

Pros and Cons of a Reverse Mortgage

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FINANCIAL EXPERTS

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Things Tom wants you to Know

- A Reverse mortgage is a Loan
- You do NOT have to Make Payments
- Many Consumer Safeguards and Oversight
- Most Popular Type of Reverse Mortgage is Government-Backed

Leading Retirement Researchers on Reverse Mortgages

“Initiating the reverse mortgage **earlier** and then coordinating spending from home equity throughout retirement offers a way to meet spending goals and provide a larger legacy.”

“That is the ultimate goal of retirement-income planning: using assets to allow for more income and/or a larger legacy.”

-Wade D. Pfau, Ph.D., CFA, Professor of Retirement Income, The American College

Source: *Advisor's Perspectives*, December 1, 2015

Caveats

- If you use a reverse mortgage, there may be less to work with on your next move. And there may be less **home equity** for heirs.
- Property taxes and homeowners' insurance must be kept current
- Property must remain as your primary residence, or the loan will become due. This includes moving to assisted living or skilled nursing facility for 12 consecutive months.

The 4 NEVERS of Reverse Mortgages

#1: The homeowner & his/her estate NEVER give up the title to the home

#2: The homeowner, when leaving the house to his estate, can NEVER owe more than the homes values. When the house is sold, proceeds in excess of the debt belong to the homeowner or his estate.

#3: Even if all the money that can be borrowed through the reverse mortgage has reached its limit the homeowner NEVER has to move, provided taxes, insurance and home maintenance are continued.

#4: Monthly repayments are NEVER required or expected, although voluntary payments are accepted.

Things Tom Wants You to Know

- Look **at 3** Interest Rate Options
- Understand Your Future Loan Balances
 - Have a Professional Forecast your future loan balance and NET Home Equity*
- DO NOT BUY an Annuity or Security with Reverse Mortgages

*I'd be happy to help you: tom@financialexpertsnetwork.com

What is a Reverse Mortgage?

**It's a loan that provides homeowners
Access to their Home Equity**



Important Facts

- ① Clients still own their home!
- ② A lien and mortgage is filed; like other loans.
- ③ Must pay taxes & insurance
- ④ No monthly payments required

99% of Reverse Mortgages are HECMs Or “Home Equity Conversion Mortgage”



1988: President Reagan
Authorized FHA Insurance

2011 Consumer Finance
Protection Bureau Oversight

2014: Financial Assessment Guidelines

2016: Over 1 Million
Americans Use a HECM





Who and What Property Type is Eligible?

- Homeowners 60*/62 or Older
 - Note: Spouse can be younger than
- Single Family Homes, Condos, Townhomes, 1-4 Apartment Building
- *Proprietary Reverse Mortgages: ~26 States

Is a Reverse Mortgage Safe?

Consumer Safeguards



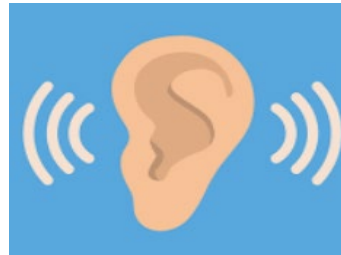
No-Prepayment Penalty

You can repay your loan at any time, if you want, with no additional cost.



Non-recourse loan

You will never owe more than what the house is worth.



Counseling

You must receive counseling from unbiased, third party who is FHA-approved. **You can invite family, friend or other to listen in.**



Financial Assessment

Lender thoroughly evaluates applicant's ability to pay taxes, insurance and other fees, if any.



HUD Fee Limits

HECM Origination Fees are regulated by government.

How Much \$ can You Get?

3 Factors:

- 1 The Home's Appraised Value
- 2 Your Age: Older Borrowers qualify for more.
- 3 Interest Rate: Lower interest rates mean all qualify for more.

What's Available. More \$ for Older Clients

	62-Year-Old	80-Year-Old
Home Value	\$400,000	\$400,000
Available Money	\$205,200 (51.3%)	\$248,000 (62%)
Initial Fees	\$13,437	\$13,437
Available Money	\$191,763	\$234,563

Impact of Interest Rate

	62-Year-Old	62-Year-Old	62-Year-Old	
Home Value	\$400,000	\$400,000	\$400,000	
Available Money	\$205,200 (51.3%)	\$184,800 (46.2%)	\$172,400 (43.1%)	
Initial Fees	\$13,437	\$13,437	\$12,437	Origination Fee will Vary
Available Money	\$191,763	\$234,563	\$158,963	
Var. Interest Rate	2.32%	3.07%	3.57%	

Common Uses of Reverse Mortgages



Benefits of a Reverse Mortgage

- Extra Cash to help Preserve Investment Portfolio
 - Avoid draws during Down Market
 - Don't pay all cash when buying home
- **Avoid Extra Taxes** by reducing IRA or 410(k) withdrawals
- Extra income to help people truly Retire
- Extra income to help you delay Social Security

68-Year-Olds: Use Reverse Mortgage to Pay off Mortgage

	30-Year Fixed Mortgage	Reverse Mortgage
Home Value	\$970,000	\$970,000
Loan Payoff	\$366,324	
Monthly Princ. & Int.	\$3,387.47	\$0
20 More Years of Payments	\$812,993	\$0
Present Value of Payments	\$610,713	
Loan Balance in 10 Years	\$0	\$569,782
Line-of-Credit Day 1	NA	\$66,725
Line-of-Credit in 10 years	NA	\$88,433

Monthly Payments

62-Year-Old



\$803/Month

80-Year-Olds



\$1,403/Month

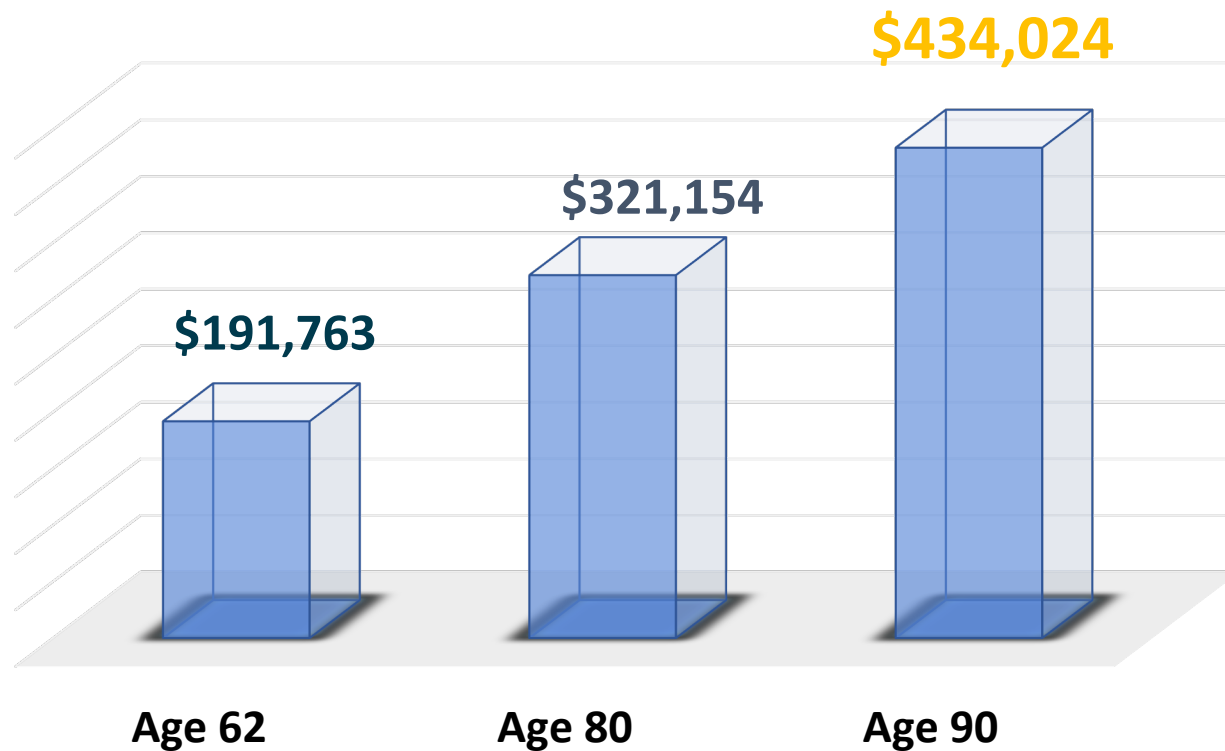
Consider Payments to Net Home Equity



Scenario: Age 62	Age 62	Age 72	Age 82	Age 100
Home Value	\$ 400,000	\$ 464,216	\$ 538,742	\$ 704,319
Loan Balance	\$ 13,437	\$ 153,090	\$ 272,290	\$ 740,946
Net Home Equity	\$ 386,563	\$ 311,126	\$ 266,452	\$ (36,627)
Total Tax-Free Cash Draws		\$ 96,360	\$ 192,720	\$ 366,168
Monthly Payment	\$ 803.00			
Appreciation	1.5%			

HECM Line of Credit (LOC) Growth*

62-year-old client with \$400,000 Home Value



NOTEWORTHY:

- (1) The Line of credit **grows** regardless of what happens to the value of the home.
- (2) The line **cannot be** cancelled or frozen.
- (3) **NO** payments are **required**.

Downsizing: Buy \$400,000 Home

	All Cash 62-Year-Old	HEM Purchase 62-Year-Old
Purchase Price	\$400,000	\$400,000
Closing Costs	\$2,937	\$13,437
Total Due	\$402,937	\$413,437
HECM/Reverse Mortgage Loan	NA	\$201,600
Cash from Borrower	\$402,937	\$211,837
Extra Cash	NA	\$191,100

Fixed 3.56%

*This is the Initial Interest Rate. Rates will vary.

For Home Values Over \$822,375

	HECM 62-Year-Old	Jumbo 62-Year-Old
Home Value	\$2,000,000 Max Amt: \$822,375	\$2,000,000
Available Money	\$421,878 (51.3%)	\$541,600 (62%)
Initial Fees	\$19,447	\$4,727
Available Money	\$402,431	\$536,873
Interest Rate	2.32%	6.5%

*This is the Initial Interest Rate. Rates will vary.

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② Facebook Group:



Retirement Questions with
Expert Answers

Resources

- **Wade Pfau Book: How to Use Reverse Mortgage to Secure Your Retirement**
- **National Council on Aging:**
<https://www.ncoa.org/economic-security/home-equity/reverse-mortgages/>

Federal Trade Commission:

- <https://www.consumer.ftc.gov/articles/0192-reverse-mortgages>



Email Me if you'd like Help or a 2nd Opinion

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