages work
- Financial and tax considerations of a reverse mortgage
- Payment options
- Costs associated with a reverse mortgage
- Your financial situation and goals
- Possible alternatives to a reverse mortgage
- Potential impact on government benefits and any benefits not being utilized that are available

These reverse mortgage counseling sessions are a good opportunity to get another perspective. Here are some ways you can prepare:

- Review the requirements for a reverse mortgage, and make sure you qualify.
- Request a proposal to see if you qualify for the money you need.
- Write down a list of your questions and concerns

Counselors are not financial advisors, tax specialists or lenders, but they will help you decide if a reverse mortgage is your best option. At the end of your counseling session, you will receive a certificate of counseling, which must be signed and provided to your loan officer to proceed with the loan.

How to Find an Approved Reverse Mortgage Counselor

There are several nationwide agencies you can call for an over-the-phone reverse mortgage counseling session, but if you would rather sit down with a counselor in person, there is an outside possibility there is someone in your area who is HUD-approved.

Here are a couple of ways to find them:

- Ask us for a list of counselors, nationwide and/or specific to your city.
- HECM Counselor Roster - Search online or call (800) 569-4287 to find a local HECM counselor.

THE SALES CONTRACT

It's important to get the sales contract right in the first shot, if possible. It can be difficult to make amendments and get all the proper signatures on short notice during the loan process. One way to do that is to make sure your REALTOR is aware that you are taking out an FHA reverse mortgage purchase loan (aka HECM for purchase). If they are unfamiliar with this type of loan, please have them contact us for instruction. We will need a fully executed, legible copy of the purchase contract.

Seller Concessions

HUD allows seller concessions up to six percent of the purchase price with reverse mortgage purchase loans. Seller concessions are anything of value given to the buyer by the seller and can include the following: closing costs contributions, buyer agent commissions, builder incentives, and personal property. Since you can only borrow a percentage of the purchase price, it is more beneficial for you to use the full six percent allowance. The challenge in driving up the purchase price by six percent to get the full concessions is that the property will need to appraise for the purchase price.

Choosing The Title Company or Attorney

As part of your purchase negotiation, it is important to know that you have right to select the title company (or closing attorney if you are buying in an attorney state). It is very common for builders, REALTORS, and mortgage companies to all have a title company to recommend. Be aware that our estimate of title closing costs was presented without knowing what title company was selected. In our experience it is more difficult to close in a timely manner if we are required to work with a title company that has never closed a reverse mortgage.

Closing Date & Due Diligence

As part of your negotiations, you will need to specify the timeline is which you will be closing the transaction. If you have followed our instruction, you will have completed the reverse mortgage counseling session prior to entering into a contract. Given this, we are comfortable with you offering a 30-day close. Anything longer than that is perfectly acceptable, but under 30 days will need to be approved by us on a case-by-case basis.

There are two due diligence periods that we'll address, and your REALTOR will likely add another based on inspections. The first is for the appraisal and gives you the opportunity to recover your earnest money deposit in the scenario where the subject property doesn't appraise for what you've offered. For this due diligence period, we need 10-14 days, depending on when you'll be able to sign our application. The second is a financing contingency. If you get to the underwriting phase of the loan and are declined, you need to have the opportunity to recoup your deposit. Please have the contract specify 21 days for the financing contingency. You can opt out of having contingencies if you want to take that risk.

REALTOR Communication

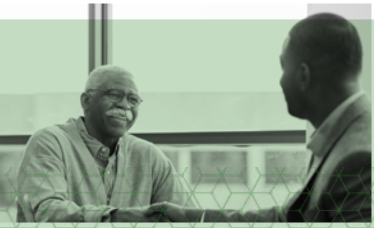
It is a good idea to put us in touch with your REALTOR **before** you make an offer on a property. The offer should be submitted with a prequalification letter that we draft up. Your REALTOR should select FHA financing if you are using a HECM for purchase loan. There are two FHA forms for existing properties and several more for new construction that need to be completed by the builder.

THE LOAN PROCESS

The process of obtaining a reverse mortgage is not unlike the process of securing a traditional mortgage. Most of the elements will be familiar, from an appraisal to closing.

The Appraisal

An appraisal of the property will be ordered as soon as we have a signed application. The appraiser will contact the listing agent for a date and time to see the property. As long as the property appraises for the purchase price, or above, and has no repair issues that are cited by the appraiser, we can move forward.



If the value is below the purchase price, we'll need to know if you want to continue with the purchase or invoke your right to cancel the contract. If you decide to move forward, the loan amount will be calculated based on the appraised value instead of the purchase price. We must use the lower of the appraised value or purchase price.

Processing and Underwriting

We will start processing paperwork while we are waiting on your appraisal completion, including:

- Contract review
- Credit analysis
- Income documentation
- 24-Month property charge payment history
- Flood insurance determination
- Title exam
- A review of your homeowner’s insurance policy
- Documentation of your down payment funds

Your file is then sent to the loan underwriter for approval. The underwriter will verify all the information, and make sure the details of your reverse mortgage comply with laws and regulations. They will also make the final determination on the qualification rules. If there are any remaining issues, they will be dealt with and cleared up during this phase of the loan process.

The initial underwriting process can take around three business days, and any conditions on the underwriting report must then be addressed. The time it takes to address the conditions can vary greatly depending on what the issue is. Once all of the conditions have been addressed and reviewed, the mortgage will be labeled “clear to close.”

Closing and Funding

We will schedule a closing time and location with you, and the title company or attorney listed in the contract, when the loan is approved. You will receive the final settlement statement by email the day before the closing for your review. On the morning of the closing, you'll need to wire the purchase funds over to the title company's account. Once you sign the final paperwork, the loan documents will be reviewed by the lender and approved for funding while you are at the closing.

Life of Loan Issues

The loan servicer will handle any issues you may have during the life of your reverse mortgage loan. They will help you with the following issues:

- Ordering an initial occupancy inspection to make sure you've moved in within 60 days of the closing date.
- Sending monthly statements
- Collecting any voluntary repayments that you send
- Sending out the annual certificate of occupancy that you must sign and return

The loan servicer will also help monitor your payments for property taxes, insurance, and any association fees, but you are still ultimately responsible for those balances unless you are subject to a LESA (a prepaid escrow account). Once funds in a LESA run out, you are responsible for your own property charge payments again.

REVERSE MORTGAGE REPAYMENT

Your reverse mortgage loan is due at any one of the following "maturity events:"

- The last borrower or eligible non-borrowing spouse on the loan dies
- The property is sold
- The property is no longer your primary residence
- The last borrower on the loan has not resided in the property for twelve consecutive months

The lender can also collect repayment if terms of the agreement are violated, such as:

- The property is allowed to deteriorate, except for reasonable wear
- Property taxes, insurance, or homeowner's association dues are not paid
- The title to the home is altered without permission from the servicer

When the loan becomes due, you or your heir(s) will owe the amount of money received, the financed closing costs, plus the interest and mortgage insurance, if applicable. There are three ways that the loan can be repaid:

1. **Private Resources** – If the surviving spouse, an heir, or your estate has sufficient funds to repay the loan, a simple repayment can be issued.
2. **Refinance the Debt** – If the party repaying the loan wants to retain the property, the debt can be repaid

using borrowed funds. The servicer will need to see some kind of evidence of the attempt to take out a new loan.

3. **Sale of the Home** – If the party repaying the loan cannot come up with the full loan balance, the home must be sold, and the proceeds used to repay the debt. If the proceeds from the sale exceed the amount of the loan, the remaining balance belongs to the heir(s). If the property sells for less than the outstanding debt, all the proceeds must be given to the lender and the debt will be considered paid in full. In these instances, the responsible party can speak with the servicer about issuing them the deed in lieu of foreclosure.

Immediately upon the loan being called due, the party primarily responsible for repayment will receive a 30-day notice from the loan servicer. This person will need to communicate their efforts to the servicer within the first 30 days, and they will have six months to repay the loan in full. They can request up to two, 90-day extensions, that must be approved by HUD.

The loan servicers may initiate foreclosure in rare circumstances, such as:

- The party responsible for repayment does not respond to the 30-day notice
- The 90-day extension(s) expire
- There are no heirs to help pay off the loan

The servicer, if given authority by HUD, is willing to work with a surviving spouse or heir and extend repayment deadlines. There must be evidence that they are working diligently to repay the loan.

GUARDING YOUR GOLDEN YEARS

No specific home equity utilization strategy is the perfect fit for every family or every situation, so a reverse mortgage may or may not be right for you. Take the time to compare a reverse mortgage with other home loan options and speak to other close family members who want the best for you (and whose financial futures may be impacted).

The reverse mortgage process, from our consultation to the counseling, is designed to make sure that you are making the best decision for you and your family. Take advantage of the opportunities and safeguards at each step along the way, and you will be able to enjoy your golden years confidently and comfortably.

ABOUT US

Premier Reverse Mortgage was founded by Matt Neumeyer in January 2012. After spending many years in the reverse mortgage industry working for others, Matt decided it was time to form a company around his own values. These values are the core of Premier Reverse Mortgage:

Experience – The reverse mortgage industry is a fairly young one, with growth being recent. Every loan officer we have on staff focuses on reverse mortgages only and has significant experience.

Integrity – Premier Reverse Mortgage is a member of the National Reverse Mortgage Lender's Association (NRMLA) and follows their code of conduct. Companies offering reverse mortgages that are not members of NRMLA aren't held to the same professional standards.

Personal Service – A positive of working with Premier Reverse Mortgage is the personal service that you will receive throughout the loan process. We are a small business that is customer-focused, which is lost at some of the larger organizations in the industry. No obstacle is too large for us to work through, even if it is labor-intensive to solve.

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