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A Guide for Children and Caregivers

Understanding Reverse Mortgage Loans

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BY FINANCE of AMERICA REVERSE

“This is the second refi of my mortgage and it’s very satisfying to work with AAG. I would happily recommend to others.”

WILLIAM M.

Helping loved ones meet and manage their health care expenses is an awesome responsibility.

Indeed, the average couple retiring today at age 65 is estimated to require $300,000 to cover their health care and medical expenses in retirement*.

That makes it more important than ever that both the caregiver and those in their care understand the financial resources available to them.

One financial option that homeowners and caregivers alike are accessing to help meet this challenge is home equity. Home equity not only represents the greatest source of wealth for a majority of older Americans, home equity is also an accessible asset that can offer short- and long-term solutions for a healthier and more sustainable retirement.

*How to Plan for Rising Health Care Costs (Fidelity) updated August 31, 2021. Find the full article at aag.com/kit

3 HOME EQUITY SOLUTIONS

1

GET A REVERSE MORTGAGE: The homeowner continues to live in their home without making monthly mortgage payments and also receives cash via a payment plan of their choosing*.

2

REFINANCE THE HOUSE: The homeowner trades in their old mortgage loan for a new one to pull out cash (a cash-out refinance) or lower their monthly mortgage payment, resulting from receiving a better interest rate and/or terms. (By refinancing, consumer's total finance charges may be higher over the life of the loan.)

3

RELOCATE: The homeowner typically downsizes to a more practical home closer to family members and key support services. The goal of the move is to upsize the quality of life for the homeowner.

***If homeowner continues to meet the loan requirements such as keeping up homeowners insurance, maintenance costs and property taxes, they can stay in the home without monthly mortgage payments for as long as they live there.**

3 HOME EQUITY HEALTH CARE STRATEGIES

Making the home safer and more suited to you, paying for in-home health services and building a stronger safety net to cover unexpected medical expenses are all strategic uses of home equity.

1. HOME IMPROVEMENTS

Using funds from a reverse mortgage or home refinance to make the home safer and more age-appropriate is a way for homeowners to continue living at home (You must continue to maintain your property, pay property taxes, and homeowners insurance, and otherwise comply with all loan terms.), which repeated studies have shown is the overwhelming preference of older adults*. Renovations for this age-in-place strategy might include the installation of a walk-in bathtub, wheelchair ramp or the creation of a first-floor master suite.

2. PAYING FOR HOME CARE EXPENSES

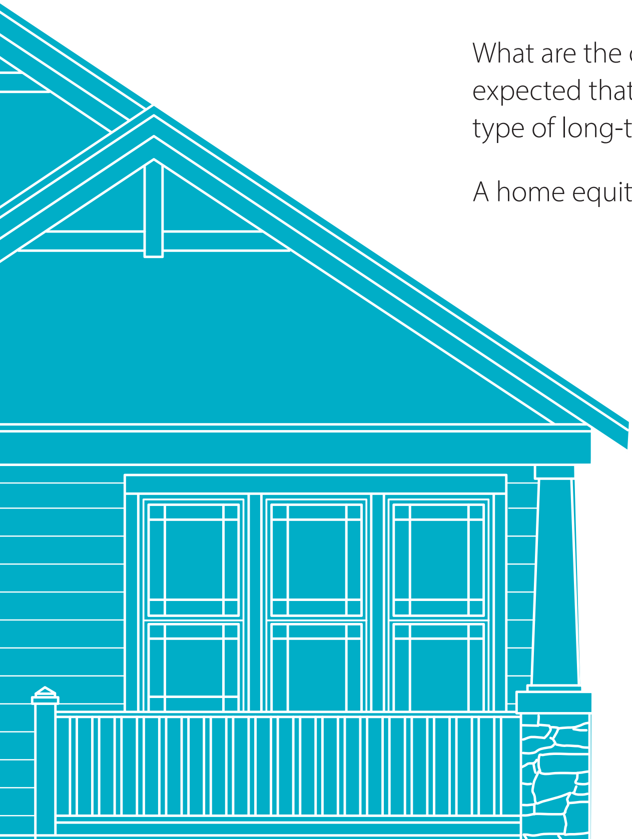
The median daily cost nationwide in 2021 for either homemaker or home health aide services was between $163 and $169*.

What are the odds that someone will need some form of home care assistance? It's expected that someone turning 65 today has almost a 70% change of needing some type of long-term care service and support in their remaining years.**

A home equity solution could help meet these expenses.

*Genworth Cost of Care Survey 2021, updated January 2022. Find the full article at aag.com/kit

**How Much Care Will You Need? https://acl.gov/ltc/basic-needs/how-much-care-will-you-need. Accessed on August 8, 2023.



3. BUILDING A HEALTH SAFETY NET

Should the good health of a loved one suddenly turn, is there a ready source of funds to provide the level of health care they'll require? A reverse mortgage line of credit could furnish the necessary funds should the need arise. If the funds are not needed, the untapped principal grows over time.

4 Steps on the path forward

Having meaningful health care services in place is an essential part of retirement planning. The key is to plan far enough ahead, so a challenge that can be easily managed now won't turn into a crisis later. As a caregiver, follow these four steps:

- **Have a Caring Conversation**
- **Discuss Finances**
- **Anticipate Health Care Needs**
- **Seek Professional Advice**

Discussing an aging parent or loved one's future needs and wishes can be a sensitive subject, but it's vitally important that the conversation take place. To get things started, try asking open-ended questions, such as, "Did you ever think where you would live if this place became too much for you?" Sometimes what isn't expressed can be as telling as what is communicated, so be a good listener and observer and always show respect. The goal in your initial talk is to start a conversation.

Once you have an understanding of their desires and wishes, discuss whether sufficient resources exist to pay for them. Have they saved enough or will they need to supplement their income? Are they aware of home equity options, such as reverse mortgages, which were specifically designed for older adults seeking a better retirement?

It's critical that any discussion about finances also anticipate future health care needs. Discuss how a reverse mortgage line of credit could serve as a safety net in the event of long-term medical needs. With a reverse mortgage line of credit, the homeowner pays interest only on the loan amount accessed, and the untapped, available portion of the line grows each year.

Seek the advice of specialists with expertise in areas of greatest need and concern for those you care for. These could include their health care provider, lawyer, financial planner, and home equity solutions provider.

To learn more, please visit the CFPB's Reverse Mortgage: A Discussion Guide

https://files.consumerfinance.gov/f/documents/cfpb_reverse-mortgage-discussion-guide.pdf

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For Reverse Loans. When the loan is due and payable, some or all of the equity in the property that is the subject of the reverse mortgage no longer belongs to borrowers, who may need to sell the home or otherwise repay the loan with interest from other proceeds. The lender may charge an origination fee, mortgage insurance premium, closing costs and servicing fees (added to the balance of the loan). The balance of the loan grows over time and the lender charges interest on the balance. Borrowers are responsible for paying property taxes, homeowner's insurance, maintenance, and related taxes (which may be substantial). We do not establish an escrow account for disbursements of these payments. A set-aside account can be set up to pay taxes and insurance and may be required in some cases. Borrowers must occupy home as their primary residence and pay for ongoing maintenance; otherwise the loan becomes due and payable. The loan also becomes due and payable (and the property may be subject to a tax lien, other encumbrance, or foreclosure) when the last borrower, or eligible non-borrowing surviving spouse, dies, sells the home, permanently moves out, defaults on taxes, insurance payments, or maintenance, or does not otherwise comply with the loan terms. Interest is not tax-deductible until the loan is partially or fully repaid.

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