Benefit Mortgage
Comfort • Protection • Security

6167 Bristol Parkway, Suite 345
Culver City, CA 90230
Tel:888-669-5663 Fax:855.306.0360

REVERSE MORTGAGE TOOL KIT

Unlock the Equity in Your Home!

There are several reverse mortgage programs

- HECM one-month Adjustable-Rate Line-of-Credit
- HECM Fixed Rate
- Proprietary Adjustable-Rate Line-of-Credit
- Proprietary Fixed Rate

What is a HECM Mortgage?

HECM stands for Home Equity Conversion Mortgage which is a federally insured home loan. A HECM Mortgage is administered through the Housing and Urban Development Agency **(HUD)** and is insured by the Federal Housing Administration **(FHA)**.

The HECM is a federally regulated program for homeowners of age 62 and older that allows you to manage the equity in your home or purchase a new home. The HECM is a safe way for you to create access to a portion of the equity in your home with the option of never making a mortgage payment. Notice that option is underlined; that's because if you decide to utilize some of your equity you can make monthly payments if you want and, if you have the ability, we encourage it. For any approved amount you do not use, it does not incur interest and remains available for future use.

How are Reverse Mortgages different today than in the past?

Today's HECM mortgages are highly regulated by State and Federal laws to make them safe and to protect you. Among others, the following regulations apply:

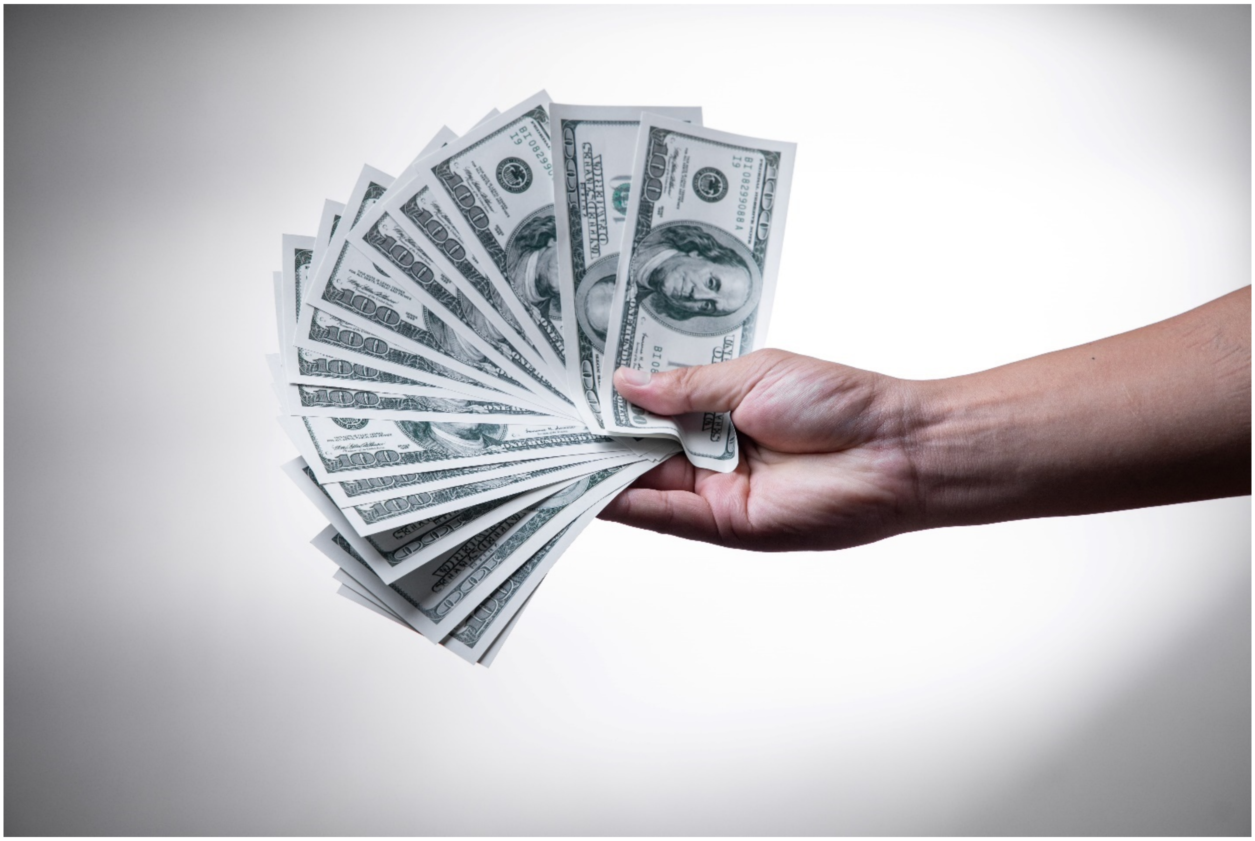
- You always remain the only one on your title
- No equity share is allowed, meaning the lender does not share in the home's appreciation nor do they slowly take over your home
- You can remain in your home for the remainder of your life
- Fees and costs are extremely regulated

How is this Program "safe" for the Mature Homeowner?

No matter what happens in the economy, how much money you receive, or how long you live in your home, you will never be required to make a mortgage payment. In addition, no matter what happens to your home's value you will always have federally guaranteed access to your money.

How does a HECM Mortgage compare to a Conventional Mortgage?

In a conventional mortgage you make monthly payments to the bank, eventually paying the mortgage off over time. With the HECM mortgage you can make payments if you want, but you can also choose to never make another mortgage payment for as long as you live in your home: the choice is yours.



If I decide to access some of my equity, how can I receive it?

You can receive cash from your lender in the form of a line-of-credit, a lump sum, as monthly installments, or a combination of these choices. Even if you do not need additional funds at this time, setting up the growing line-of-credit (LOC) is a powerful retirement tool that can provide you with life-long security and protect your retirement accounts from sequence-of-returns risk. The available LOC grows at the same rate that applies to any balance you may have; as time goes on, the LOC can grow quite large and supply financial piece-of-mind.

What restrictions apply to the cash I receive from a HECM Mortgage?

It's your money and you can use it however you want. The money is non-taxable and does not affect Social Security payments.

When does a HECM Mortgage become due and what happens then?

When you no longer live in your home for more than 12 months, the HECM mortgage becomes due within three-twelve months (depending on whether extensions are requested). If there is remaining equity in the home, you or your Heirs have the below options:

1) Sell the home and receive the difference between the sale proceeds and the loan balance payoff

2) Pay off the HECM mortgage (an example is a refinance) and retain ownership

If there is no equity in the home (which due to appreciation is doubtful), because the loan is non-recourse and federally insured, you or your Heirs could:

1) Walk away from the home by signing it over to the lender without any negative financial implications

Or your Heirs could

2) Keep the home by refinancing for 95% of the home's value

Can the loan balance ever exceed the home value?

In the event of an economic downturn, even if the value of your home falls below your loan balance, the Federal insurance guarantees neither you nor your Heirs will ever incur any additional debt (non-recourse): the insurance wipes away any difference in balance. Also, if you have an available line-of-credit that exceeds your home value, it's Federally protected and you can access it at any time.

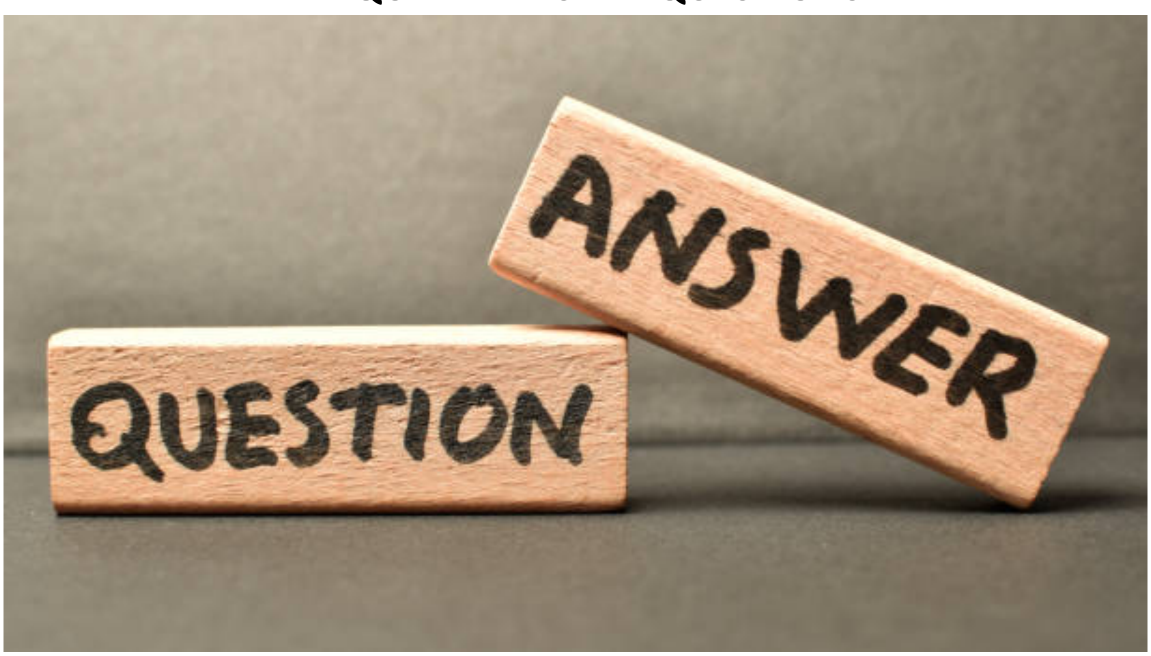
Who owns the home if I take a HECM Mortgage?

Same as you do today, you own the home. However, just like a regular mortgage, you pledge your home as collateral.

What are my obligations under a HECM Mortgage?

Because you retain title to your home with a HECM, your current obligations remain: you are responsible for property taxes and homeowner's insurance (unless they're included in the loan), HOA dues (if applicable) and maintaining the home in reasonable condition.

FREQUENTLY ASKED QUESTIONS



Does the lender take title to my property?

No, you retain the same ownership and title that you have today. The lender puts a lien on the property (just as they would with a conventional mortgage).

Can the lender or government ever take my home away?

Not if you continue to honor your property obligations (pay your property taxes, homeowner's insurance, HOA, and maintain the property): You can remain in your home for the remainder of your life!

When does the HECM Mortgage need to be paid off?

When you sell the property or no longer occupy the property as your primary residence for a period of 12 months or longer. If your Heirs inherit the property while the loan is still in place, they will have a grace period between three-twelve months (depending on whether extensions are requested) without a payment obligation to decide how they would like to handle the change of ownership. During the one-year grace period, your Heirs can decide to sell the home and keep the profit (which could be very beneficial due to stepped-up tax basis rules) or payoff any loan balance with other funds such as refinancing with a new loan of their own.

I currently hold title in a Trust, can I keep it that way?

Yes, but the lender and title company do require that they review the Trust, and it must be approved. If you hold title in a Trust, so there are no surprises later, you should let your Federally Licensed Mortgage Provider know up front so they can get a copy of the Trust and have it reviewed. Most Trusts are prepared with lender requirements in mind, but it's best to know as early as possible.

Will my Heirs still receive an inheritance?

After the HECM loan is paid off, all the remaining equity will go to your Heirs. One of the forms we provide before you close is an amortization schedule, so you will have a good estimate of the principal balance of your loan, and your equity, year-by-year. How much equity will remain depends on variables such as how much money you draw, whether you make any payments, how long you stay in your home, home appreciation, and interest rates.

Can I make a payment whenever I want?

Yes, it is completely your choice of whether to make a payment and when. As you get older your needs may change; you can make a payment one month and then choose not to make a payment the next month, you can make interest only payments, or you may decide to never make another mortgage payment for as long as you live.

Do I still receive the benefit of appreciation?

Yes, this is probably one of the most important aspects of the loan: just as you always have, you remain the only person on your title, and you continue to benefit from your home's appreciation.

THE HECM BASICS

How are HECMs used?

There are 3 basic categories for which a HECM is used:

3) Retirement Planning
4) Lifestyle
5) Need

Agencies that are involved

- FHA – Federal Housing Administration (insures the loan)
- HUD – US Department of Housing and Urban Development (Administers the program)
- GNMA – Government National Mortgage Association (pools government loans and sells them on the secondary market)
- CFPB – Consumer Financial Protection Bureau (audits programs and administers disciplinary actions)

HECM details

- Monthly repayment obligations are not required, but payments can be made at whatever time the borrower chooses; due to Line-of-Credit growth, there is a huge incentive to make payments and there are no pre-payment penalties
- Primary residence only

- Property taxes and insurance are still required, but these can be paid through a LESA (Life Expectancy Set Aside-which is similar to an escrow account)
- Borrower is free to sell the home or pay off the loan at any time
- Social Security/Medicare generally not affected - means tested programs, such as SSI, may be negatively impacted
- Borrowers do not need to own their home “free and clear.”
- Financial Assessment – an underwriter will review credit and income to determine if this is a sustainable solution for the borrower – if not, they will require a LESA
- Proceeds are not taxed as income – tax free distributions (like a Roth)
- Counselling will be required – a neutral 3rd party explains aspects of the loan, different options, and alternatives to the borrower (usually completed over the phone)

Borrower’s responsibilities

- Occupy the home
- Pay property taxes
- Pay insurance
- Pay other property-related charges
- Maintain home in good condition

When a HECM loan becomes due and payable (maturity event)

- The home is sold
- The last surviving borrower or eligible non-borrowing spouse (NBS) passes away (heirs will have 3-12 months depending on whether extensions are requested)
- The home is vacated or abandoned for 12 consecutive months – example, borrower goes into a nursing home for more than 12 months (even if an NBS is still occupying the home)

Non-recourse feature of the HECM

- FHA guarantees that the borrower or their heirs will never owe more than the home is worth at the time it is sold

Max Claim Amount

- Lesser of the home value or FHA Maximum Claim Amount

COST and FEES

Cost vs. Benefit. The cost of a HECM is not that much different than a forward FHA loan but, it really should not be compared to a typical loan, it should be compared to other forms of retirement liquidity & security. Every form of retirement cash-flow has a cost; for instance, retirement account withdraws can have tax consequences, depleting a retirement account reduces its possible growth, selling real-estate eliminates appreciation gains, inflation erodes cash in the bank, etc. Generally, the HECM is the most cost-effective form of retirement cash-flow, liquidity & security.

HECM Costs

- Out of pocket costs
    - Counselling and Appraisal fee
- Closing Costs
    - Origination fees – depending on the program, can range from zero - $6,000
    - Lender fees
    - Third-party fees (escrow, title, county recording, etc.)
    - Initial Mortgage Insurance (IMIP) = 2% of your appraised value or FHA Max Claim Amount, whichever is lower
- Ongoing Costs
    - Interest and Mortgage Insurance accrual
    - Yearly Mortgage Insurance (IMIP) = .005 divided by 12 (.00042) multiplied by your monthly loan balance

COMMON GUIDELINES

Non-Borrowing Spouse (Eligible)

- The spouse of the HECM borrower who, at the time of closing, is not a borrower
- Reasons someone might be a Non-Borrowing Spouse: 1) they are not 62 years of age yet; 2) there is a prenuptial agreement in place; 3) protect children from previous marriage
- Occupies the home
- Their age **is** included in Principal Limit (amount of money you are approved for) calculation
- Is **protected** and retains benefits of interest deferral and FHA insurance
- When the Eligible Borrower passes, any available LOC and LESA are removed from the loan
- Needs to go through counselling and sign docs

Non-Borrowing Spouse (Ineligible)

- Does not occupy home
- Is **NOT** protected and does not retain benefits of interest deferral
- Age is **NOT** included in Principal Limit calculation
- Needs to go through counselling and sign certain documents

Initial Disbursement Limits

- Mandatory Obligation – items that must be paid at closing such as existing liens and loan costs
- Maximum Disbursement is the GREATOR of: 60% of the Principal Limit or Mandatory Obligations + 10% of the Principal Limit (for example, if Mandatory Obligations were 58%, borrower could get 68% of Principal Limit in the first year – If their HECM is an ARM, they will have access to the remainder after 12 months)
- Fixed rates – one-time lump sum at closing
- ARMS – up to the Principal Limit Maximum Disbursement during first year, then up to the full Principal Limit amount anytime afterwards

Lien Seasoning

- Existing (non-HECM) liens must be in place for more than 12 months or have resulted in less than $500 cash to the borrower (Jumbo has no seasoning requirements)
- HELOC seasoning can be waived, if the payoff does not bring the mandatory obligations above 60% of the HECM Principal Limit

Property Types

- Primary Residence Only
- Single Family Residence (SFR)
- 2-4 Units
- Manufactured Homes
- Modular Homes
- Planned Unit Developments (PUDs)
- Townhomes (usually listed as a PUD, but if a condo must be FHA approved)
- Condominiums (if FHA approved – singe unit approvals are available, but can be time consuming)
- No more than 49% of square feet can be dedicated for commercial use (owner & operator)

Repairs

- Allowed (except on purchases)

Repairs Set-Asides

- Time Limit – must complete repairs within 90 days
- Appraiser bids accepted – estimates marked up 1.5X
- Set-Aside cannot exceed 15% of Max Claim Amount
- Repairs more than 15% must be completed prior to closing

Power-of-Attorney

- Document that allows a person to give authority to someone else to make decisions on their behalf
- Must have authority to mortgage or sell
- Must be DURABLE
- POA dated prior to application
- Sign as follows – your name as Attorney in Fact for borrower's name

Guardian / Conservator

Guardian – Someone appointed to make decisions about living arrangements for a protected person.
Conservator – Someone appointed to make financial decisions for a protected person.

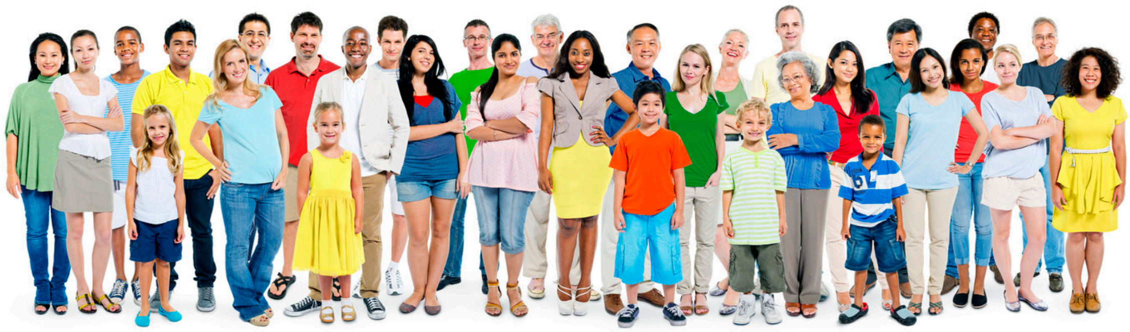
- Both require counseling
- Both are court-ordered

Leasehold Properties

Leasehold – The right to use and occupy real estate for a stated term under certain conditions which have been conveyed by a lease.

- Also called "ground rent"
- Lease terms: At least 99 years and renewable, or at least 50 years remaining beyond borrower's 100th birthday

PROGRAM VARIATIONS



Refinance

- Can eliminate current payment obligations, provide funds, and serve as a powerful retirement tool

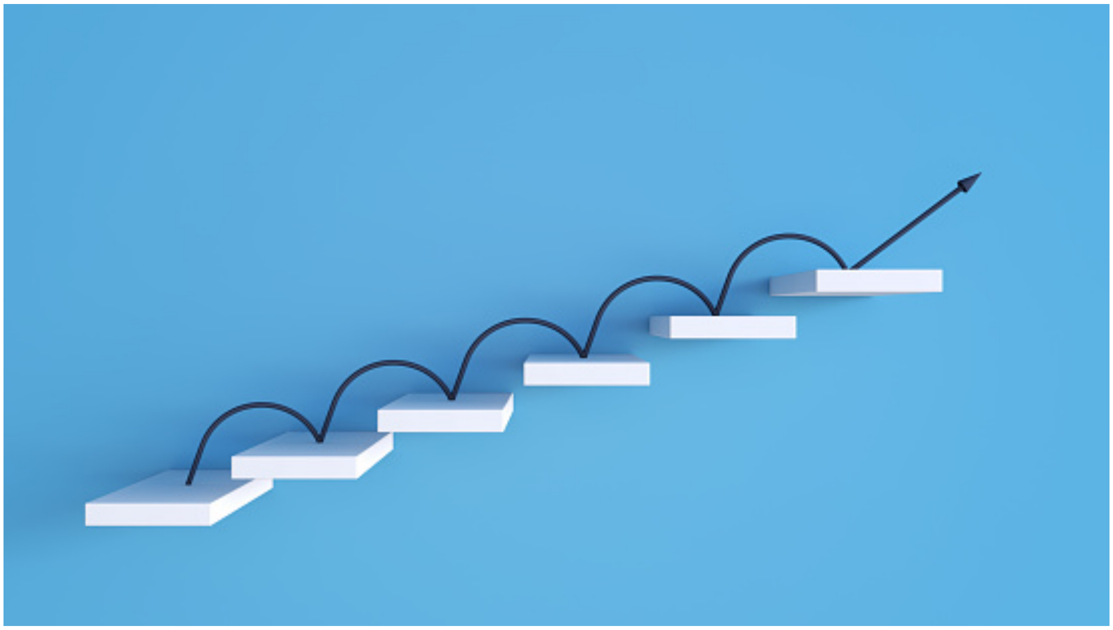
HECM-to-HECM Refinance

- If within several years from the original HECM loan, upfront mortgage insurance is very minimal and therefore closing costs are low
- Must provide borrower a certain amount of benefit
- Original HECM must have been in place for a minimum of 12 Month

HECM-for-Purchase

- Increases purchasing power by almost 100% (instead of paying cash)
- Eliminates monthly payment obligation (compared to a conventional mortgage)
- Any reverse product can be used
- Original purchase contract is required
- No broker or lender credits are allowed
- No repair credits are allowed (repairs need to be completed before closing)
- Max Claim Amount is the lesser of the sales price, value, or current FHA county limit
- LESA – if required, cannot be applied to sales price and must be self-funded
- New construction - can do application before certificate of occupancy
- Must establish residency within 60 days
- Seller contributions or concessions are restricted

STEPS TO SUCCESS



Sign Disclosures

- Once you receive disclosures (via in person, mail, or email) sign and date where indicated – disclosures do not bind you or the lender to anything and it is how you get the process started

Counseling

- In your disclosures there will be a list of reverse mortgage counseling companies
- Choose one of the companies and schedule an appointment for a counseling session
- All borrowers and non-borrowing spouses need to go through a counseling session – this is usually conducted over the phone and takes less than an hour
- Once you have completed counseling, there is a one-week waiting period before your Loan Officer can continue the process – this gives you a chance to absorb the information

Documentation You Need to Provide

- Driver's License
- Social Security card
- Last 3-month asset statements (bank, securities, retirement account, etc.)
- If employed, most recent paystub and last two years tax documents (W2s, 1099s, etc.)
- If self-employed, last two years tax returns (all schedules)
- Most recent Social Security or Pension awards letter (if applicable)
- Most recent homeowner's insurance declaration page (for all properties owned)
- Most recent mortgage statement (for any owned properties that have a mortgage)
- Most recent tax bill (if available and for all properties owned)
- If home is in a trust, please provide a copy of said trust

Appraisal

- After the one-week waiting period, your Loan Officer will order your appraisal and it usually takes 1 – 2 weeks for completion

Underwriting

- Once your Loan Officer receives your documentation and the appraisal, your loan package will be submitted to underwriting

Conditional Approval

- Receiving a conditional approval usually takes 1 – 2 weeks
- Upon receiving conditional approval, your Loan Officer will walk you through how to satisfy conditions, such as letters of explanation for credit items or large bank deposits

Clear-to-Close

- Once all approval conditions have been satisfied, you will be issued a Clear-to-Close (CTC)
- Your Loan Officer will go over your loan choices, such as how much money you want at closing
- You will set an appointment to sign your loan documents (no sooner than two days out from receiving CTC

Loan Document Signing

- A traveling notary will meet you at your home with loan documents
- The notary will return signed documents to escrow

Loan Funding and Recording

- If you are doing a refinance, your loan will fund after your three-day right of recession which starts the day after you sign (holidays and Sunday do not count in recission and loans cannot fund on a weekend)
- If you are doing a purchase your loan will fund that same day
- Loan recording takes place on the same day or the day after funding, depending on your county (loans cannot record on a holiday or weekend)

The Future

- Your Loan Officer's service does not end at loan funding – they will be available to advise you on how to use your reverse mortgage for as long as you have the loan

JUMBO REVERSE MORTGAGE

Because the Federal Housing Administration has a Maximum Claim Amount (FHA assessment ceiling) that is well below the actual value of some people's home, the Jumbo Reverse Mortgage was created to service this sector. Except for a few very important differences, which we will cover below, the features and guidelines are almost identical to the HECM.

Programs

- Fix Rates
- Adjustable Line-of-Credit (LOC)

General Guidelines

- Loan Amounts up to $6mm
- No Initial or Monthly Mortgage Insurance; this results in lower closing costs than the HECM
- No lien seasoning required
- Principal Limit is based solely off the Borrower's age (Non-Borrowing Spouse age irrelevant)
- Non-Borrowing Spouse does NOT have the same protections as they do with a HECM – if the Borrower passes away, it is a maturity event
- Condos do NOT need FHA approval; they just need to be valued at $500,000 or more
- Same non-recourse feature as the FHA HECM product