



IMPORTANT INFORMATION

A Guide to **Family Mortgages**

The smart way to manage mortgage loans between family members.

A Guide to Family Mortgages

This guide is all about how an intra-family mortgage loan can help someone:

Buy a Home



Buy a Relative's Home



Reverse Mortgage



If you would like to learn more about how our products and services can assist with the two other scenarios featured above, please go back to our website and download the appropriate free guide.

We support intra-family Reverse Mortgage loans in the following US states:

Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois*, Indiana, Kentucky, Louisiana, Massachusetts, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin.

(This means the Borrower's subject property is located in one of the US states listed directly above.)

* If the Borrower's subject property is located in Cook, Kane, Peoria, or Will County, the local Estate attorney or Elder attorney who will otherwise conduct the Borrower's loan closing must obtain a Private Lending Exemption Certificate (PLEC) from the state of Illinois Anti-Predatory Lending Department as required under state law in order to record the Mortgage.

If you wish to structure a loan and the Borrower's subject property is not located in one of the US states listed directly above, unfortunately, we cannot help you.

Please read our company "Standards" on Page 5 for complete restrictions and limitations.

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THE LEGAL FINE PRINT

BEFORE WE GET STARTED, WE'D LIKE TO GIVE OUR LEGAL TEAM THEIR MOMENT IN THE SPOTLIGHT. The material in this guide should be used for general guidance and informational purposes only and is not geared toward any specific transaction or goal. Every transaction is unique and questions about your specific loan transaction, its circumstances, or any recent changes to the laws of your state that might affect your loan should be directed to a licensed legal or real estate professional in your state. We recommend that you consult an attorney or tax advisor before entering into a financial transaction of this nature. National Family Mortgage, LLC is not a law firm and does not provide legal advice or tax advice. National Family Mortgage, LLC is not a Lender or a loan broker and does not originate loans on behalf of other parties. The information contained herein is the sole property of National Family Mortgage, LLC, and may not be reproduced or redistributed for any purpose without the express written consent of National Family Mortgage, LLC. National Family Mortgage® does not offer a solution for every intra-family real estate situation. Please review our "Standards" on Page 5 of this guide, and also found on our website, for complete restrictions.

At a Glance

Loans funded to date: Over \$1,000,000,000

Smallest loan to date: \$11,100

Total interest kept in families: Over \$500,000,000

Largest loan to date: \$3,225,000

We are not a bank. We are not your attorney, financial advisor, or accountant. (Although, we'd love to meet them.) We are a niche online company that serves families who are thinking about borrowing, lending, or gifting money with relatives to help purchase a home, stay in a home, or buy a relative's home. Our customers directly invest in and borrow from their own family, avoiding the high cost and red-tape of a broken mortgage system.

Since launching in late 2010, National Family Mortgage® solutions have helped thousands of families across the US lend over **\$1 Billion** in home loans between relatives, while keeping over **\$500 Million** of interest within families. We've been featured on the front page of USA Today, we've won some pretty big awards, and we've saved (and made) our customers a lot of money.

Real estate loans and financial gifts with relatives can be a win-win for both sides, but should always be documented. A National Family Mortgage® helps minimize the legal, tax, and personal consequences that can occur when family real estate loans and financial gifts are handled informally — or not documented at all.

Mortgage Loans That Fit You

Loans and mortgages between family members reflect an age-old impulse to lend a helping hand. Family loans are typically used for big life events: to buy a home, to start a business, or to finance an education. But, mixing money and relationships can be awkward, and sometimes, even cause legal problems. We're here to help.

A National Family Mortgage® helps families set up their own mortgage with their own relatives. We help Lenders make loans they feel good about, that help prevent legal and tax problems, that protect relationships, and get repaid. Borrowers generate a low-interest, tax-free recurring revenue stream funded by their loved ones.

Lenders generate a solid investment return at stronger rates than they would earn in a bond, money market, or a savings account, knowing their money is secured by a registered mortgage lien. Borrowers get a more flexible loan with lower interest rate and lower origination fees than they would with an institutional mortgage loan.

Some families use a National Family Mortgage® to simply prevent IRS scrutiny of federal gift tax returns. Other families use a National Family Mortgage® to protect their family's home from bank, Medicaid, or other creditors.

A National Family Mortgage® can provide the legal structure and tax benefits of a bank mortgage with an unmatched flexibility that fosters a true win-win transaction for the entire family.

Best of all, a National Family Mortgage® helps families build wealth and keep money where it belongs — with their own family.

Our goal is to make Family Mortgage lending and borrowing safe, easy, secure, and successful.

Hopefully, this guide will give you a clear understanding about what we do and how we do it!

Caregiver Mortgage ® Company Standards

In order to provide the greatest number of clients efficient, exceptional service, we target specific, common Family Mortgage transactions that allow us to offer a strong value. We sincerely believe that we're the best at what we do, but sometimes, we're simply not the right solution. We're okay with this. Sometimes, complex real estate transactions require the expertise of a local attorney or other applicable service providers.

Please review our Standards below to help determine if your transaction falls within our service model.

If we're the right fit, everything you need to know is in this guide. Thank you for your time and we look forward to helping you!

THE LOAN PARTIES

A National Family Mortgage ® only supports loans between immediate family members as defined below. We cannot support the creation of backdated Loan Documents or the creation of Loan Documents after-the-fact.

All Borrowers and Lenders must be US residents and have either a US Social Security Number or Tax ID Number. The Lender and at least one Borrower must share one of the following relationship dynamics, including adoptive and step relationships:

**Grandparent <> Grandchild Sibling <> Sibling
Parent <> Child**

If the Lender is legally married and lending personally, then their spouse must also appear on the loan as Lender #2. Likewise, if the Borrower is legally married, then their spouse must also appear on the loan as Borrower #2 and also appear on the deed / title of the subject property.

Loans may also be made from or to a Trust, (Family, Irrevocable/Revocable, Living, Realty), provided the Grantor/Trustee of the Trust and at least one counter-party (Borrower/Lender) share one of the family relationship dynamics listed directly above.

The Caregiver Mortgage ® can support up to three separate households that may contribute to the loan.

We do not facilitate loans between Aunts/Uncles and Nieces/Nephews, Spouses, Ex-Spouses, Cousins, Godparents/ Godchildren, Friends, Colleagues, or loans to or from family-owned FPs, FLPs, LLCs, LPs, LLPs, PLLCs, S-Corps, Land Trusts, Life Estates, or Self-Directed IRAs.

The Lender may not co-own the subject property with the Borrower.

THE LOAN PURPOSE: INTRA-FAMILY REVERSE MORTGAGE (FAMILY FUNDED CREDIT LINE)

We support Intra-Family Reverse Mortgage (Family Funded Credit Line) Loans in the following US states:

Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois*, Indiana, Kentucky, Louisiana, Massachusetts, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Washington, Wisconsin.

This means the Borrower's subject property is located in one of these states listed directly above.

* If the Borrower's subject property is located in Cook, Kane, Peoria, or Will County, the local Estate attorney or Elder attorney who will otherwise conduct the Borrower's loan closing must obtain a Private Lending Exemption Certificate (PLEC) from the state of Illinois Anti-Predatory Lending Department as required under state law in order to record the Mortgage.

All Reverse Mortgage (Family Funded Credit Line) transactions are considered “Private Financing” and the Loan Agreement must be included in the Borrower’s settlement with the local Estate attorney or Elder attorney who will otherwise conduct the Borrower’s loan closing. It is the settlement attorney’s responsibility to oversee and confirm the execution of the Loan Documents and the perfection of the real estate lien.

THE PROPERTY DETAILS

All intra-family Loans will be secured by a residential single-family home, condominium, or townhouse located in the US. Single-family homes may include a properly permitted Accessory Dwelling Unit (ADU).

The property may be the Borrower’s primary residence, or secondary residence (vacation home).

All intra-family loans will be secured by a Promissory Note and the proper state and county specific real estate lien as either a primary lien or a secondary lien, including any Riders and Addenda as appropriate.

Mortgage | Deed of Trust | Security Deed (One of these three lien types will be used, as required by state law.)

We **do not** support Loans secured by the following types of properties, especially when zoned as such by local authorities:

Agricultural / Farm Land	Co-Operatives	Commercial / Retail Property
Duplex / Multi-Family Property	Foreclosure Properties and/or Short-Sales	Leasehold Properties
Forest, Mountain, Rural Property	Intentional Communities	Vacant Land
Manufactured Homes	Mobile Homes / Tiny Homes	
Tenant in Common Property	Relocation Properties (Corporate Relocation Package)	

We **do not** support transactions documented under the following circumstances or agreements:

Construction Loans	Contract for Deed	Wrap-Around Mortgages
Lease to Purchase Agreements	Leasehold Agreements	

THE LOAN TEMPLATE

The Caregiver Mortgage ® : Reverse Mortgage Like, Family Funded Line of Credit Template

All intra-family loans must meet or exceed the proper IRS Applicable Federal Rate at the time the Loan is made.

All intra-family loan repayment periods must be between 1 – 30 years.

All intra-family loan late payment fees charged to the Borrower shall be a minimum of 1.00% and a maximum of 3.00% of the Borrower’s standard monthly payment amount.

(This late payment fee will only apply to the Borrower’s final, lump-sum payment.)

All intra-family loans include a payment grace period of 15 days.

All intra-family loans have no pre-payment penalty.

(Again, this grace period will only apply to the Borrower’s final, lump-sum payment.)

We do not allow backdated Loan Documents or permit the creation of Loan Documents after-the-fact.

Standards continued >

LOAN SETUP FORM SUBMISSION

The Loan Setup Form should be submitted no more than three weeks before the Borrower's projected loan settlement date, and no less than two weeks before the Borrower's projected loan settlement date.

Either the Borrower or the Lender may submit our online Setup Form and submit our one-time setup fee, with the following exceptions:

(1) If the Borrower's property is in Kentucky, Maryland, Texas, or Virginia, the Borrower must submit the online Setup Form and submit our one-time setup fee.

In the event multiple households are funding the loan, one Lender must take responsibility for submitting the Loan Setup Form and for paying our one-time setup fee. However, as explained directly above, if the Borrower's subject property is in Kentucky, Maryland, Texas, or Virginia, the Borrower must submit our online Setup Form and submit our one-time setup fee.

Each individual Lender and Borrower must have their own, unique email address.

THESE STANDARDS ARE NOT ALL INCLUSIVE AND YOUR UNIQUE OR UNUSUAL CIRCUMSTANCE MAY NOT BE SUPPORTED BY OUR PLATFORM. WE DON'T MAKE ANY EXCEPTIONS TO THESE STANDARDS. IF YOUR SPECIFIC, UNIQUE TRANSACTION IS NOT SUPPORTED BY OUR PLATFORM, PLEASE CONSULT A LOCAL ATTORNEY OR OTHER APPLICABLE SERVICE PROVIDER FOR HELP.

NATIONAL FAMILY MORTGAGE AS FEATURED BY:



The Caregiver Mortgage®



Introducing The Caregiver Mortgage®

Dear National Family Mortgage,

I'm hoping you might be able to help me through a delicate family financial situation. My parents are retired and in their 70's; I've been supplementing their cash-flow needs for the last few years. Some months I provide them with a few hundred dollars, other months it may be a few thousand, some months it may be nothing at all.

We looked into getting my folks a traditional reverse mortgage, but we're completely turned off by the high origination fees and annual insurance premiums. So far, it's seemed easier to just help my parents myself. I'm grateful that I can afford to supplement their cash-flow, but I'm starting to have some concerns.

It's occurred to me that I might be helping them for another ten years or more. Today, it's basic expenses; but, in time there could be more expensive health care costs. This money is already starting to add up, and to date, I'm not tracking it very closely. If anything ever happens to me, I need to make sure my spouse and kids are repaid.

I also have siblings who aren't helping my parents much; I'm worried that when my folks are gone and we need to settle the estate, there's going to be a family cash grab. I don't expect my brothers and sisters to compensate me fairly for all of the financial assistance I've given my parents over the years.

Recently, every time I send my parents money, I feel like I'm financing my siblings' inheritance!

Since my parents have significant equity in their home, is there any way NFM can help me formally structure and manage a family-funded reverse mortgage? I'm already acting like a bank! I'm interested in the legal documents and loan accounting that will enable me to protect myself, and my own spouse and children, to simply get repaid what I'm owed one day. When my parents' home is eventually sold, or their estate is ultimately settled, I'll get paid back what I'm owed, and the remainder of my parents' estate will be divided with my siblings according to my parents' wishes. Do you have a solution like this?



What is The Caregiver Mortgage ®?

The Caregiver Mortgage ® is a secured line of credit funded by the relatives of a homeowner. It allows the homeowner to receive tax-free cash borrowed against home equity, knowing that their own family — not an institution — is building equity in their home. It offers many of the features and benefits that attract people to institutional reverse mortgages, but without the high costs and restrictions.

Our easy and transparent process is designed to facilitate sibling participation if needed, foster open communication, and maintain harmony between extended family members.

Adult siblings or other close relatives can pool their resources and crowd fund a family funded reverse mortgage for a loved one. Sometimes, the Caregiver Mortgage ® is an even better solution to protect the financial health of caregivers with adult siblings who aren't helping their aging parents at all.

Our award winning, patented Caregiver Mortgage ® manager ensures family expectations are clear, relationships are protected, and year-end tax reporting is simple.

Midlife Adults Commonly Provide Financial Support to Aging Parents

- Over **78%** of US Caregivers are incurring out-of-pocket expenses as a result of caregiving.*
- Financial Caregivers collectively spend an estimated **\$190 Billion** each year on out-of-pocket care-related expenses.**
- **Financial Caregivers often sacrifice their own financial health, and their own retirement needs, and are usually never repaid!**

The Caregiver Mortgage ® might be the solution you've been looking for!

What Does a Caregiver Mortgage ® Cost? — \$1,825

	Institutional Reverse Mortgage	The Caregiver Mortgage ®
Cost	\$6,000 - \$10,000	\$1,825 ✓
Monthly Service Fees	\$25 - \$35	\$0 ✓
Age Requirements	Must be at least 62 years old	None ✓
Property Requirements	Must be primary residence	Primary/Secondary residence ✓
Interest Rate	May be fixed or variable	Fixed as chosen by family ✓
Home Disposition	Home is sold and debt repaid	Home is sold and debt repaid or home stays in family ✓
Disbursement Schedule	Usually 1 – 3 preset options	Flexible for life of loan ✓
Financial Counseling	Mandatory HUD requirement	None ✓
Initial Mortgage Insurance Premium	2.00% of the loan amount	None ✓
Annual Mortgage Insurance Premium	0.50% of the loan balance	None ✓

The Caregiver Mortgage ® Manager

Our award winning, government patented, online Caregiver Mortgage ® Manager helps Lenders manage their loan:

- Online account access & full loan accounting
- Annotate disbursements
- Upload & attach images, receipts, or bank statements
- Individual annual tax reports
- Individual and group payoff statements
- Federal Patent No. US D788,142 S
- 90 day, full-refund, money-back, guarantee

What Does This One-Time \$1,825 Setup Fee Include?

- ✓ **Dedicated Family Mortgage Team Member.** Your family will be assigned a dedicated Family Mortgage Team Member to guide you throughout the entire process. We help families take the simple, often overlooked steps that make sense when borrowing or lending money with a family member. Mortgage loans can be especially tricky. What's the secret to our success? Experienced, friendly, and reliable support from our team — every step of the way! We are also happy to connect with your financial planner or tax consultant to ensure an easy and efficient Family Mortgage experience.
- ✓ **Promissory Note.** The Promissory Note is the core document that establishes the legal debt between the Borrower and Lender, and defines how that debt is going to be repaid. This document also helps the Lender demonstrate to the IRS that the family exchange of money is a legitimate loan and not a potentially reportable gift. If your loan has multiple Lenders, the Promissory Note will also include a Joint Lenders Agreement.
- ✓ **Mortgage / Deed of Trust / Security Deed.** This important additional document is the real estate lien security instrument through which the Borrower offers their property as collateral to the Lender in exchange for the loan. Generically, nearly all folks will refer to a real estate lien as a "Mortgage." However, while roughly 1/2 of the US uses a real estate lien document literally called the Mortgage, the other 1/2 of the US technically uses a real estate lien document called the Deed of Trust.
- ✓ **Coordination with Borrower's Settlement Agent.** National Family Mortgage ® will coordinate scheduling details and expectations with the Borrower's Estate attorney or Elder Attorney who will otherwise conduct the Borrower's loan closing. As with an institutional lender, the Borrower's settlement agent is responsible for ensuring the execution of the Loan Documents and for the recording of the real estate lien with the local government authority (Register of Deeds, County Clerk Recorder, Town Hall, etc.) Of course, the "Family Bank" deserves to be equally protected as a commercial lending institution!

NFM offers a 90 day refund of your purchase, valid at any time prior to either the execution of or the government registration of the Mortgage Loan Documents. All refunds are subject to a \$75 processing fee. Therefore, the refund will equal the one-time setup fee paid, less the \$75 processing fee.

Taxes

What Does This Cost?

State Recording Taxes

In addition to our one-time setup fee, the following states require various Deed of Trust / Mortgage / Security Deed taxes be paid at the time of document recording with the proper government authority. It is the client's responsibility to pay all required local government document recording taxes. These taxes only apply when the Borrower's home is in one of the states listed below. National Family Mortgage ® will coordinate scheduling details and expectations with the Borrower's closing attorney, title company, or escrow company, who will collect the required taxes at settlement. **While we strive to keep the following estimated recording taxes up to date, please confirm current tax rates with the Borrower's loan closing attorney.**

Alabama

\$0.15/\$100

Georgia

\$0.30/\$100

Florida

Intangible Tax: \$0.70/\$100*

Documentary Stamp Tax: \$0.35/\$100

*Miami-Dade County: \$0.60/\$100 plus surtax of \$0.45/\$100

Minnesota

\$0.23/\$100

Hennepin and Ramsey Counties: \$0.24/\$100

Maryland (By County)

Purchase Money Deed of Trust is not subject to recordation tax to the extent of the amount of "consideration payable" on which recordation tax is paid on the Purchase Deed.

Baltimore, Howard:	\$0.50/\$100	Queen Anne's:	\$0.99/\$100
Prince George's:	\$0.55/\$100	Baltimore City, Calvert,	
Hartford, Kent, Somerset, Worecester:	\$0.66/\$100	Caroline, Carroll, Charles, Dorchester:	\$1.00/\$100
Allegheny, Anne Arundel, Garrett, Wilcomico:	\$0.70/\$100	Talbot:	\$1.20/\$100
Washington:	\$0.76/\$100	Frederick:	\$1.40/\$100
St. Mary's:	\$0.80/\$100	Montgomery:	\$0.89/\$100 on first \$500K
Cecil:	\$0.82/\$100		\$1.35/\$100 above \$500K

New York (By County)

Chemung, Chenango, Jefferson, Montgomery, Otsego, St. Lawrence, Tioga, Ulster: \$0.75/\$100

Allegany, Broome, Cayuga, Clinton, Cortland, Delaware, Erie, Franklin, Fulton, Hamilton, Herkimer, Lewis, Madison, Monroe, Niagara, Oneida, Onondaga, Ontario, Orleans, Oswego, Sarasota, Schoharie, Schuyler, Seneca, Sullivan, Tompkins, Yates: \$1.00/\$100

Dutchess, Nassau, Orange, Putnam, Suffolk: \$1.05/\$100

Albany, Cattaraugus, Chautauqua, Columbia, Essex, Genesee, Greene, Livingston, Rensselaer, Schenectady, Steuben, Warren, Washington, Wayne, Wyoming: \$1.25/\$100

Rockland, Westchester: \$1.30/\$100 Yonkers: \$1.80/\$100

New York City Counties of New York, Bronx, Kings, Queens, Richmond:
All mortgages securing less than \$500K: \$2.05/\$100
Mortgages of single family houses and individual residential condominium units, securing \$500K or more: \$2.175/\$100

When the loan is from an individual, NY state grants a discount of \$0.25/\$100 on the taxes referenced above, provided a 253 (A) Natural Person Affidavit is submitted for recording with the Mortgage. National Family Mortgage ® will confirm the generation of this document with the Borrower's closing attorney or title company.

Tennessee

\$0.115/\$100

Virginia

State Tax: \$0.25/\$100 | City/County Tax: 1/3 of state tax amount

What Does This Cost?



Why do we Need an Estate Attorney or Elder Attorney to Close the Loan?

State laws in over half of the country legally require local attorney participation when closing a loan secured by real estate. As an ever increasing number of states move towards this legal standard, we follow this protocol with every National Family Mortgage® transaction.

Additionally, your local attorney's involvement will help minimize liabilities for all parties, and further ensure a successful arrangement for everyone.

1. Involving your local Estate Attorney or Elder Attorney will help protect Lenders from potential allegations of Elder Abuse by disgruntled family members. Working with a reputable attorney will help Lenders demonstrate that the Caregiver Mortgage® was always meant to be a thoughtful, well-intentioned solution to help the Borrower.
2. Many families find that while considering a Caregiver Mortgage®, several other important Borrower estate planning needs arise, including:
 - A. The creation of the Borrower's Will or Trust
 - B. The Borrower's long-term care planning, including Social Security, Medicare and Medicaid planning
 - C. The creation of a Health-Care Proxy or a Durable Power of Attorney
3. Your local Estate Attorney or Elder Attorney will be able to fully edit and customize your Caregiver Mortgage® Loan Documents to meet your family's unique needs.

Attorney's fees vary widely depending on experience, expertise, and scope of services. Please note, we don't make referrals to local Estate attorneys or Elder attorneys. You select your own loan closing attorney. We can work with any Estate attorney or Elder attorney!

Help a Loved One



A structured credit line to a retired loved one can provide both of you peace of mind. You can empower your Borrower with the resources and freedom to adapt with their changing retirement needs in comfort. Proper documentation also sets clear expectations and prevents future misunderstandings with extended family members. **Provide your loved one with a smart solution that provides predictable financial support, maintains family harmony, and will be repaid.**

Tax / Relationship Protection



Prevent IRS scrutiny. The current IRS annual gift tax exclusion is \$17K per person. If transferring over \$17K to a relative, in order for the exchange of family funds to be considered a legitimate loan and not a reportable financial gift, you must both properly document the transaction and also report earning interest at a rate equal to or above the minimum rate required by the federal government, called the **Applicable Federal Rate (AFR)**. Even if you document the loan, but report earning less than the appropriate AFR, the IRS may impute the interest as income and also view the forgone interest as a financial gift.

National Family Mortgage® will coordinate scheduling details and expectations with the Borrower's Estate attorney or Elder Attorney who will otherwise conduct the loan closing and ensure the registration of your lien with the proper government authority. If anything happens to you, your registered mortgage documentation also protects the interests of your spouse or children who could be affected by the proper accounting of the loan.

Our patented Caregiver Mortgage® Manager (U.S. Design Patent No. D788,142 S) encourages sibling participation. This unique loan management software allows Lenders from multiple households to track individual or collective disbursements, add notes or receipts to their disbursement entries, and calculate year-end tax reports.

A Strong Investment Vehicle



What are your bonds or CDs paying these days? Invest in a loved one and earn a solid return. Protect your family's home for future generations if desired. The emotional returns are strong, too!

Build Family Wealth



Keep home equity in your family. When the Borrower's home is sold one day, or upon the settlement of their estate, the credit line is repaid. **Save your loved one thousands of dollars in interest, annual insurance premiums, and high fees charged by reverse mortgage institutions.**

Asset Protection



Protect your family's home from banks, Medicaid, and other creditors. You can rest assured that your investment is protected with a registered mortgage lien as filed with the proper government authority. This can be especially important when it's time to be repaid; help reduce misunderstandings between estate beneficiaries and siblings during challenging times.

Borrower Benefits



Tax-Free, Cash Income Stream

Generate a tax-free recurring revenue stream funded by your loved ones. Spend or invest the money however you choose. Live more comfortably and enjoy your retirement.



A Low Interest Rate

Often, interest rates charged through intra-family loans are lower than rates charged through banks and traditional lending institutions. **On average, National Family Mortgage® interest rates are between one to two full points lower than banks, which can add up to thousands of dollars in interest savings over the life of the loan.**

Odds are you will also provide your Lender with a better return than most CDs or savings bonds available today. You will also be keeping money in your family!



Low Fees

Traditional reverse mortgage lenders usually require high up-front origination fees, monthly insurance premiums, property inspections, and on-going service fees. **You can save thousands of dollars in closing costs with a Caregiver Mortgage®.**



Tax / Estate Protection

Prevent IRS scrutiny. National Family Mortgage® registers your loan with the appropriate government authority. **Proper documentation sets clear expectations and prevents future misunderstandings between your children.** Our loan management platform keeps a clear record of all disbursements, and a clear accounting of the loan.



Protect Your Home

Continue to live in and own the home you love. Beat the bank; let your loved ones build equity in your home and protect it for future generations.



Flexibility

You qualify as long as your loved ones trust that you or your estate can pay back the loan one day. There is no age requirement. There is no HUD counseling requirement. You are not constrained by lending limit caps. A traditional reverse mortgage application can take weeks of work and waiting with no guarantee of approval. You and your family set the loan terms.

IRS Applicable Federal Rates

Please visit our website to review current IRS AFRs

Know The IRS Applicable Federal Rates

Each month, the IRS publishes an interest rate index called the Applicable Federal Rates (AFRs). These interest rates are determined by a variety of economic factors, including the prior thirty day average market yields of corresponding US treasury obligations, such as T-bills. The Applicable Federal Rates are used for various purposes under the Internal Revenue Code — including the calculation of imputed interest on below market loans between family members.

(We'll explain what "imputed interest on below market loans" means in a moment.)

When it comes to family loans — especially loans above \$10,000 — the IRS Applicable Federal Rates represent the absolute minimum market rate of interest a Lender should consider charging a Borrower in order to prevent unnecessary tax complications.

There are three AFR tiers based on the repayment term of a family loan:

- (1) Short-term rates, for loans with a repayment term up to three years.
- (2) Mid-term rates, for loans with a repayment term between three and nine years.
- (3) Long-term rates, for loans with a repayment term greater than nine years.

A Lender should assess two main factors when selecting the appropriate IRS Applicable Federal Rate for a family loan:

- (1) The length of the agreed upon repayment term of the loan.**
- (2) The IRS Applicable Federal Rate for that repayment term during the month in which the loan is made.**

The IRS Applicable Federal Rates change monthly. Typically, the IRS will announce the minimum required rates for transactions occurring in an upcoming month, around the twentieth day of the preceding month. When structuring a term loan, so long as the parties meet or exceed the appropriate AFR in effect at the time the loan is made, the rate is essentially "locked in" for the life of the loan. Generally speaking, these rates are significantly lower than market rates offered by a bank. [See IRC Sec. 1274\(d\)](#)

If a Lender chooses to simply not charge a family member a rate of interest at least equal to or above the appropriate Applicable Federal Rate in effect at the time a family loan is made, the IRS may impute the interest by taxing the Lender on the difference between the Applicable Federal Rate and the interest rate the Lender actually charged.

In other words, you lend a loved one over \$10,000, and never charge or collect a penny of interest income on the family loan, the IRS requires you to pay income taxes on the earned interest income the IRS believes you should have received, based on the AFR at the time the loan was made. [See IRC Sec. 7872\(a\) & 7872\(e\) & 7872\(f\)\(2\)](#)

In addition to holding the Lender responsible for the taxable imputed interest, the IRS also assumes that since the Borrower did not make the required interest payments, the Lender is considered to have gifted the Borrower the money to pay the interest that was due. [See IRC Sec. 7872\(f\)\(3\)](#)

The IRS doesn't want us making substantial, interest free loans to our family members. The IRS wants to tax us on required interest income on legitimate loans.

By engaging in a loan with a family member below the appropriate AFR, the Lender is effectively penalized twice — once through taxation of imputed interest, and again by applying the borrower's unpaid interest towards the lender's annual \$17,000 per person tax-free gift limit.

The IRS' annual gift exclusion permits a taxpayer to gift up to \$17,000 annually to each and every family member without penalty. Effectively, an individual could gift \$17,000 to everyone they know, but once any one gift recipient receives a penny more than \$17,000 from an individual donor in the calendar year, that donor must file a gift tax return. [See IRS Publication 559](#)

As always, we strongly encourage all families to discuss their individual financial strategies and potential estate planning and tax considerations with their trusted attorney, financial advisor, or tax advisor.

How it Works — In 10 Steps



Always invest in family.®

How it Works (In 10 Steps)



1

Read this guide.
(Especially our Standards)



2

Submit your Online Setup Form and one-time setup fee to create your documents



3

We will call you to confirm receipt of your Online Setup Form and to answer your questions



4

We will call the Borrower's loan closing attorney to introduce ourselves, explain our business model, and to answer any of their questions



5

Within 7 business days of submitting your Online Setup Form, we will email your comprehensive Loan Documents for your review and approval



6

After you have reviewed and approved your Loan Documents, the documents are emailed to the Borrower's closing attorney. The closing attorney will oversee the execution and government recording of your Family Mortgage



7

Lender makes any initial loan disbursement directly to the closing attorney's client escrow account



8

Borrower signs the Caregiver Mortgage® documents at their loan closing with their attorney



9

Your online Caregiver Mortgage® Manager keeps things business-like, protects relationships, prevents tax problems, and helps ensure future repayment

How it Works — Structuring Your Loan

Structuring Your Loan

Once your family has agreed that the Caregiver Mortgage ® is the right solution for your family, it's time to structure your loan!

The Caregiver Mortgage ® offers Lenders and Borrowers unparalleled flexibility. Our platform has been developed with realistic family situations in mind and encourages participation from multiple Lenders, typically adult siblings with households of their own. Each Lender has the ability to set their individual credit-line that will contribute to the collective credit-line offered by all of the participants. While many Lenders intend to extend a fixed monthly disbursement, the Caregiver Mortgage ® grants the flexibility for Lenders to make disbursements whenever needed; even daily, if necessary.

To ensure your Caregiver Mortgage ® is structured in a way that is successful and meets your family's needs, National Family Mortgage ® has created a one-of-a-kind calculator to help you build your loan. While the Caregiver Mortgage ® does not require Lenders to make monthly cash disbursements, you will notice that both our calculator, and our online Application, do. We have discovered that by taking a conservative approach to structuring your loan, and by assuming there will be monthly disbursements, families can ensure they structure a credit line, interest rate, and term that will truly meet their needs. While in reality, no monthly disbursement is even required, budgeting for a standard monthly disbursement provides a conservative baseline projection for the loan. It's better to budget for a credit line you will likely never exhaust, than one that's too low.

With this in mind, we want to ensure that families can accurately project the Borrower's equity position should the loan run its full term. **As with an institutional reverse mortgage, interest accrues monthly. Accrued interest is then added to the outstanding principal balance of the loan.** For this reason, the total credit line within the loan documents is comprised of both projected cash disbursements and the projected accrued interest. We include the accrued interest as part of the credit line as a precautionary measure to help prevent the total debt owed to the Lender from ever exceeding the Borrower's available home equity. We want to help ensure Lenders are repaid!

Value of the Home

Presumably, your family has a reasonable estimate of the value on the Borrower's home. When it's time for National Family Mortgage ® to generate your documents, we will include an electronic property appraisal to help guide you. Many families elect to also pursue a formal property appraisal.

Borrower's Equity Position

Does the Borrower own their home outright? Do they still have a small mortgage balance? Your document package will include a property report, featuring an open lien search, to verify if any other debts are secured by the property. Some families elect to also pursue a full title search.

Loan Term

How old is the Borrower? How long does the Borrower intend to stay in their home? Are they in good health? Remember, the loan term will directly affect the loan amount (credit line.)

How it Works — Structuring Your Loan



Loan Amount

What are the Borrower's cash-flow needs? What if an emergency comes up that requires extra cash? If multiple Lenders (households) are contributing, determine individual household credit lines. Agree upon a collective loan amount that everyone is comfortable with.

Interest Rate

The loan agreement will clearly state the annual interest rate to be charged. The Lender and Borrower should select an interest rate using the following guidelines:

National Family Mortgage® requires all loans be documented at the proper IRS Applicable Federal Rate (AFR) in effect at the time of the first disbursement, with a cap of 6.00%.

Consider the opportunity cost to the Lender. The money loaned would most likely be earning a return if invested elsewhere. Consider that alternative and choose a rate that all parties feel is fair.

The interest rate you select can also be used as an estate planning tool. The higher the rate, the more the Lender will be owed, thereby reducing the taxable value of the Borrower's estate.

Loan Issue Date / Initial Disbursement

Many Caregiver Mortgage® loans begin with an initial large disbursement, followed by regular fixed monthly disbursements. The total credit line will begin, for all Lenders, when an initial disbursement is made by any household. This does not mean other Lenders are required to make their initial disbursement on the same day.

How it Works — Structuring Your Loan



Monthly Disbursements

Again, while the Caregiver Mortgage[®] does not require monthly disbursements, budgeting for monthly disbursements can be extremely helpful in structuring your overall loan. Please note, the legal documents do not require the Lender to disburse funds monthly or even at all. Disbursements are made upon the Lender's sole discretion. While the Lender should be reasonably confident they can keep up with the projected disbursement schedule, things happen in life. People lose their jobs. People get divorced. People get sick. Plan ahead if large expenses, on either side of the family, are anticipated to arise during the term of the loan. Agree to a backup plan in the event the Lender is unable to make disbursements for a time.

Property Appreciation Rate

Our reverse mortgage calculator offers an advanced feature that allows you to factor in the subject property's annual appreciation rate and how this will affect the Borrower's equity position over the life of the loan. The calculator's default appreciation rate is 0.00%. The modern historical, average, annual appreciation rate of US homes is 3.00%.

Cost of Living Adjustments

Our reverse mortgage calculator offers an additional advanced feature that allows you to project annual increases to the monthly disbursement schedule based on an annual Cost of Living Adjustment (COLA). The calculator's default COLA is 0.00%. Monthly Social Security and Supplemental Security Income (SSI) benefits for over 60 million Americans increased by 2.00% in 2018; SSI beneficiaries received a 2.80% COLA increase in 2019, a 1.60% increase in 2020, a 1.30% increase in 2021, a 5.90% increase in 2022, and a **8.70% increase in 2023**.

THIS IS A VERY IMPORTANT CONSIDERATION WHEN STRUCTURING YOUR LOAN!

CALCULATOR EXAMPLE "A"

Borrower's Home Value	\$150,000
Credit Line (Total Loan Amount)	\$97,500
Standard Monthly Disbursement	\$1,000
Term (Years)	7
Interest Rate	4.25%
Initial Loan Disbursement Date	Mar 21 2020

- Borrower's estimated home value.
- Credit Line defaults to 65% of Borrower's Home Equity. Can be adjusted as needed.
- Projected standard total monthly cash disbursement to Borrower.
- Projected loan term (credit line availability).
- Fixed interest rate over projected loan term.
- Initial monthly cash disbursement date.

Close Advanced Options

Borrower's Home Equity	\$150,000
Initial Loan Disbursement	\$1,000
Borrower's Annual Home Value Appreciation Rate	0% *
Borrower's Annual Cost of Living Appreciation Rate	0% *

- Calculator default setting assumes Borrower's Home Equity position is 100%. If there will be other liens on the property, adjust field as necessary.
- Calculator default setting assumes initial cash disbursement equals standard monthly disbursement. Field can be adjusted to accommodate a larger initial disbursement.

Calculator default settings for Annual Home Value Appreciation and Annual Cost of Living Increase equals zero. These fields can be adjusted as desired.

CALCULATE

*National Family Mortgage suggests that the initial loan amount not exceed 65.00% of the Borrower's Home Equity Position

By Feb. 2027 you will have a loan balance of **\$97,500.00** which includes **\$13,632.24** in interest. Borrower's home will be worth **\$150,000.00** leaving **\$52,500.00** in equity. **Please note, any portion of schedule appearing in red means desired credit line has been reached before desired term or vice versa.**

Summary

\$97,500.00 Loan Amount	\$13,632.24 Total Interest	\$150,000 Term End Home Value	\$52,500 Term End Home Equity
-----------------------------------	--------------------------------------	---	---

Monthly Amortization

Yearly Amortization

Date	Loan Disbursement	Interest	Loan Balance	Home Value	Home Equity
Mar. 2020	\$1,000.00	\$0.00	\$1,000.00	\$150,000.00	\$149,000.00
Apr. 2020	\$1,000.00	\$3.54	\$2,003.54	\$150,000.00	\$147,996.46
May. 2020	\$1,000.00	\$7.10	\$3,010.64	\$150,000.00	\$146,989.36
Jun. 2020	\$1,000.00	\$10.66	\$4,021.30	\$150,000.00	\$145,978.70
Jul. 2020	\$1,000.00	\$14.24	\$5,035.54	\$150,000.00	\$144,964.46
Aug. 2020	\$1,000.00	\$17.83	\$6,053.37	\$150,000.00	\$143,946.63
Sep. 2020 - Sep. 2026 has been truncated from view for this example.					
Oct. 2026	\$1,000.00	\$322.20	\$92,296.45	\$150,000.00	\$57,703.55
Nov. 2026	\$1,000.00	\$326.88	\$93,623.33	\$150,000.00	\$56,376.67
Dec. 2026	\$1,000.00	\$331.58	\$94,954.91	\$150,000.00	\$55,045.09
Jan. 2027	\$1,000.00	\$336.30	\$96,291.21	\$150,000.00	\$53,708.79
Feb. 2027	\$867.76	\$341.03	\$97,500.00	\$150,000.00	\$52,500.00
Totals:	\$83,867.76	\$13,632.24	\$97,500.00	\$150,000.00	\$52,500.00

After initial \$1,000 disbursement on March 1, 2020, -- \$3.54 of interest accrues over the month of March and added to the Borrower's loan balance on April 1, 2020. An additional \$1,000 disbursement is also made on April 1, 2020, yielding a loan balance of \$2,003.54.

The IRS requires Lenders to report interest income earnings for the calendar year in which the interest accrued, even though the interest will not be received as cash-in-hand until the loan is over. Taxes on the earned interest are spread out over the life of the loan, not paid in lump-sum when the loan ends.

By February 2027, Lender has made \$83,867.76 of monthly cash disbursements, plus \$13,632.24 of accrued interest, thereby reaching total credit line of \$97,500

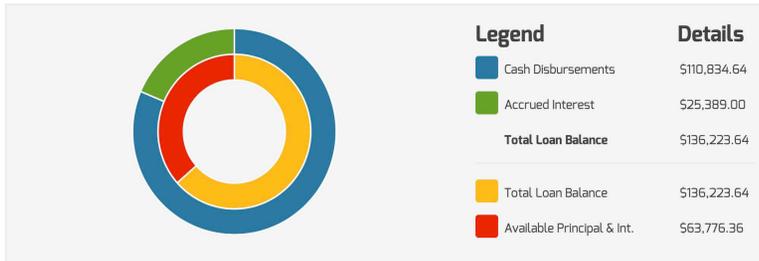
Caregiver Mortgage® Manager - Lender Sample Dashboard



My Loans My Settings Payoff Request Logout

Smith, Mary B. | Boston, MA | Loan # 332146

- Complete Report
- My Report**
- Co-Lender Report
- Tax Report



Add Disbursement / Credit

To enter a Credit (repayment from Borrower to Lender) please enter a negative sign (-) directly before your entry in the Disbursement Amount field below. For example, if the Borrower paid you back 5500.00, then enter: -500.00

Disbursement Amount Annotation (Recommended) Image (Optional) Date (mm/dd/yyyy) **SAVE**

Print

Name	Date	Disbursement / Credit	Interest	Loan Balance	Annotation
Tim & Jeanne Smith	03/01/2020	—	\$328.28	\$136,223.64	—
Tim & Jeanne Smith	02/01/2020	—	\$350.30	\$135,895.36	—
Tim & Jeanne Smith	01/01/2020	—	\$350.27	\$135,545.06	—
Tim & Jeanne Smith	12/26/2019	\$100.00	—	\$135,194.79	View/Edit
Tim & Jeanne Smith	12/24/2019	\$-100.00	—	\$135,094.79	View/Edit
Tim & Jeanne Smith	12/02/2019	\$100.00	—	\$135,194.79	View/Edit

Nov. 2010 - Dec. 2020 has been truncated from view for this example.

Tim & Jeanne Smith	11/01/2010	—	\$7.85	\$9,016.03	—
Tim & Jeanne Smith	10/31/2010	\$5,000.00	—	\$9,008.18	Click to Hide

Annotation: Mom's new roof.

RE-ROOFING • REPAIRS • GUTTERS
 (655) 555-5555 Fax: (655) 555-5555
 123 Elm Street
 Boston, MA 02135 License # 55555X

INVOICE INVOICE # 13

Name Date

Address

City State Zip

Home Ph Work Ph Cell Ph

Fax E-Mail Company

DESCRIPTION

Applied new 30 yr. roof. Refer to contract for details.
 Total Priced 5,000.00

Annotation (Recommended) Image (Optional) **SAVE**

Tim & Jeanne Smith	10/15/2010	\$2,500.00	—	\$4,008.18	View/Edit
Tim & Jeanne Smith	10/01/2010	—	\$3.90	\$1,508.18	—
Tim & Jeanne Smith	09/01/2010	—	\$4.03	\$1,504.28	—
Tim & Jeanne Smith	08/01/2010	\$1,500.25	—	\$1,500.25	View/Edit



Smith, Mary B. | Boston, MA | Loan # 332146

- Complete Report
- My Report
- Co-Lender Report
- Tax Report

Important Tax Return Information
 This information has not been furnished to the Internal Revenue Service.

	Joe & Anne Smith	Steve & Katie Smith	Tim & Jeanne Smith	Borrower
2010	\$4.30	\$10.26	\$38.28	\$52.84
2011	\$75.19	\$241.45	\$397.48	\$714.12
2012	\$166.88	\$724.60	\$1,421.17	\$2,312.65
2013	\$237.87	\$726.35	\$1,618.07	\$2,582.29
2014	\$244.55	\$816.98	\$2,460.61	\$3,522.14
2015	\$244.55	\$872.35	\$3,252.47	\$4,369.37
2016	\$263.19	\$979.82	\$3,610.56	\$4,853.57
2017	\$272.54	\$1,018.96	\$3,732.45	\$5,023.95
2018	\$257.65	\$962.96	\$3,848.69	\$5,069.30
2019	\$288.67	\$1,080.43	\$3,980.37	\$5,349.47
2020	\$73.40	\$274.20	\$1,028.85	\$1,376.45
Total Interest	\$2,128.79	\$7,708.36	\$25,389.00	\$35,226.15

This is important tax and financial information which may be useful in preparing your state and federal tax returns. If you are required to file returns, a negligence penalty or other sanctions may be imposed on you if income received is taxable and the Internal Revenue Service or state authorities determine it has not been reported.

Some Payors may qualify for tax deductions or otherwise be able to reduce tax liability on interest paid on certain debt obligations.

You should consult the Internal Revenue Service, state tax authorities, or your tax advisor with respect to any tax questions.

National Family Mortgage® does not provide legal or tax advice.



How it Works — The Setup Form



The Family Mortgage Setup Form

Once the Borrower and Lender have agreed upon their loan terms and selected a local Estate attorney or Elder attorney to conduct the Borrower's loan closing, it's time to submit your online Family Mortgage Setup Form! A complete Sample Setup Form can be found on the next few pages, but there are some important details to remember before starting the online Form:

1. You have read this guide, including our Standards, and our online Terms of Service.
2. The Setup Form should be submitted **no more than three weeks** before the Borrower's anticipated closing / settlement date, and **no less than two weeks** before the Borrower's anticipated closing / settlement date.
3. Either the Borrower or the Lender may submit the online Setup Form and submit our one-time setup fee, with the following exceptions:

(1) If the Borrower's subject property is in Kentucky, Maryland, Texas, or Virginia, then the Borrower must submit the online Setup Form and submit our one-time setup fee.

In the event multiple households are funding the loan, one Lender must take responsibility for submitting the Loan Setup Form and for paying our one-time setup fee. However, as explained directly above, if the Borrower's subject property is in Kentucky, Maryland, Texas, or Virginia, then the Borrower must submit our online Setup Form and submit our one-time setup fee.

4. As an added security measure, the Setup Form cannot be saved or accessed at a later date. **You must complete the Setup Form and submit it to us in one sitting.** Please review the Sample Setup Form found in the following pages of this guide to ensure you are able to complete the Setup Form in one sitting.
5. Within one business day of submitting your online Setup Form, a Family Mortgage Team Member will call you to confirm the details of your loan. **Any necessary changes or amendments to your Setup Form can be processed directly through the Family Mortgage Team Member assigned to your loan.**
6. Your Family Mortgage documents will be emailed for your review and approval within seven business days from the date of submitting the online Setup Form.

The Family Mortgage Setup Form

*This preview Setup Form, as printed below, is designed to serve as a reference and to help you gather information. Kindly complete and submit the actual Setup Form as it appears on our website.

Purchase Details

Family Mortgage Program:

- The Caregiver Mortgage (Reverse Mortgage) \$1,825

Purpose:

- Reverse Mortgage

Lien Position:

- 1st Position Mortgage
- 2nd Position Mortgage



Next

Lender Contact Information

Each individual Lender and Borrower must have a unique email address.

Household A

Lender #1

First Name:

Middle Name / Initial:

Last Name:

Address:

State: City:

Zip Code:

Email:

Phone:

Relationship to Borrower:

Lender #2

First Name:

Middle Name / Initial:

Last Name:

Address:

State: City:

Zip Code:

Email:

Phone:

Relationship to Borrower:

> Side-Note

Lender #1 and Lender #2 are typically spouses, or domestic partners. If lending from a Trust, these may be Co-Trustees.

Side-Note

If you wish to add additional Lenders, like siblings living in their own homes with spouses of their own, please add them via the "Add Household" button. The Caregiver Mortgage can support up to three separate households that may contribute to the loan.

Are you lending through a Family Trust?

- No
- Yes

If yes, what is the full legal name of the Trust?

Have you made any other mortgage loans in the previous 12 months?

- No
- Yes

If yes, how many other mortgage loans have you made in the previous 12 months?

Add Household

Next

Borrower Contact Information

Each individual Lender and Borrower must have a unique email address.

Borrower #1

Borrower #2

First Name:

First Name:

Middle Name / Initial:

Middle Name / Initial:

Last Name:

Last Name:

Address:

Address:

State: City:

State: City:

Zip Code:

Zip Code:

Email:

Email:

Phone:

Phone:

Are you Borrowing through a Family Trust?

- No
- Yes

If yes, what is the full legal name of the Trust?

Subject Property Details

These are details about the Borrower's property being offered as collateral in exchange for the loan.

Subject Property Address:

City:

State:

Zip Code:

County:

Subject Property Details (continued . . .)

Property Type:

- Single Family Residence
- Condominium
- Townhouse
- PUD (Planned Unit Development)

If Condominium, Townhouse, or PUD, what is the name of the development?

Caregiver Mortgage Details

Property Use:

- Primary Residence
- Vacation Home

Loan Collective Amount (Credit Line): \$

Loan Term:

Loan Interest Rate: %

(% Must be between the appropriate IRS Applicable Federal Rate and maximum of 6.00%)

Payment Grace Period:

Late Payment: %

(Must be between 1.00% and 3.00% of Borrower's standard monthly payment.)

Lender Disbursement Details

Household A

Anticipated household contribution to collective credit line: \$

First Disbursement Date:

Initial Disbursement Amount: \$

Initial Disbursement Annotation:

Intended Standard Monthly Disbursement Amount: \$

Document The Loan

When committing to a reverse mortgage with a relative, creating legally binding documents is one of the most important things you can do.

Many people mistakenly assume that it is offensive or inappropriate to ask for formal documentation when arranging to transfer funds between relatives. In truth, structuring formal documentation is one of the most appropriate things that can be done! Not only does it protect both parties financially, but it also helps preserve the personal relationship. Proper documentation can also prevent confusion over repayment start dates, interest rates, repayment schedules, and other terms of the loan.

If your Borrower is reluctant to formalize the loan with a legally binding document, emphasize that it's important to you. Consider a couple of the following explanations:

Your Accountant / Financial Advisor: Explain to your relative that your accountant or financial advisor mandates a fully legally binding agreement before you create a Family Mortgage transaction.

The IRS: Explain to your relative that if you are ever audited by the IRS, you need to have documentation in order to prove that the exchange of funds is a legitimate loan, and not a potentially taxable gift.

The Media: Explain that you have heard several stories recently about undocumented family loan transactions causing legal and tax problems and straining family relationships; you don't want to take this kind of risk.

Past Experiences: If appropriate, reference past experiences with an informal loan ending poorly for you and the other party.

National Family Mortgage® in the news . . .

A mortgage company that specializes in setting up home-purchase loans funded by the buyers' parents is now creating a vehicle through which siblings can pool their money to help their elders in a similar way. Called a Caregiver Mortgage® by its creator, National Family Mortgage®, this new loan product is essentially a private, less regulated version of a reverse mortgage.

Family members get together to crowd fund a line of credit against the equity in the parents' home. There is one mortgage, with a fractional participation agreement among the individual "lenders."

Timothy Burke, the company's founder and chief executive, said the product was inspired by the often-similar tales of family conflict he has heard repeatedly from clients who are helping to support their parents. "One common scenario is that mom and dad have passed away and the siblings are bickering with each other over who owes what and why," he said. "One may feel they've been paying a lot more of the bills than the others, but there's no paper trail."

Reverse Mortgages, Family Style
The New York Times | May 15, 2017



Understand The Tax Implications

Any interest you earn on a private loan is considered income by the IRS, and therefore is considered taxable. The IRS Annual Gift limit is currently \$17K per person. However, this does *not* mean if the annual earned interest on the loan is \$17K or less that you can forgo the collection of the interest, treat it as a gift, and reduce your taxable income. A loan is a loan, and a gift is a gift!

National Family Mortgage® requires that your interest rate must meet or exceed the appropriate Applicable Federal Rate in effect at the time of the exchange of funds and/or the loan closing. (Please see our earlier discussion of the AFRs.)

Reflect on Your Own Interests

Before you agree to a Family Mortgage with a relative, be clear about your own interests. Ask yourself why the possibility of a Family Mortgage appeals to you. Is it because you want to help someone you love? Is it because you'll generate a higher return on your investment than you would in the stock market or in a savings account? Is it to avoid filing a gift tax return? Chances are, it's a combination of a few things. Articulate your goals as a Lender and share these with your Borrower.

Be sensitive that a Family Mortgage might raise some emotional reactions with other relatives or adult children. Some advisors believe the best approach is to be open with your entire immediate family about the loan. If possible, consider making a similar opportunity available to other family members.

Alternatively, not every relative is financially responsible or a demonstrated low credit risk. What works with one relative doesn't always work with another. Use your best judgment — do what's right for you.

If you work with an accountant, an attorney, an estate planner, or financial advisor, please consult with them. Make sure a Family Mortgage is appropriate for your situation.

Of course, if you have a spouse, it's only fair to discuss your potential Family Mortgage with them before committing to anything!

Q: How much money can a homeowner borrow with the Caregiver Mortgage ®?

A: The only limit on our Caregiver Mortgage ® is the amount the Lender is willing to lend. Our unique Reverse Mortgage calculator found on our website helps you select an amount based on a variety of factors, including:

- Value of the property
- Monthly cash-flow needs
- Loan term

Our calculator also takes into account appreciation of the property, annual cost of living adjustments, and allows you to select conservative or generous estimates for loan term and loan-to-value ratios. National Family Mortgage ® recommends that the loan amount not exceed 65% of the value of the property, but the loan to value (LTV) is ultimately up to you (although, state specific limits may apply).

Q: Does the Borrower qualify for a Caregiver Mortgage ® if they still have an outstanding mortgage with a bank?

A: Yes. The Borrower can use the Caregiver Mortgage ® income to make payments on the existing debt on the property. However, the Caregiver Mortgage ® will be registered as a subordinate, secondary lien. Some Caregiver Mortgage ® Lenders will make a large initial disbursement and actually payoff the Borrower's existing bank mortgage!

Q: When does the Caregiver Mortgage ® get repaid?

A: The line of credit becomes due and must be paid in full when one of the following conditions occur:

- The last surviving Borrower sells the home
- The maturity date of the loan is reached
- The last surviving Borrower passes away (The loan must be repaid within 180 days of the death.)

Q: What exactly gets repaid?

A: When any one of the above three conditions occur, the principal and outstanding interest become due to the Lender.

Please note that the homeowner can pay off the loan in cash, and is not required to transfer ownership of the property, unless the loan cannot be repaid by other means.

If the Lender does not receive repayment, the Lender then can claim a share in the property equal to the amount due from the line of credit. Any remaining equity in the property is still owned by the estate or other heirs. At that point, the exact proportion of ownership is determined by either an appraisal or a foreclosure sale.

Q: Are there tax consequences for the Lender or Borrower?

A: Disbursements from a Caregiver Mortgage ® are considered a loan advance, not income, and therefore are not considered taxable by the IRS. The Lender is required to report taxable earned interest, as ordinary income, annually.

Q: What about Lender's title insurance?

A: We will never discourage our Lenders from taking any additional precautions that may help safeguard their investment.

We suggest that our families consult the Estate attorney or Elder attorney who will conduct the Borrower's loan closing to discuss the merits and costs of obtaining Lender's Title Insurance.

While Lender's Title Insurance may not be necessary for your individual situation, at the very least, having such coverage can protect the Lender's lien position.

FAQs continued >

Q: If the borrower has a Caregiver Mortgage® and decides to apply for Medicaid do they need to worry about the mandatory 60 month "look-back" period? What about the monthly "spend-down" requirement?

A: Medicaid, a "last-resort" government sponsored program for paying nursing home costs, requires that a nursing home resident first use their own money to pay for care before Medicaid begins providing coverage. Medicaid verifies that applicants are not simply transferring money and assets out of their estate (to family members, for example) to avoid paying for care costs themselves. Medicaid does this in part by using the "Medicaid look-back period" to determine if the applicant has violated any rules regarding the transfer of assets.

Medicaid considers or "looks back" over the previous five years to see if the applicant sold any assets for less than true value, given away or otherwise transferred assets within the same time period, when determining eligibility for Medicaid coverage.

Like Supplemental Security Income (SSI), Medicaid requires recipients to have no more than \$2,000 in countable assets one day out of the month. If an individual on Medicaid receives a lump sum payment from a reverse mortgage loan and does not spend all of it in the month in which it is received, the individual may no longer be eligible to receive Medicaid because any amount retained the month after receipt counts as a resource to be applied towards the recipient's \$2,000 asset limit and could affect SSI or Medicaid coverage. If large lump sum disbursements have been made and are sitting in the Borrower's bank account, Medicaid requires use of available cash funds on long-term care before they can qualify for Medicaid assistance.

Like SSI, Medicaid, also has income restrictions. However, a reverse mortgage is not considered income, so payments should not affect the recipient's income eligibility requirement.

Under the Deficit Reduction Act of 2005 (DRA), principal residences may be deemed non-countable only to the extent the applicant's equity is less than \$688,000 (in 2023), with the states having the option of raising this limit to \$1,033,000 (in 2023).

National Family Mortgage® encourages you to discuss your particular situation with your trusted estate planner, financial advisor, or tax professional to help determine the best strategy to meet your family's financial needs, including how a reverse mortgage could affect a Borrowers eligibility for federal benefits.

Q: How do we release the Mortgage / Deed on the property once the loan is over?

A: Most of our clients pay off their loan through the sale of their property. Typically, the closing attorney, title company, or escrow company that conducts the settlement on the sale of the property, will also prepare and file the lien release for the Family Mortgage.

If necessary, the attorney who helps settle the Borrower's estate can also prepare and file the lien release.

National Family Mortgage® does not generate or file lien releases, loan modifications, or assignments.

Q: What if the Lender or Borrower dies during the course of the Loan?

A: If the Lender dies during the course of the loan, the statutory default will require the Borrower to repay the Lender's estate according to the original agreed upon terms of the loan. Lenders should consider updating their estate planning documents to include any explicit wishes or expectations for the debt following their death.

If the Borrower dies during the course of the loan, the statutory default still requires their estate to repay the loan at the agreed upon terms.



The Smart Way to Manage Mortgage Loans Between Family Members

Borrowing and Lending money with relatives can be a stressful experience.

However, the source of such stress is usually a lack of setting clear expectations between the parties, and anxieties over the future repayment of the loan.

The content within this guide is substantial because we believe that all families considering an intra-family mortgage loan deserve access to thorough information to help them select the best solution for their individual needs.

Like any reverse mortgage product, our Caregiver Mortgage ® is a potential long-term solution that requires thoughtful consideration of the pros and cons as they may affect your personal finances and family relationships. When it comes to family finances and helping a retired parent, be prepared to discuss: the Borrower's wishes and needs, inheritance and estate planning concerns, and the desire to maintain fairness and harmony between adult siblings and other family members.

When Family Loans are managed properly and professionally, the experience can be a positive win-win for both sides. The Caregiver Mortgage ® was designed to provide your family with the legal framework and record keeping that brings our families peace of mind.

Including your whole family in the research process can provide encouragement and support that helps ensure you consider all of your options.

We work with you, and your trusted advisors, to ensure a smooth and rewarding Family Mortgage experience.

Since 2010, National Family Mortgage ® has successfully helped thousands of families across the US lend over \$1 Billion in home loans between relatives.

We help Lenders make loans they feel good about, that prevent tax problems, that protect family relationships, and get repaid.

We strive to make Family Mortgage lending and borrowing safe, easy, secure, and successful.

Most importantly, we would absolutely love to help you!



NationalFamilyMortgage.com | 1.888.636.1990 | 9AM - 5PM ET, M-F

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