



FINANCING FACTS



The Reverse Mortgage Purchase

A solution for senior homeowners who would like to buy a home without having to make monthly mortgage payments.

SITUATION:

You are a senior homeowner with a fixed income looking to purchase a home, and one or more of the following apply:

- You would prefer not to have a monthly mortgage payment
- Your income and/or credit scores prohibit you from obtaining a conventional mortgage
- You intend to stay in the new home for the foreseeable future (3 or more years).

WHO QUALIFIES:

You must meet the following criteria to purchase a home using an FHA reverse mortgage:

- All homeowners wishing to be on title must be at least 62 years old.
- The subject property must be your primary residence.
- The subject property must be one of the following: single family residence, condominium, townhouse, PUD (Planned Urban Development), or manufactured home.
- You must have, at the time of closing, a cash down payment in the range of 20%-50% depending on your age.

BENEFITS:

You can now purchase a home without having to worry about your income supporting a new mortgage payment. Many homeowners have been unable to relocate, knowing that upon the sale of their current home, they will not be able to obtain a purchase loan for the new home. You can now sell your current home, cash out the remaining equity, and buy a substantially more expensive property without increasing your monthly expenses.

DETAILS:

- Officially called a Home Equity Conversion Mortgage (HECM), this loan is insured by the FHA (Federal Housing Administration) and was first created in 1989. The HECM accounts for over 95% of all Reverse Mortgages closed.
- This is a “non-recourse” loan, meaning that no asset will be required to be used for repayment other than the proceeds from the future sale of the home.
- There are no credit score or income qualifications.
- Down payment must be documented prior to closing. You cannot incur a new debt to provide the down payment.
- Repayment occurs when the final homeowner on the title sells the property, permanently moves into an assisted care community, or passes away. No prepayment penalties.
- Loan calculation is based on the lower of the sales price or appraised value.
- Homeowners, or those they bequeath the house to, will remain on title. The home will not be taken back by the bank upon death of the homeowner(s).
- Maximum home value considered for loan purposes is \$625,500 (thru December 31, 2009). Anything above the limit will not be included in the loan valuation.
- Rate can fixed or adjustable. The adjustable rate is based on the LIBOR index, plus a margin.
- At the time of loan repayment, the outstanding loan amount and closing costs, plus accrued interest, will be paid off. The loan can be paid back by either selling the property or refinancing back to a “forward” mortgage.

*** Contact our Reverse Mortgage Specialist, Matt Neumeyer, at 404-371-8669 for more detailed information!**

Fairfield Mortgage Associates

“When You Want It Done Right!”

A Division of Guaranty Bank, FSB



Phone: 678-279-9000

Fax: 678-279-2000

www.fairfieldmortgage.com

www.ReverseMyLoan.com



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The Reverse Mortgage Purchase (continued...)

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EXAMPLE ONE:

Jane Doe, a 70 year old retired widow, would like to sell her current home because it is too big for her without her husband helping with the housework. The home is placed on the market and sold months later for \$250,000. After paying the real estate commissions and paying off the mortgage, Jane walks away with \$100,000. Knowing that she has her eyes set on a \$200,000 condo offering extra amenities, Jane looks into her financing options.

Jane has the option of obtaining a \$100,000 conventional purchase loan at 6.5%. Her monthly principal and interest payment would be \$632.07. With a new monthly income of only \$2,000 per month now that her husband has passed, she feels uncomfortable taking on that payment. After hearing about the reverse mortgage Jane finds out she can get \$120,000 via the adjustable rate of 3% or \$115,000 via the fixed rate of 5.875%. Instead of putting down the entire \$100,000 equity she has from the sale of her previous home, she can pocket \$15,000-\$20,000. Jane likes the idea of not having a monthly payment, so she chooses the reverse mortgage.

EXAMPLE TWO:

Tom & Sue Smith live in Georgia, but Sue's mother Ella is 75, and she lives alone in Florida. Sue would like to move her mother up closer to her, so she can be there for her, and Ella approves of the idea. After the sale of her Florida home Ella walks away with \$50,000. The home in Georgia that Sue has helped Ella pick out is \$175,000. The options are to take out a purchase loan for \$125,000 or to look into a reverse mortgage for purchase. Ella would need her daughter or son-in-law to be on the loan with her, but Tom is leery of the idea and would rather give a gift. Ella decides the reverse mortgage is the way to go. Through the adjustable rate reverse mortgage Ella would receive \$113,000 at 3% and through the fixed rate she would get \$109,000 at 5.875%. Between the reverse mortgage loan and the \$50,000 cash on hand, Ella is still short \$12,000 - \$16,000. Tom & Sue decide to gift Ella the additional cash, so she can purchase the home without having monthly payments.

* Both examples are based on market rates that can change daily.

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