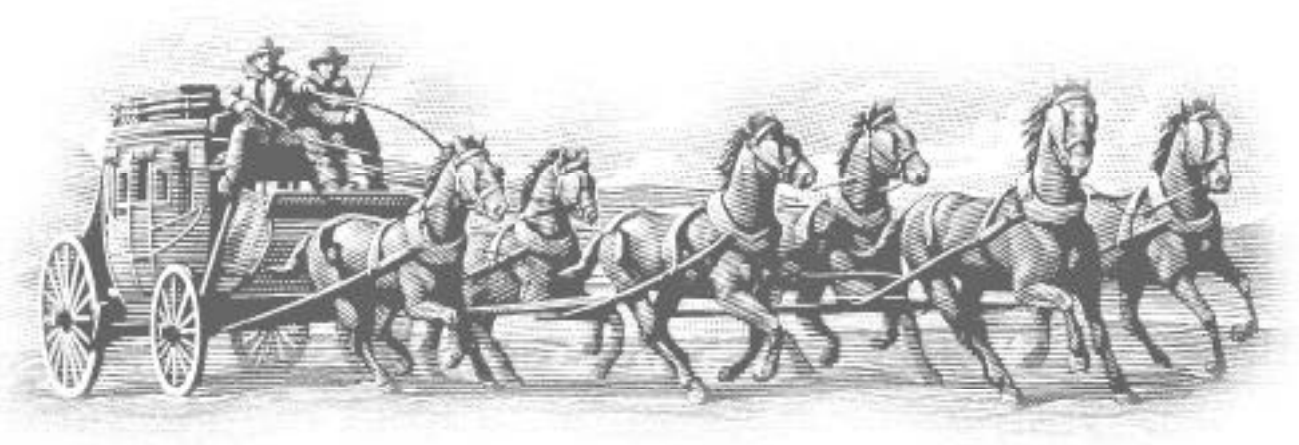




The Next Stage<sup>®</sup>

# Your Reverse Mortgage Guide

Using Your Home Equity to Finance Your Retirement



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# Make the Most of Retirement!

Looking to make the most of the equity you've acquired in your home? Today, there are more homeownership options for retired individuals and couples than ever before. Whether you're looking to pay off bills, or would just like additional income to enjoy your retirement, a reverse mortgage may be the answer for you!

## What Is a Reverse Mortgage?

If you are age 62 or older, own and live in your home free and clear or have a minimal remaining mortgage balance our reverse mortgage programs can help you receive extra income. A Reverse Mortgage allows you to borrow against the equity you've established in your home without repaying the loan for as long as you live there. Instead of making monthly payments, you can choose to receive them! That's the "reverse" part.

## Why Get a Reverse Mortgage?

The income received through a reverse mortgage can be used for a variety of purposes. Just like a regular refinance, you are not restricted in how to use the funds.

Examples of potential uses for funds received through a reverse mortgage include:

- Invest in CDs, annuities, long-term care insurance
- Supplement retirement income
- Cover medical expenses
- Make home repairs or improvements
- Pay property taxes
- Pay for in-home care
- And more...

## Reverse Mortgage vs. Traditional Mortgages or Home Equity Loans

A reverse mortgage is the opposite of a traditional mortgage. With a traditional mortgage or home equity loan, you borrow a large amount of money and make monthly payments. You must also have a sufficient debt-to-income ratio to qualify and make monthly mortgage payments.

A reverse mortgage pays you and is available regardless of your current income or debt-to-income ratio. With a reverse mortgage, you borrow small amounts – monthly or at other intervals through a line of credit<sup>1</sup>. Payment is required only once, at the end of the loan, typically when you no longer occupy the home as your principal residence.

<sup>1</sup> Not available in Texas.

## Benefits

For many older homeowners, a reverse mortgage is an effective way to convert home equity into flexible, tax-free<sup>2</sup> income. The benefits are numerous:

- Continue to live in and own the home.
- Receive tax-free income from the cash advances.
- Obtain immediate cash advances in addition to monthly income.
- Enjoy the flexibility of determining how you wish to receive your cash disbursements: fixed monthly payments, a line of credit<sup>3</sup>, a lump sum cash advance, or a combination of the plans.
- Adjust your payment option to meet your current circumstances.
- Repay the loan at any time without penalty.
- Have peace of mind knowing that you and your heirs have no personal liability for the repayment of the loan since it is secured solely by your home.
- Relax knowing that you owe nothing until after you no longer occupy the home as your principal residence.

Your Wells Fargo Home Mortgage consultant will listen to your financial goals and help you choose the best solution to meet your needs.

<sup>2</sup> Consult your tax advisor.

<sup>3</sup> Not available in Texas.

# Loan Specifics

## Eligibility Requirements

The eligibility requirements are quite simple. There is no income, employment or credit qualifying restriction.

- All homeowners must be age 62 or older and occupy the property as their principal residence
- The home must be owned free and clear or have a remaining mortgage balance which can be paid off by a reverse mortgage
- The property must be a single-family or a two-to-four unit dwelling
- Townhomes, detached homes, condominium units, planned unit developments (PUDs) and some manufactured homes are eligible
- The home must meet HUD minimum property standards. In some cases, home repairs can be made after the closing of a reverse mortgage.

## How much can be borrowed?

The maximum amount that can be borrowed is based on the following factors:

- The age of the youngest homeowner
- The appraised value of the home
- The current interest rate
- The county in which the property is located

In general, the more your home is worth, the older you are, and the lower the interest rate, the more you'll be able to borrow.

## Payment Options

Customers have unique needs. Some prefer to get the entire amount up front, while others would prefer a steady monthly payment to supplement their other income. Regardless of which distribution plan you pick, you are able to adjust your plan as often as you wish to accommodate changing needs.

There are three different kinds of reverse mortgage distribution plans to fit your needs and desires.

- **Lump Sum Cash Advances**

Cash is immediately available (often used to payoff an existing mortgage)

- **Term**

Equal monthly payments for a fixed period of months selected.

- **Tenure**

Equal monthly payments as long as at least one homeowner lives and continues to occupy the property as a principal residence.

- **Line of Credit<sup>5</sup>**

A credit line which the customer can draw upon as he or she wishes.

- **Combination**

An immediate cash advance in addition to monthly allotments.

## Interest Rate

Your loan will be made based on an adjustable rate loan. You have the option of choosing a monthly or annually adjusting rate. Rates are linked to the one-year U.S. Treasury Security Rate.

The change in the interest rate has no effect on the amount of or number of loan advances you can receive, but causes the loan balance to grow at a faster or slower rate.

## Loan Repayment

The loan is due and payable when you no longer occupy the property as your principal residence or fail to comply with the loan agreement.

The only requirement is that the loan be repaid in one payment. There is no requirement that the property be sold, only that the loan is repaid. This may occur either through the sale of the home or through other resources (such as savings or possibly applying for a new mortgage).

## Effect on Public Benefits

Loan proceeds are not considered income and will not affect Social Security or Medicare benefits because these programs are not based on need.

However, your monthly reverse mortgage advances may affect your eligibility for some other programs. Consult your local program offices to determine how, or if, monthly reverse mortgage payments might affect your specific situation.

<sup>5</sup> Not available in Texas.

# The Reverse Mortgage Process

The process of getting a reverse mortgage involves several phases.

## Education

This is the phase that you are at now. You are taking the time to learn about the reverse mortgage program to determine if it is appropriate for your situation.

## Counseling

As part of the reverse mortgage application process, you are required to participate in a consumer education session with a HUD-approved counselor.

The counselor will explain the legal and financial obligations of the program as well as any alternatives you may have. A reverse mortgage is not for everyone, so this step will help you ensure you are making the right decision.

After the session has been completed, you are given a Certificate of Borrower Counseling, which is valid for 180 days after the session. You must then present this certificate to the lender as proof that you have attended and completed the counseling session.

## Application

Your home mortgage consultant will sit down with you and help you complete and sign the loan application. Once you have submitted your completed application, you will receive a disclosure the estimated total cost of the loan, as required by federal Truth in Lending Act.

## Appraisal

A professional appraiser will be used to determine the value of your home which will be used to calculate the amount you can receive as part of your reverse mortgage.

## Home Insurance

Most lenders will require that you show proof that you have purchased home insurance or hazard insurance which will protect you in case your home is destroyed as a result of fire, theft or some other disaster. If you already have home insurance, make sure your policy is up to date, payments are current and, you have the minimum amount of coverage required by your lender (if applicable). You may, however, want to purchase a larger policy to make sure you're protected from additional losses.

## Mortgage Insurance

Your lender will also require a mortgage insurance policy. This will protect you and your heirs by insuring that the amount required for repayment of the loan will never exceed the value of your home when payment is due. An initial premium will be due upon closing your loan. This payment can be financed as part of your reverse mortgage proceeds.

## Title Insurance

There are two types of title insurance: one protects the lender and one protects the borrower.

Title insurance is purchased as protection from claims against your ownership of the property. Such claims may be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties.

Your lender will most likely require you to purchase a title policy, which will cover their interests in the property. It's up to you to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide additional information about the policies available in your area.

## Closing

Loan processing typically takes approximately 6-8 weeks before the closing can take place.

The closing for a reverse mortgage typically takes place in your home. The loan documents, including the mortgage or deed of trust, are forwarded to you to simply sign where directed and pay any applicable closing costs. You then have 3 days in which you can cancel the mortgage if you change your mind. Any cash disbursements due to you will be forwarded from the processing center after the 3 days have expired.

## Setting the Closing Date

Closings must be coordinated with many parties that may include: the lender, yourself, your attorney, and the title company representative.

## Last-Minute Detail Check

A few days before the closing, your home mortgage consultant will help you go through a checklist of what you'll need to finalize and close your loan. Including:

- **Closing costs and escrow amounts**  
Your Good Faith Estimate may not include all closing costs such as interim interest or property taxes. Finalize actual costs at this time with your closing agent to avoid last-minute surprises.
- **Acceptable method of payment**  
In most cases certified or cashier's checks must be prepared in advance.
- **Any additional items needed**  
Some counties require photo ID, evidence of hazard or flood insurance or other miscellaneous documents. This is the time to gather any ID and miscellaneous paperwork that may be required at closing.

## After the Closing

With a reverse mortgage, you have responsibilities similar to those associated with a traditional mortgage.

**You are expected to:**

- Pay property taxes
- Keep adequate property insurance up-to-date
- Maintain the home

# Questions and Answers

**Q. Am I qualified for a reverse mortgage if I currently have an existing loan on my home?**

**A.** Yes, but the existing loan must be paid off prior to or at the settlement of the reverse mortgage. Quite often the reverse mortgage is used to refinance an existing loan.

**Q. My property is held in a Living Trust. Do I qualify?**

**A.** Yes, as long as you are the primary trustee and are qualified by age.

**Q. To avoid probate, my children and I own the property in joint tenancy. Do we qualify?**

**A.** Yes, if the children are age 62 and older and live in the property. Otherwise, they would need to be taken off title prior to settlement.

**Q. Does the IRS consider the monthly advances from the reverse mortgage income?**

**A.** No. The cash advances are actually loan distributions and are not considered income. The cash advances are tax-free<sup>6</sup>.

**Q. Are mobile homes eligible?**

**A.** Yes. The home must have been built in 1977 or later and have permanent foundation that is approved by FHA.

**Q. My spouse is permanently in a nursing home. Can we participate?**

**A.** Yes. The requirement is only that one owner occupies the property as a principal residence.

**Q. Are there restrictions on how I can use the money?**

**A.** No. Of course not, after all - It's your money.

**Q. Can the lender take my home away if I outlive the loan?**

**A.** No! Nor is the loan due. You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. You can never owe more than your home's value.

**Q. Will I still have an estate that I can leave to my heirs?**

**A.** When you sell your home or no longer use it for your primary residence, you or your estate will repay the cash you received from the reverse mortgage, plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs. None of your other assets will be affected by HUD's reverse mortgage loan. This debt will never be passed along to the estate or heirs.

Your heirs will be able to choose whether to keep the house or sell it. If they decide to keep the home, they must pay the balance due on the reverse mortgage. Otherwise, they may sell the home and use the proceeds to pay off the remaining mortgage. They get to keep any excess proceeds from the sale of the house.

<sup>6</sup> Consult your tax advisor for details.

# Helping Hands

## Place Your Reverse Mortgage Needs in Experienced Hands

Getting a reverse mortgage is about more than just getting a loan. You can count on a Wells Fargo Home Mortgage consultant to help you find the best program for your needs and provide any additional guidance you might need along the way. Here's what our mortgage consultants can offer you:

- **Education.** Our specially trained and highly qualified mortgage consultants are focused on finding the program that works best for you, not just closing a loan. Their goal is to provide you with clear advice, taking into account your short- and long-term financial objectives.
- **Service.** Your mortgage consultant can provide you with assistance even after your loan closing. In most cases, you'll have a local contact to call directly regarding any issues or concerns with your loan.
- **Discounts and Benefits.** As your direct link to Wells Fargo Home Mortgage, your mortgage consultant has access to a variety of exclusive benefits and discounts. You'll also have access to our online banking and bill pay services, making it easy for you to bank with us.
- **Reputation.** Wells Fargo has 150 years invested in its reputation, and our mortgage consultants maintain that reputation through quality service and representation.

## Service — How, When and Where You Prefer

- **Locally**  
Whether you visit us in a mortgage office or a Wells Fargo Bank branch, our home mortgage consultants are available in more than 1,400 locations in 50 states. Wells Fargo Home Mortgage is ready to meet your financing needs.
- **By Phone**  
If you are someone who prefers to apply by phone, Wells Fargo Home Mortgage can handle your mortgage application entirely by phone. Call us at 1-877-937-9357. You always have the option, though, to visit one of our local offices. It's your choice.
- **Internet**  
Visit our Web site at <http://www.wellsfargo.com/mortgage> to find out about our extensive array of products, explore mortgage options, or even begin the application process. Or simply use our Web site for research and information and then speak to a home mortgage consultant in person or by phone.

No matter how you choose to work with us, you can depend on our staff to provide you the best home-loan solutions.

## **Wells Fargo. The Next Stage®.**

For nearly six generations, the Wells Fargo name has stood for reliability, integrity and pioneering products and services that help people manage their money and grow their assets. Wells Fargo & Company is a multibillion-dollar diversified financial investment and consumer financial services company.

As part of the Wells Fargo family, Wells Fargo Home Mortgage can provide easy customer access to additional products and services to help achieve new goals and realize new dreams, today and in the future.

Your team of mortgage lending professionals wishes you many more happy, healthy years in your home. We hope you'll stay in touch and let us know how you're doing. If we may be of service to you, your friends or family members in the future, please give us a call.

# Mortgage Terms

**Adjustable-Rate Mortgage** – A loan with an interest rate that changes with market conditions on pre-determined dates.

**Annual Percentage Rate (APR)** – A term used to represent the percentage relationship of the total finance charge to the amount of the loan, over the term of the loan. Do not confuse the APR with your quoted interest rate, which is used to determine your monthly principal and interest payment. The APR reflects the cost of your mortgage loan as a yearly rate. It will be higher than the interest rate stated on the note because it includes (in addition to the interest rate) loan discount points, fees and mortgage insurance.

**Appraisal** – A report written by a qualified expert that states an opinion on the value of a property based on its characteristics and the selling prices of similar properties or comparable properties in the area.

**Appreciation** – An increase in the value of a house due to changes in market conditions or other causes.

**Automated Underwriting** – A computerized method of reviewing home mortgage applications for loan approval.

**Clear Title** – Ownership of the property that is free of liens and legal questions as to ownership of the property.

**Closing** – The final step after a lender approves an application. The occasion when a borrower signs loan documents, including the mortgage or deed of trust, and when closing costs are paid. Also referred to as the “settlement.”

**Closing Agent** – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

**Closing Costs** – The costs to obtain a mortgage loan. Closing costs cover any services and charges - such as title search and insurance, appraisals, surveys, credit histories, required inspections, taxes, and recording fees - that are necessary to complete the transaction.

**Commitment Letter** – A binding, written pledge, by the lender to a mortgage applicant, to make a loan, usually under certain stated conditions.

**Counseling Session** – Before a homeowner can apply for a reverse mortgage, they are required to attend a consumer education session with a HUD-approved counseling agency. The purpose of the session is to explain the legal and financial consequences of obtaining a reverse mortgage.

**Credit Report** – A report issued by an independent agency which contains certain information concerning a mortgage applicant’s credit history and current credit standing.

**Deed of Trust** – The legal document conveying title to a property.

**Equity** – Your ownership interest, or that portion of the value of the property that exceeds the current amount of your home loan. For example, if the property is worth \$100,000 and the loan is for \$75,000, then you have \$25,000, or 25% equity in your home.

**Good Faith Estimate** – A document that tells mortgage borrowers the approximate costs they will pay at or before closing based on common practices in the locality.

**Home Equity Conversion Mortgage (HECM)** – A type of FHA-insured reverse mortgage.

**Home Keeper® Mortgage** – A type of Fannie Mae reverse mortgage.

**Home Mortgage Consultant** – The Wells Fargo Home Mortgage representative a prospective customer initially consults about a mortgage loan. Sometimes called a loan officer, account executive, or sales representative.

**Homeowner's Insurance (also called Hazard Insurance)** – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

**HUD-1 Settlement Statement** – A standard form used to disclose costs at closing.

**Index** – Interest rate adjustments on adjustable-rate mortgage (ARM) loans are based on a specific “index” or treasury issue (bond) which is selected because it is a reliable, familiar financial indicator. Your monthly interest rate payment will be adjusted up or down in relation to this market indicator, plus the margin as specified in your note.

**Interest Rate** – The interest that is paid to the lender for the use of the money, usually expressed as an annual percentage rate.

**Lien** – A legal claim against a property as security for a payment of an obligation.

**Loan Balance** – The outstanding balance of a reverse mortgage loan. Equal to principal plus financed fees plus all accrued interest.

**Loan Conditions** – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the customer must meet prior to closing.

**Loan Proceeds** – Payments to a customer through a reverse mortgage.

**Loan Settlement** – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage transaction.

**Loan-to-Value (LTV)** – The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.

**Margin** – The number of percentage points added to the index to calculate the interest rate for an adjustable-rate mortgage (ARM) at each adjustment period.

**Mortgage** – A legal document that pledges a property to the lender as security for payment of a debt.

**Mortgagee** – The lender.

**Mortgage Insurance (MI)** – An insurance policy which will repay a portion of the loan if the borrower does not make payments as agreed upon in the note. In the reverse mortgage program, the MIP protects the lender against the risk that the loan balance might at some time exceed the value of the home.

**Mortgage Insurance Premium (MIP)** – The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

**Mortgagor** – The borrower.

**Mortgage Specialist** – The Wells Fargo Home Mortgage employee responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.

**Note** – The agreement which states the home mortgage amount to be borrowed and the terms and conditions of the loan. It also includes a completed description of how the loan should be repaid and the timeframe for repayment.

**Origination Fee** – The amount collected by the lender for making a loan. It is generally equal to a percentage of the principal amount borrowed. It is charged to cover the lender's costs in preparing the initial loan application and the processing of the loan.

**Principal** – The amount of a loan, excluding interest; or the remaining balance of a loan, excluding interest.

**Private Mortgage Insurance (PMI)** – A mortgage insurance policy on a conventional mortgage loan issued by a private insurance company.

**Principal Residence** – The property is considered the primary residence of the borrower.

**Processing** – The completion of a mortgage loan application and supporting documents.

**Rate Cap** – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

**Refinance** – The process of paying off one loan with the proceeds from a new loan secured by the same property.

**Servicing Fee** – The fee paid by the borrower to cover record-keeping and other administrative costs of processing mortgage payments. This flat fee will be added to the outstanding loan balance each month.

**Settlement** - See Closing.

**Title** - A legal document establishing the right of ownership.

**Title Search** - A check of title records to ensure that a person is the legal owner of a property and that there are no liens or other claims outstanding on the property.

**Truth-in-Lending Statement** – Required by federal regulations, this statement tells borrowers the costs of financing their loan expressed as the annual percentage rate (APR).

**Underwriting** – The process of a lender reviewing the application, documentation, and property prior to rendering a loan decision.