





The Reverse Mortgage Analyst

Reverse Mortgage Reports

The reports in this packet present reverse mortgage estimates based on information you have provided, choices you have made, and various assumptions about the future, as explained in the reports. These estimates are provided for illustrative and educational purposes only. They are not an offer to make you a loan, do not qualify you to obtain a loan, and are not official loan estimates or disclosures. Any changes in the information you have provided, the choices you have made, or the assumptions about the future would change these estimates.

These reports were produced by computer software that meets "Model Specifications for Analyzing and Comparing Reverse Mortgages" developed under a grant from the U. S. Department of Housing and Urban Development to the AARP Foundation. More information on these specifications and reverse mortgages in general can be found at www.aarp.org/revmort by clicking on the four links under "Reverse Mortgages" on the left side of that page. Additional information is available at www.hecmresources.org.

This packet includes the following reports:

-  **Reverse Mortgage Comparisons** estimates the future cash benefits, costs, remaining cash, and total cost rates of selected loans
-  **Understanding Comparisons** explains the Comparisons report
-  **Selling Your Home** provides information on this option
-  **HECM Counseling Certificate** attests that you have received reverse mortgage counseling from a HUD-approved agency

Please review these reports carefully before making any decisions. If you have questions about any of the reports, please call me at the phone number listed above.

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Understanding Reverse Mortgage Comparisons -- Page 1

Reverse mortgages turn your home equity into three things:

- 1) **Loan advances - which are paid to you**
- 2) **Loan costs - which are paid to the lender and others**
- 3) **Leftover equity - which is paid to you or your heirs**

The Reverse Mortgage Comparisons report shows you at five different future dates how much of your home's equity would have gone into each of these areas if the loan were to end at that time for three different loan plans.

The report compares the loan plans listed at the top of each column over time on a side-by-side, "apples-to-apples" basis. It estimates the cash you could get, the cash remaining at the end of the loan, the net cost to you, and the total annual cost rate.

The numbers in this report are **APPROXIMATE ESTIMATES ONLY**. They are based on information you have provided plus **assumptions** about loan costs, interest rates, home values, and life expectancy. All assumptions are **subject to change**. The report is not an offer to make you a loan, does not qualify you for a loan, and is not an official loan disclosure.

The **BASIC ASSUMPTIONS** section tells you about the assumptions that have been used to calculate most of the numbers in the report. If different assumptions were used, the numbers in the report would change.



Home Appreciation - The annual rate at which your home's value grows is called its "appreciation" rate. The median rate used in Truth-in-Lending disclosures is 4%. You can find the actual rates for your state over the past year, 5 years, and since 1980 at www.ofheo.gov. The rate used in the report can be set at anywhere from 0% to 8%. Your "net home value" in the report is based on this rate and assumes that 7% of your home's future value will be used to pay for the cost of selling the home.



Creditline Draws (if any) are the ones you selected; see Creditline Estimates for details.



Interest Rate - The assumed annual interest rate throughout the loan is either the initial rate charged on the loan, or an "expected" rate. The expected rate equals the initial rate plus the adjustment used in the federally-insured Home Equity Conversion Mortgage (HECM) program to estimate what the adjustable rate might equal over a 10-year period. The adjustment equals the current 10-year Treasury rate minus the current 1-year Treasury rate. The expected rate is generally greater than the initial rate, so it results in larger loan balances on all reverse mortgages, and larger HECM creditlines. In general, the rates actually charged on these loans may tend to fall somewhere between these two rates.

The **CASH ADVANCES** section shows the cash benefits you could get from each plan. These figures are in addition to any cash advances you may use to pay loan fees or closing costs. "\$0" means you did not request a cash advance of a particular type.

Cash at Closing is the total amount of cash you are requesting to be paid to you at the beginning of the loan. It includes any funds needed to pay off existing debt against your home. It does not include any funds used to pay loan costs.

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Understanding Reverse Mortgage Comparisons -- Page 2

Creditline is the total dollar amount of the creditline account you are requesting.

--Growth Rate is the rate at which the unused funds remaining in the creditline grow larger.

Monthly Advance is the fixed dollar amount you are requesting to be paid to you each month.

--Advance Type is the type of monthly advance you are requesting: "Tenure" means loan advances for as long as you live in your home; "term (yrs)" means loan advances for a specific number of years, which appears in parenthesis.

LOAN PROJECTIONS - The rest of the report shows what would happen if the loans were to end at five future dates. **After x years** is the number of years after the loan begins. The middle future date of the five is the "median" projected remaining life expectancy for someone your age, as defined in the federal Truth-in-Lending Act. About half the persons your age will live more than projected, and about half will live less. The other years listed equal 20%, 60%, 140%, and 180% of this median life expectancy. If there is more than one homeowner, the future dates are based on the youngest owner. Each "After x years" section assumes the loans would end at that time.

TOTAL CASH ADVANCES is the total of all the cash advances you would receive up to the end of the loan, including any creditline draws described under Basic Assumptions. "Total Cash Advances" does not include any amount remaining in a credit-line at the end of the loan.

NET COST is the total dollar amount that you would owe at the end of the loan, including the final creditline draw, minus your "**TOTAL CASH ADVANCES**" and any final creditline draw. (This number could be negative if the total amount of cash you receive is greater than the total amount you would owe.)

CASH REMAINING is the total amount of cash that would be available to you or your heirs at the end of the loan. It includes any amount remaining in your creditline at that time, and any equity left over after the loan is repaid.

TOTAL ANNUAL RATE is the total annual average cost expressed as a single rate. It is similar to the Total Annual Loan Cost (TALC) rate defined in Truth-in-Lending law except that it is based on the five future dates explained above, any creditline draws described in Basic Assumptions, a final withdrawal of all credit-line funds, the use at closing of any funds set aside to pay for repairs or 1st-year taxes and insurance, monthly compounding of interest, and the interest rate described in Basic Assumptions.

SUMMARY: When you add Total Cash Advances, Cash Remaining, and Net Cost for any plan and year, the total equals 93% of the home's value at that time, assuming it has appreciated at the rate stated above the table, and the cost of selling the home equals 7% of that value.

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David Williams

Selling Your Home: *A Basic Alternative*

SELLING & MOVING

Selling and moving may be the last thing on your mind. But looking into this possibility - and seriously thinking about it - can help you decide how much you value staying in your present home. If you sold your home, you could invest the sale proceeds and use some of the money each month to pay for housing, for example, to pay rent. Do you know how much cash that would give you to spend on rent each month? **Here is an example that is personalized for you.**

If your home sold for \$550,000, you would end up with about \$233,500 if you paid 7% in selling costs, including a real estate commission, and paid off your home liens of \$278,000. If you invested this money at 3.29% interest, that would give you \$1,147 each month for 17.7 years, which is the average life expectancy for a Your age is calculated as if the loan closing date will be Friday, July 31st, 2009. When your next birthday is within six months after the loan closing date, these loan programs consider you a year older. Your attained age then will be 65, but your nearest birthday age will be 66. , or \$833 each month for 24.8 years, which is 40% longer than this life expectancy. Remember -- roughly half of us will outlive our life expectancy.

If you take future increases in housing costs into account, you would have to start out spending less per month if you wanted it to last for your life expectancy or beyond. For example, assume your rent would rise at 3.0% each year. In this case, you could start taking out \$878 each month, increase it by 3.0% each year, and the invested sale proceeds would last until your life expectancy. If you wanted the proceeds to last 40% beyond your life expectancy, you would have to start paying no more than \$569 for rent.

MOVING WHERE?

For information on housing choices in your area, contact your nearest Area Agency on Aging by calling 1-800-677-1116 or going to www.eldercare.gov on the internet. For general information on housing options, go to www.aarp.org/families/housing_choices. If you are interested in buying a less costly home, general information on purchasing a home can be found at this AARP URL: www.aarp.org/money/wise_consumer/financinghomes/.