MAXIMIZE

Your Retirement Income and the TRUTH about Reverse Mortgages!

DAVE NUTE

Please be advised that before any professional advice can be given responsibly, it is necessary to invest our time together and have a meaningful dialogue and share information that is relevant to determine which, if any, of the solutions outlined in this book are recommended for your situation!

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Retirement Income Certified Professional™
Designated Mortgage Broker, NMLS 91704

Assisting with Retirement Income Planning, Long Term Care,
Reverse Mortgage and Estate Planning since 1984

Creative Retirement Planning, Inc.

Washington Mortgage Broker # 117 5810

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Company Disclosure

My name is Dave Nute and our company is Creative Retirement Planning, Inc.

All of our contact information is detailed for you on Page 3 and also on the last page of this book.

I have helped our clients with Reverse Mortgage Loans since 2005.

My personal NMLS Number is 91704 (David Ray Nute) and my company, Creative Retirement Planning, Inc., is a licensed Mortgage Broker, NMLS # 1175810.

I have been a licensed insurance agent since 1984, a licensed Registered Investment Advisor since 2005, a licensed ChFC® (Chartered Financial Consultant™) since 2006, a licensed Mortgage Loan Originator since 2008, a licensed CLU® (Chartered Life Underwriter™) since 2010, a licensed RICP® (Retirement Income Certified Professional™) since early 2013 and a licensed CFP® (Certified Financial Planner™), from early 1993, retiring this one license in February 2022.

It is my goal to help each of my clients to make their best decisions, working with what they have available, for their retirement.

If you have any further questions, please call our Sequim home office at . . .

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Dave's Comments About Reverse Mortgage Loans

As I update this book in April 2023, I've personally studied and offered the HECM Reverse Mortgage Loan program for over eighteen years. We have helped, well over 1,000 of our clients, get their HECM Reverse Mortgage Loan.

No, just like most Federal programs, it's not a ***PERFECT*** *program. Yes, there are costs and limitations that we need to be aware of. No, this program* ***IS NOT*** *for everyone. With that said, I sincerely believe this is . . .*

AN IMPORTANT FINANCIAL OPPORTUNITY . . . THAT WILL BENEFIT A MAJORITY OF RETIREES !

Here is my concern. I see too many retirees, who ***DO NOT*** *understand how this works. Many have closed their minds . . .* ***BEFORE*** *they have started their homework !*

IT'S IMPORTANT, THAT WE INVEST OUR TIME NOW, TO UNDERSTAND AND DECIDE, IF THIS WILL BE APPROPRIATE, FOR OUR PERSONAL NEEDS !

As a licensed Certified Retirement Income Professional™, a lot of the work I do for my clients, is to help them calculate and project their finances . . . often for many years into the future.

For many of us, the ***IMMEDIATE NEED*** *for a Reverse Mortgage Loan, is not always obvious. So many of us, will often procrastinate and postpone learning about this until we're older . . .* ***THIS IS RARELY OUR BEST DECISION !***

For most of the people I meet with . . .

THE EARLIER WE START OUR REVERSE MORTGAGE LOAN . . . THE MORE FINANCIAL OPTIONS . . . IT WILL PROVIDE FOR US LATER IN LIFE !

This is especially true for the ***"Line of Credit"*** *option ! I will explain this later in detail - but please understand this now . . .*

YOUR "LINE OF CREDIT" GROWS EVERY MONTH THAT YOU AREN'T SPENDING THE MONEY . . . AND YOU WILL HAVE FAR MORE FOR LATER IN LIFE . . . IF YOU START THIS NOW !

If you still have questions after reading this, I invite you to set a time to meet with me, to discuss your situation. I am here to help where I can.

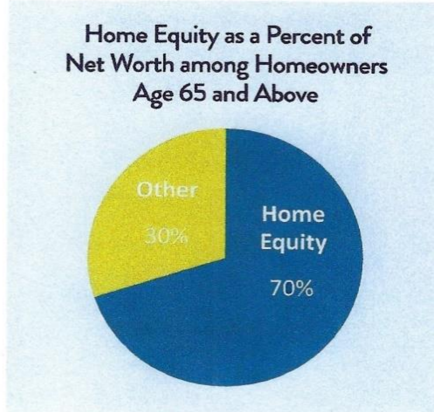
Illustration 1

Rethinking Retirement Planning

If you are like most people, retirement planning generally relies on assets such as: 401(k)s, IRAs, traditional pensions, Social Security benefits, as well as regular taxable savings and investment accounts. But as a homeowner, you have another, often overlooked, retirement planning asset: **Home Equity**.

U.S. homeowners age 62+ have more than $7 trillion in home equity,[6] making it the largest asset for most households entering retirement.[7] For the average retiring couple, home equity makes up 70% of their net worth—with other assets like IRAs, savings and personal property only making up 30%.[8]

With such a large proportion of personal wealth tied up in one's home, it's time to rethink how home equity can be used as another tool in your financial arsenal.



New Ways to Access Home Equity

Over the last 30 years, reverse mortgages have gained acceptance as part of strategic retirement planning. In fact, a growing number of respected retirement researchers, such as Harold Evensky, Dr. John Salter, Dr. Wade Pfau, and the Center for Retirement Research at Boston College have all conducted numerous studies to evaluate the pros and cons of reverse mortgages for the benefit of consumers. They have concluded that the reverse mortgage is an important option, with multiple uses that can often help consumers be better financially prepared in retirement, and avoid outliving their money.[9]

"Several recent research articles have demonstrated how responsible use of a reverse mortgage can enhance an overall retirement-income plan...Reverse mortgages give responsible retirees the option to create liquidity for an otherwise illiquid asset, which can, in turn, potentially support a more efficient retirement-income strategy (more spending and/or more legacy)."

—Wade Pfau, Ph.D., CFA, "Reverse Mortgage Background and History"
Forbes, September 12, 2018

[6]Source: National Reverse Mortgage Lenders Association (NRMLA)/RiskSpan Reverse Mortgage Market Index (RMMI).
[7]Sass, Steven A., "Is Home Equity an Underutilized Retirement Asset?", Center for Retirement Research at Boston College, Number 17-6, March 2017
[8]US Census Bureau, "Wealth, Asset Ownership & Debt of Households Detailed Tables: 2015"
[9]Salter, John., Evensky, Harold., & Pfeiffer, Shaun. (Aug 2012). Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions. Journal of Financial Planning, pg. 40. | Pfau, Wade. D. (2016) Reverse Mortgages: How to use Reverse Mortgages to Secure Your Retirement. Retirement Researcher Media.

Is A Reverse Mortgage Loan Right For You ?

According to some recent studies from the National Council for Aging, Ameriprise Financial and others, yes, the Reverse Mortgage Loan does make sense – and will create additional benefits for ***<u>OVER HALF</u>*** *of U.S. homeowners, the age of 62 and over.*

Over the years, I have learned a lot from the collective wisdom of our clients.

We've learned there are a wide variety of opinions about Reverse Mortgage Loans and there are many different reasons, why these have enhanced the lives of our clients.

I'll start out with a few situations where I've had the opportunity to be a part of.

Jane was a widow in her mid-80's and she came to our very first seminar about Reverse Mortgage Loans in Port Angeles back in 2009. She set an appointment to meet with me and when I asked her why she wanted to learn more about this, she shared with me, that she didn't have any heat in her home the past year - because she didn't have enough money, to fix the thermostat for her furnace !

I also learned her home had a market value of about $ 300,000, she did not have any mortgage . . . and she also did not have any homeowner's insurance on her home. ***<u>Her home was all she owned and it was not even insured (she could not afford) !</u>***

I will never forget this poor lady and it's situations like this that give me a higher motivation, than just creating extra money, for my clients and myself.

At the other extreme, I have helped another couple on Whidbey Island, who responded to one of my mailers . . . and after meeting twice over one year, they also got a Reverse Mortgage Loan, with my assistance, on their home.

They have a net worth of about $ 10 million, their home alone was $ 2 million and they also owned several other acres around them, just to protect their privacy and view.

Why would anyone with $ 10 million – want a Reverse Mortgage Loan ?

They wanted $ 135,000 for a new metal roof for their home and everything else was invested – $ 2 million plus in their IRA's (all taxable income when they spend it), another $ 2 million or so in their various collections of coins, art, etc. They had their million-dollar condo in Mexico, another nice condo on the coast of Oregon, a rental and land.

These assets created more value than the ***"Dead Equity"*** *sitting in their home !*

Their Reverse Mortgage Loan created over $ 500,000 of tax-free cash, including a ***"Line of Credit"*** *. . . and this allowed them the extra time, to keep everything else they want together, to enjoy a few more years.*

Here's another more typical situation that created a HUGE POSITIVE for my client. Janet was a 78 year young widow and after living a responsible and productive life, she found it increasingly difficult, to pay her mortgage and other needs every month.

The Reverse Mortgage Loan was a POSITIVE CHOICE – that will allow her to stay in her home, without mortgage payments (she still pays the other property charges.)

We almost thought she wouldn't be able to qualify. But after extra work for all of us, we got the appraisal she needed, to pay off her other mortgage and closing costs, along with a little extra !

There are times when we literally have no other choice, other than to "roll up our sleeves", make the commitment and go for it ! This worked out very well for Janet !

Here was another interesting situation for a guest, from one of my seminars.

The couple had a small mortgage to pay off – but their motivation went beyond their own wants. They took part of their loan amount and helped their family build a new church in the Philippines !

I've had many other situations when one of my client's children needed extra money – some disabled, some because of a marriage problem, bad business, layoff, etc.

These clients did not want to touch their own savings they wanted for themselves but the Reverse Mortgage Loan allowed them to stay in their homes, without any additional mortgage payments in their lifetime, as long as the home remained their primary residence and they paid their property taxes and other property obligations. This released some of the ***"Dead Equity"*** *owned in their homes, to help their families.*

Here's another recent situation. Tom had an IRA worth over $ 1.7 million and he had more than enough for his own needs. He was 70 and he had a 20 year old son. Tom shared with me, he had promised his son that he would pay for his college, so he wouldn't be left with any debt after school.

Tom could have easily taken distributions from his IRA to help his son, without compromising his own needs. But this was a Traditional IRA, that was created with a Direct Rollover, from his employer's 401k.

Of course, as most know, any distribution from this IRA type is ***"Taxable Income"****.*

His Reverse Mortgage Loan cost him ***LESS THAN $ 15,000*** *in closing costs plus any interest for the amount he borrows from his loan amount. (Some situations cost more and others have less closing costs. I'll explain more about this later.)*

Tom figured this was ***LESS EXPENSIVE*** *than paying extra taxes and losing the future growth of these extra distributions from his IRA . . .* ***SMART MAN !***

This next gentleman was one of the smartest people I've ever met !

He was in his mid-80's and his wife was about twenty years younger. During his career, he was a tax lawyer and the head of the tax department, for one of the top three automobile manufacturers . . . I can only imagine the complexity of his work !

Of course, they had their other investments and their million-dollar home. And like other smart people, he was always working, to create the best opportunities for his loved ones . . . so even though he didn't have a mortgage on his home, he used the Reverse Mortgage Loan to create a Line of Credit, he and his wife will never need for many years.

This Line of Credit of about $ 400,000, will continue to grow in the future and I suspect it will be worth over $ 800,000 (based on current "Expected Rates", based on the 10 Year Treasury Index) when his wife is about twenty years older and possibly needing extra cash or income for herself or their family.

You'll learn later on, that your "Line of Credit" has the opportunity to <u>GROW EVERY MONTH</u>, based upon future interest rates, if your home remains your primary residence and you pay property taxes and other property obligations !

We've had over 500 of our clients get their Reverse Mortgage Loan, to pay off their other mortgage(s). Would it make a difference in your own life – if you didn't have to make that mortgage payment every month ?

We've had over 500 of our clients who didn't owe a dime on their homes. They were motivated by the additional dollars, flexibility, tax advantages and their new ability, to create other big advantages in the future . . . or create liquid tax-free dollars for their future Long Term Care needs, using a Line of Credit, with their Reverse Mortgage Loan.

Later in this book, I will explain and illustrate, some of the extra values of creating your own Line of Credit . . . ***<u>truly one of your BEST retirement planning choices</u>*** *. . . and it certainly makes perfect sense to do this* ***<u>SOONER,</u>*** *rather than later !*

Various studies have shown us, the average homeowner, 65 and older . . .

HAS <u>ABOUT 70 %</u> OF THEIR LIFE'S SAVINGS, BURIED IN THE "DEAD EQUITY", THEY OWN IN THEIR HOME !

AND AT SOME POINT . . . <u>MANY OF US WILL NEED THIS,</u> TO PAY FOR THE OTHER THINGS WE'LL NEED AND WANT !

Please Be Careful With Your Assumptions !

I'll share an example of a couple I met with. They had attended my Social Security seminar and the wife's Full Retirement Age was 66.

The husband had already retired and filed for his benefits - but the wife was only 64 and she wanted to retire.

I used my software to help her understand all of her benefit choices.

*She told me she expected to live a long life and wanted to plan until her age **90**.*

*We learned that if she started her Social Security benefits when she retired at 64, instead of electing other choices . . . **SHE WOULD LOSE $ 148,000** of her benefits !*

I suggested if she wanted to retire, they could start spending down some of their savings (about a million) and start her Social Security later. But they were adamant and they did not want to spend any of their savings. (I suspect this is how they saved it !)

So I asked them about their home. In their case, a Reverse Mortgage Loan would eliminate their mortgage payments and then she could afford to retire and also preserve the ability to start her Social Security later and pay her a higher monthly benefit for life.

The wife replied and she said . . .

"Dave . . . I've read about those Reverse Mortgages . . .

AND THEY'RE JUST TOO EXPENSIVE !"

*I agreed with her, to a point. All mortgages are expensive, they're just a lot of work for a lot of different people to put together . . . and a Reverse Mortgage Loan would cost this couple about **$ 15,000** in **"Closing Costs"**.*

Now with that said, again, I don't want to mislead anyone . . . different situations will have different closing costs . . . so let's get together and evaluate your situation.

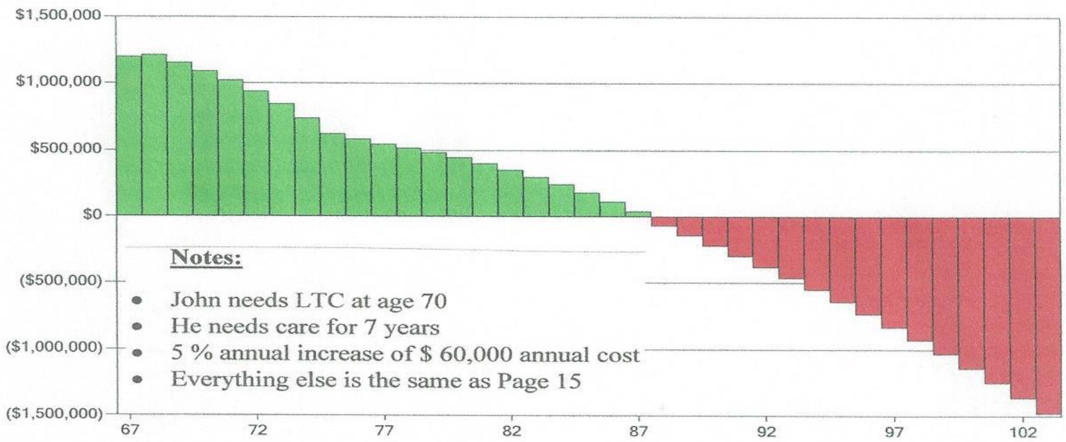
*But for this couple, paying this **$ 15,000** of closing costs from the Loan Amount of their Reverse Mortgage Loan (plus any interest on the amount borrowed) . . .*

WILL HELP CREATE, AN ADDITIONAL $ 148,000 OF SOCIAL SECURITY BENEFITS . . . IF THIS LADY LIVES UNTIL 90 !

Illustration 2

Personal Financial Plan *John and Mary Sample*

Retirement Summary



Retirement Capital Illustration

The analysis begins at your current age and extends through your life expectancy. It includes all assets, both tax advantaged and taxable, all expenses, including education funding if applicable, other income and expense estimates, defined benefit pensions, and Social Security benefits. The graph illustrates the growth and depletion of your capital assets, and in cases of capital shortages shows accumulating deficits.

General Assumptions:

Rates of Return Before and After Retirement Used in Illustration:		
Taxable RORs:	5%	5%
Tax Def. RORs:	5%	5%
Tax Free RORs:	5%	5%
Annuity RORs:	5%	5%

Retirement Spending Needs*	$65,000
Survivor Spending Needs*	$50,000
Retirement Age	John - 65
Retirement Age	Mary - 64
Inflation - Current	3%
Inflation - Retirement	3%
Tax Rate - Current	10%
Tax Rate - Retirement	10%

* Spending needs are stated in today's after tax-dollars. See Assumptions page for complete listing of assumptions.

Actual future returns, taxes, expenses, and benefits are unknown. This illustration uses representative estimates and assumptions for educational and discussion purposes only. Do not rely on this report for investment analysis.

Retirement Capital Illustration Results:

It appears you may run out of money before the last life expectancy of age 100. The range of possible options you might consider to improve your situation include the following:

- Increase the rate of return on your investments.
- Reduce your retirement spending needs by $13,400 to $51,600/year ($4,304/month).

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

How Long Will Our Money Last ?

*Please review **Page 13**.*

*As a Retirement Income Planner, the **"Big Question"** that concerns most of the people I meet with is . . .*

"HOW LONG . . . WILL OUR MONEY LAST ?"

*Here's a picture illustration on **Page 13**.*

"Green"** means this couple still has money, based on our assumptions – and **"Red"** means . . . **IT'S GOING TO BE GONE !

This couple needs to understand the Reverse Mortgage Loan, don't they ?

IF THEY WANT TO STAY IN THEIR HOME . . .

IT'S REALLY JUST A QUESTION OF "WHEN", THEY'LL NEED A REVERSE MORTGAGE LOAN !

These people are not alone !

*Many retirees we meet with . . . **NEED A REVERSE MORTGAGE LOAN NOW**.*

*Others will need a Reverse Mortgage Loan . . . **TO HELP THEM LATER ON**.*

*I believe this distinction is important . . . I don't consider myself a **"Mortgage Peddler"** . . . I am a multi-licensed **"Retirement Income Planning Professional"**.*

As a licensed Retirement Income Certified Professional™, it's my primary goal, to help you anticipate and plan ahead for your lifetime financial needs . . . with whatever financial tool(s,) that makes the most sense for your situation.

AND A "REVERSE MORTGAGE LOAN" IS ONE "TOOL", THAT HAS PROVEN TO WORK VERY WELL FOR MANY OF OUR CLIENTS !

Illustration 3

Facts About "Boomers" And Older Retirees

- *For the **"Average American"** over the age of 65 . . .*

  THEIR HOME AVERAGES ABOUT 70 % OF THEIR TOTAL NET WORTH . . .

  AND IT'S RARELY PRODUCING ANY INCOME . . .

  IT'S "DEAD EQUITY" !

- *The **"Average 65 Year Old"** will have their income **DROP** . . .*

  28 % BY THE TIME THEY REACH 70 !

  35 % BY THE TIME THEY REACH AGE 75 !

- ***66 %** of Baby Boomers don't think they'll have enough money to get through their retirement !*

- *For couples the age of 65 . . . 1 out of 4 will have at least one spouse live to the age of 97 . . .*

  WE NEED TO PLAN AHEAD NOW TO PAY FOR THIS !

- *For couples the age of 65 . . . 7 out of 10 will have at least one spouse need Long Term Care . . .*

  WE NEED TO PLAN AHEAD NOW TO PAY FOR THIS !

- *The National Council For Aging determined . . . of the 28 million American households the age of 62 and over . . .*

  OVER 13 MILLION . . . OR 48 % OF US . . . ARE GOOD CANDIDATES FOR A REVERSE MORTGAGE LOAN !

THE REVERSE MORTGAGE LOAN HELPS US TO CREATE MORE OPTIONS !

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

The past decade has presented us with many financial challenges.

I believe these will continue to be an obstacle for many of us . . .

AND EACH OF US WILL NEED TO UNDERSTAND
ALL OF OUR FINANCIAL OPTIONS.

*We need to consider this. For the **"Average Retiree"** . . . **ABOUT 70 %** of our **"Net Worth"** is sitting in our homes as **"Dead and Unproductive Equity"**.*

*This means we are not creating any **"Interest or Other Spendable Income"** from our home equity and typically, in many cases . . .*

WE DO NOT HAVE ACCESS . . . TO MOST OF OUR "NET WORTH" !

*And if this **"Dead Equity"** is not helping us, to pay the bills or creating other positive choices for us . . .*

*and if **TWO OF THREE "Baby Boomers" . . . DON'T THINK** they'll have enough money for their retirement . . .*

THEN MANY OF US WILL NEED A REVERSE MORTGAGE LOAN . . .

TO HELP US PAY FOR OUR OTHER NEEDS . . . WON'T WE ?

Why The Negatives About Reverse Mortgage Loans ?

*Because being **"Negative"** sells ! How many **"Negative Headlines"** are there compared to **"Positive Headlines"** ? (Sell the article = sell more ads !)*

The press and other media have consistently been guilty of this, haven't they ?

Of course there are situations, where borrowers and peddlers do dumb things !

With this said and well-understood by all of us, I'll suggest some of the situations where a Reverse Mortgage Loan is <u>not the best choice</u>, in my opinion.

If you won't be able to afford your home in the future with a Reverse Mortgage Loan. If this is your situation, then I believe it may be better to sell your home now and downscale your standard of living.

Let's do our homework first, run the numbers and see what makes the most sense. This is what I do. I have the training, decades of financial planning experience and I truly want to help our clients to make their BEST DECISION.

What if you have a younger spouse, who is too young to qualify as a Reverse Mortgage Loan borrower ? I encourage you to wait if you can. I'll discuss this more later.

What if you have that special home you want to keep in the family ? Here is where we'll want to balance your needs with your goal, to preserve your equity for others.

But from what I've observed, many times, is that our children, other family and friends, will want us to enjoy our lives and do what we need for ourselves. And if we need the Reverse Mortgage Loan, then it's often a better choice than going without something important, or relying on gifts from loved ones, or moving in with them (in many cases) !

What if a child is disabled and will need the house after you're gone ? Yes, this is a decision to be based on everyone's needs and we need to be conservative for all.

What if you want to sell the home later ?

Let's think this one through.

If your closing costs are low (different situations will have different closing costs), or maybe you can use the Reverse Mortgage Loan to create extra benefits (like postponing and increasing your lifetime Social Security benefits), then our Retirement Income Planning services may be important.

Illustration 4

What Is A "Reverse Mortgage Loan"?

YOU DO NOT GIVE YOUR HOME TO THE LENDER!

- ***You remain the Owner(s)!***

  The loan is secured by a lien from the lender. The Borrower will remain the Owner as long as they comply with all terms of the loan including payment of property taxes, HOA dues when required and insurance.

- *As the Owner(s), you get any future appreciation above the loan amount.*

THE BIG DIFFERENCE

- *Repayment does not occur until the Borrower(s) dies, sells their home, no longer occupies the home for more than 12 consecutive months, moves out of the home or does not meet all the terms of the loan . . . like paying property taxes, HOA dues when required, insurance, etc.*

- *The home must be your **"Primary Residence"**.*

- ***ANY "LOAN AMOUNT" IS NOT TAXABLE INCOME TO YOU!***

- ***CAN BE USED TO BUY A NEW HOME . . . "HECM FOR PURCHASE"!***

- *The Reverse Mortgage Loan will always require that your other liens and mortgages are paid off at the closing.*

- ***ELIMINATE FUTURE MORTGAGE PAYMENTS . . .***

  or make payments on your Reverse Mortgage loan . . .

  always your choice . . . no "Pre-Payment Penalties"!

- ***A REVERSE MORTGAGE LOAN IS A "NON-RECOURSE LOAN"!***

  *The **"Loan Amount"** you owe never exceeds the value of your home!*

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What Is A "Reverse Mortgage Loan"?

*In 1989, the Federal Government started offering the Reverse Mortgage Loan program through the **"Department of Housing and Urban Development"**.*

HUD, thru FHA, a part of HUD, provides . . .

FEDERAL INSURED GUARANTEES THAT CREATE

NEW OPPORTUNITIES FOR MANY OF US!

*Here's a **BIG MISCONCEPTION** with a Reverse Mortgage Loan . . .*

YOU DO NOT SIGN OVER YOUR HOME TO THE LENDER!

YOU ALWAYS REMAIN THE OWNER!

*A Reverse Mortgage Loan is simply a loan, **BASED ON THE EQUITY** you own in your home.*

*You use your home as collateral and in this respect . . . **IT'S JUST THE SAME** as your other mortgages and home equity loans.*

THE BIG DIFFERENCE IS . . .

(as long as you satisfy your loan obligations)

YOU NEVER HAVE TO PAY BACK

YOUR REVERSE MORTGAGE LOAN . . .

UNTIL YOU EITHER SELL YOUR HOME . . .

OR UP TO 12 MONTHS . . . AFTER YOU MOVE OUT OF YOUR HOME . . .

OR AFTER ALL BORROWERS PASS AWAY.

Just like any other mortgage . . .

YOU REMAIN <u>THE OWNER</u> ON THE TITLE !

*And you always get **<u>ANY FUTURE APPRECIATION,</u>** above the amount of your loan.*

To be eligible for a Reverse Mortgage Loan . . .

ALL "BORROWERS" ARE REQUIRED TO BE AT LEAST THE <u>AGE OF 62</u>.

*The **"Loan Amount"** will be based on the age of the youngest Borrower.*

What if the older spouse (Borrower), who is 62 or over, wants a Reverse Mortgage Loan and the other spouse (Borrower) is younger than the required minimum age of 62 ?

*The **"Loan Amount"** would be based, on the age of the youngest spouse. However, the Reverse Mortgage loan will be in the older spouse's name only. **<u>As of late 2017, the younger spouse will no longer have to remove their name from the title.</u>***

Unless the younger spouse qualifies for a spousal exception, a Non-Borrower would be required to move within a few months, after the death of the Borrower(s), unless they paid off any amount owed for the Reverse Mortgage Loan. In some cases, they may be able to either write a check or take out a new mortgage in their own name(s).

What if there are two or more property owners, like a parent and a child, and one of the non-spouse owners is under the required age of 62 ? The younger Non-Spouse Owner, would need to take their name off the title of the property - and the older Owner(s) would be the only Borrower(s) for the Reverse Mortgage Loan.

A Non-Borrower(s) would be required to move within a few months after the death of the Borrower(s), unless they paid off any amount owed for the Reverse Mortgage Loan. They may write a check or take out a new mortgage in their own name(s) if they can.

*Can the **"Borrowing Spouse"** get the loan in their name only and then add the younger **"Non-Borrowing Spouse"** to the loan later, when they are at least 62 ?*

***<u>NO</u>**, this won't be allowed. The current loan will need to be refinanced.*

*Also, if the **"Borrower"** re-marries later . . . can they add their **"New Spouse"** to the Reverse Mortgage Loan ? No, a new reverse mortgage loan will be required for both.*

To summarize, it's usually best to wait until both (all occupant) Owners can qualify.

Let’s move on.

Here is a potential problem, I encourage you to think about.

*Even the **“Most Credit-Worthy”** of us, can have unexpected problems come up later, at any time, over the rest of our lives.*

*Let’s assume we have a serious illness or accident, or we lose a spouse, and it creates new credit problems for us at some point. Let’s assume we’ll also need to have access to our **“Dead Equity”** - that’s locked up in our home.*

WITH THE NEW RULES . . . MANY WHO LOSE THEIR CREDIT, <u>WILL NOT BE ABLE TO QUALIFY</u>

FOR A REVERSE MORTGAGE LOAN . . .

<u>EVEN IF THEY OWN THE “DEAD EQUITY”!</u>

*Throughout this book, please note that I emphasize the importance and the unique advantages of getting our Reverse Mortgage Loan **<u>EARLIER</u>** . . . often years before we need the money.*

<u>DON’T WAIT UNTIL YOU NEED THE MONEY !</u>

THE REVERSE MORTGAGE LOAN IS TRULY

A “LIFESAVER” FOR MANY OF US . . .

AND IT’S OFTEN, THE “ONLY SOLUTION”,

AT SOME POINT IN OUR LIVES!

<u>DON’T WASTE A VALUABLE OPPORTUNITY !</u>

The Reverse Mortgage Loan is only available for ***"Owner-Occupied Homes"****. It must be your* ***"Principal Residence"*** *and second homes* ***DO NOT QUALIFY****.*

You will need to have your Driver's License and Voter Registration with this address and also use this address when you file your income taxes.

So ***"Behind the Scene"****, yes, there are some* ***"Checks and Balances"****.*

Your Reverse Mortgage Loan is required to pay off your other mortgages or liens.

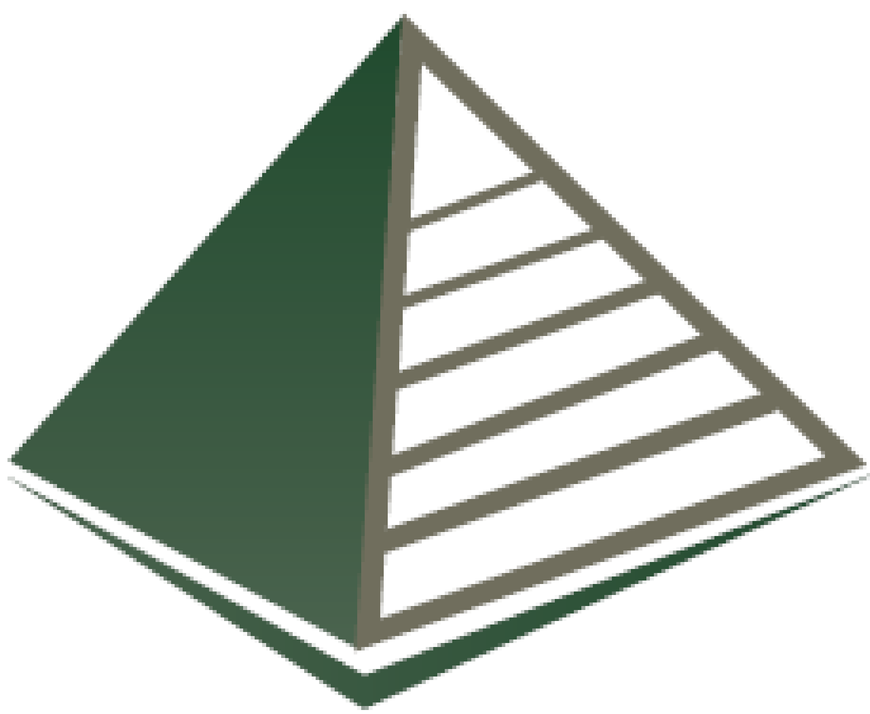
And as long as you satisfy your other obligations, like paying your property taxes, insurance, HOA dues, etc. – and your home remains your Primary Residence – any loan payments will continue to be deferred, for all of the Borrowers' lifetimes.

Here's my recommendation for many situations . . .

I TRULY BELIEVE IT OFTEN "MAKES SENSE" . . .

TO PAY OFF YOUR "CURRENT MORTGAGE" WITH A REVERSE MORTGAGE LOAN.

IT'S OFTEN A LOT "SAFER"!



*An article stated, that from **2007 thru 2011** . . .*

OVER 1 ½ MILLION SENIORS LOST THEIR HOME FROM FORECLOSURE !

*And the highest **"Foreclosure Rate"** was for homeowners over the age of **75**.*

Things may be fine now – but things can change quickly for many . . .

ESPECIALLY FROM EXPENSIVE "HEALTH CHALLENGES" . . .
OR WHEN WE LOSE A SPOUSE.

And this often means losing a pension, or part of our Social Security Benefits.

I'll share an example.

I had a lady who was about 80 in my office last year and she and her husband had owned a popular store in Sequim for many years.

The husband had died and now the wife can't pay her mortgage, after losing a Social/Security benefit. The mortgage exceeded the value of her home and she had to pay about a thousand dollars a month for the mortgage – that she didn't have anymore.

*She called us and she wanted to get a Reverse Mortgage Loan, to help pay off her **"Traditional Mortgage"**, so she wouldn't have any more monthly payments.*

*Unfortunately, she didn't have any equity . . . she was **"Under-Water"**.*

IT WAS REALLY VERY SAD . . . WE COULDN'T HELP AND
IT WAS OBVIOUS, THAT SHE'LL LOSE HER HOME !

*Her husband had always made the financial decisions and he had re-financed their home in 2007 with a traditional **"Forward Mortgage"**.*

To be fair, I don't know all of the details . . .

BUT IF HE WOULD HAVE GOTTEN A "REVERSE MORTGAGE LOAN"

INSTEAD OF THE TRADITIONAL "FORWARD MORTGAGE LOAN" . . .

HIS WIFE WOULD MORE LIKELY

BE ABLE TO KEEP HER HOME !

*If you want to reduce what you owe, you can always make payments – **WITHOUT** any **"Pre-Payment Penalties"**.*

*Here's another **IMPORTANT ADVANTAGE** . . .*

A REVERSE MORTGAGE LOAN . . . IS ALSO A "NON-RECOURSE LOAN" !

*This means your liability for your loan **WILL NEVER EXCEED** the value of your home, no matter how much your loan grows in the future !*

*And the lender **MAY NEVER SEEK REPAYMENT** from your income, your other assets, your children, or other beneficiaries.*

What Happens When You Sell, Need Long Term Care, Or After You Pass Away ?

If you sell your home, your Loan Balance for your Reverse Mortgage Loan will need to be paid off at closing, out of your equity.

What happens if your Loan Balance exceeds the amount of your equity ? This is highly unlikely, unless you live well into your 90's, or if your home drops in market value.

*But in the rare situation when there is not enough equity . . . remember what we stated earlier . . . this is a **"Non-Recourse Loan"** – and you will never owe more than the value of your home.*

The FHA insurance you pay for, will cover any difference to your Lender.

We also stated earlier, that if we do not live in the home for over 12 months, then the Lender may proceed to close out the loan. I had the question come up once where the Owner wanted to go to New Zealand for two years. The Lender's and FHA's concern, is the home will deteriorate, if someone is not taking care of the home.

In this case, my client made the arrangements for a responsible party to maintain the home in their absence and they notified the Lender. It was not a problem. (I'm sure the Lender had someone drive by the home periodically and there could be a charge.)

If you need Long Term Care out of your home for more than 12 months, this can be a cause for the Lender to close out the loan, if there is no Borrower still at the home. If the other spouse or Borrower still stays in the home, this is not a problem. Once again, the Lender will require the home to be maintained to preserve the value, and frankly, if you need a Long Term Care facility more than a year, it's unlikely you will have a further need for that home and you'll likely want to sell the home anyway, or need your equity.

What happens after all Borrowers pass away (i.e. both spouses typically) ?

The Beneficiaries (typically the "kids") can . . .

- *Write a check and pay off the Loan Balance.*
- *Refinance the home and pay off the Loan Balance.*
- *Sell the home and the Loan Balance will be paid at Closing.*

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

Illustration 5

How Much Can You Borrow ?

How Much Can You Borrow ?

<u>YOUR "LOAN AMOUNT" IS BASED ON:</u>

- *The* ***"Appraised Value"*** *of your home.*

  <u>$ 1,089,300</u> *is the new current limit, for the year 2023.*

- *The age of the* ***"Youngest Owner"***

- ***"Expected Interest Rates"*** *– for* ***"Adjustable Rate Loans"****.*

  The Expected Interest Rate is based on the ***"10 Year Treasury Index Rate"****, plus a margin.*

  The Lender determines the various rates, the Borrower can elect from, for the ***"Fixed Rate Loans"****.*

<u>LOAN OPTIONS</u>

- *Cash Lump Sum*

- *Various Guaranteed Monthly Payment Options (Tenure, Term, Modified Tenure or Modified Term)*

- *Line of Credit*

  "Adjustable Rate Loan" *only, not for* ***"Fixed Rate Loan"****.*

  <u>SPECIAL NOTE:</u>

  THE "LINE OF CREDIT" <u>GROWS MONTHLY</u> . . .

  AT THE CURRENT "ADJUSTABLE RATE OF INTEREST" FOR THE LOAN . . .

  <u>PLUS ½ of 1 % ANNUALLY !</u>

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency

*Your **"Loan Amount"** is based on **<u>THREE CRITERIA</u>**.*

*First, like any type of mortgage, we'll need to determine the **"Appraised Value"** of your home. The appraiser will need to be approved for FHA loans and we will need to work with the appraiser, through a lender-approved Appraisal Management Company.*

*The maximum home value was raised from $ 970,800 to **<u>$ 1,089,300</u>** in December 2022, effective January 1, 2023. This new limit is only available thru December 31st of 2023 and it will need to be renewed by the first of December 2023, to continue into 2024.*

*The second part of the equation, is the age of the **"Youngest Borrower"**, or the **"Non-Borrowing Spouse"**, if their age is younger.*

*The third part, is based on the **"Expected Interest Rate"**, which is based on the **"10 year CMT Treasury Index"**, at the time the loan is made.*

<u>THE "LOWER" THE "EXPECTED INTEREST RATE" . . .</u>

<u>THE "HIGHER" THE "LOAN AMOUNT" WILL BE !</u>

Here's another choice for some of us to consider. Before early 2009, to qualify for a Reverse Mortgage Loan, we had to have lived in our home for at least one year.

But since 2009, we can now use a Reverse Mortgage Loan . . .

TO HELP US BUY ANOTHER HOME !

*This is a separate program and it's called the **"HECM For Purchase Program"**.*

I've talked with many Retirees who want to move – but they can't afford or qualify for new mortgage payments.

This program allows you to pay for just one set of closing costs. Instead of one to buy your home and the second to refinance with a new HECM Reverse Mortgage.

The Reverse Mortgage Loan will defer all payments thru-out all of the Borrowers' lifetimes, as long as this home remains your Primary Residence and you pay your property taxes, homeowner's insurance, HOA dues, etc., as all Borrowers agree to do.

*It's a **"WIN-WIN"** for many of us !*

Let me give you an example of one of my clients. They had a nice $ 700,000 home in Sequim but their grandkids and daughter lived north of San Francisco . . . so my clients wanted to move there.

But they couldn't sell their Sequim home, back in 2009, when the market froze.

*I'm their **"Investment Advisor"** and they had over a **MILLION DOLLARS** of investments and fixed annuities under management with me.*

BUT THEY COULDN'T GET A "TRADITIONAL MORTGAGE",

TO BUY THEIR NEW HOME IN CALIFORNIA !

They didn't have any credit problems . . . but their only income was Social Security and it wasn't enough income, to qualify for a new traditional mortgage.

So we considered selling some of their investments but prices were low in 2009.

I suggested they get a Reverse Mortgage Loan to help pay for their new home.

They did this and everything came together for the new home . . . and they eventually sold their Sequim home. (They did not have to sell their investments.)

*They took the cash from the Sequim closing and paid down what they had borrowed from their **"Loan Amount"** of their Reverse Mortgage Loan on the California home. **(Don't pay it all off. Leave the required balance, to keep your "Line of Credit open for future needs, typically $ 100 minimum or more . . . or the loan ends.)***

*To buy a new home, you will need to put some cash down and depending on your age, you should be able to finance about **35 to 65 %** of the home's value, with a Reverse Mortgage Loan (based on the age of the youngest Borrower).*

As long as this home remains your Primary Residence and you honor your other property obligations (already discussed), you won't have any further payments required, during all of the Borrowers' lifetimes.

I'll share another example where this worked very well.

I met with a man in his early 80's . . . who was concerned about running out of money. After reviewing what he had, I shared his concern. I knew he owned his home and it was worth about $ 400,000 and he had no debt.

*I asked him if he and his wife were planning to stay in this home. He said **NO** . . . because he had a large property and it was more work to maintain than he wanted.*

*Since they will likely move in the near future, I recommended they **NOT** get a Reverse Mortgage Loan on their current home. There are costs to do this and it does require a few years, to **"Average Out"** these costs, to satisfy most of us.*

I asked him what he wanted to pay for his new home . . . and he said he would need to keep this about $ 400,000.

So I suggested that he plan to ***GET A REVERSE MORTGAGE LOAN ON THEIR NEW HOME*** *to help finance the purchase.*

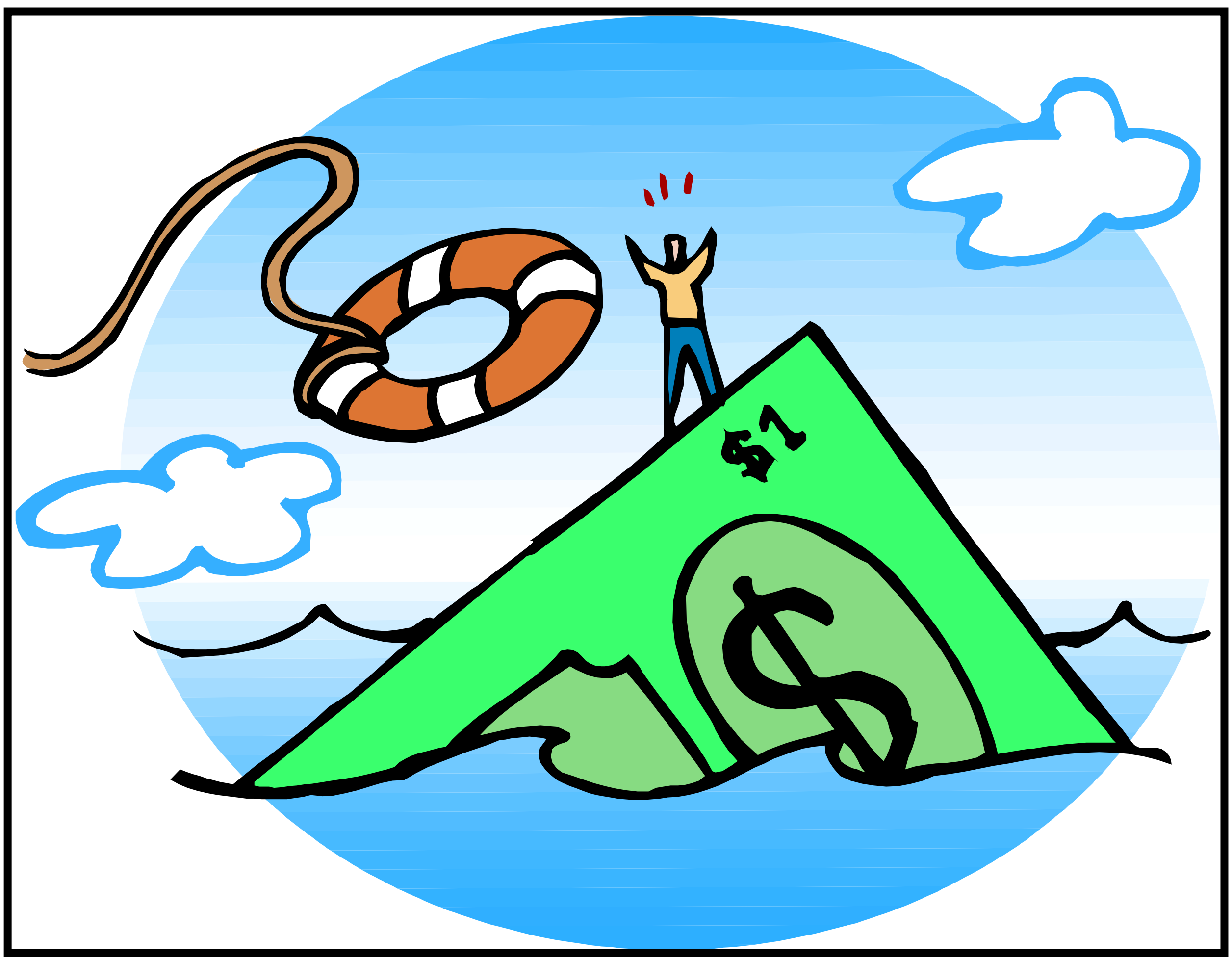
At the age of 80, he and his wife could get about $ 200,000 from a Reverse Mortgage Loan for a $ 400,000 home . . . and thru-out their lifetimes . . .

THEY'LL NEVER HAVE TO MAKE A PAYMENT,

AS LONG AS ONE OF THEM LIVES THERE

AND THEY HONOR THEIR LOAN OBLIGATIONS !

They'd only need another ***$ 200,000*** *to get their new home. And when they sold their current home . . . they would net about* ***$ 200,000*** *extra for their other needs.*



Your "Loan Amount" For Various Ages

NOTES:

*The **"Loan Amount"** is called the **"Principal Limit"**. (Your **"Closing Costs"** and any mortgages, or other liens you owe, will be deducted from this.)*

*The **"Expected Interest Rate"**, in addition to the appraised value and age of the youngest Borrower, determines your **"Principal Limit"**. This can change weekly. Amounts below, are based on a 2.25 margin as of **3/30/23**. (The 10 year U.S. Treasury Bond closed that day at 3.55.)*

Principal Limit (Loan Amount)

Home Appraised Value

	$ 400k	$ 500k	$ 600k	$ 700k	$ 800k	$ 1,000,000
Age 62	$ 148,000 (37.0 %)	$ 185,000 (37.0 %)	$ 222,000 (37.0 %)	$ 259,000 (37.0 %)	$ 296.000 (37.0 %)	$370,000 (37.0 %)
Age 67	162,400 (40.6 %)	203,000 (40.6 %)	243,600 (40.6 %)	284,200 (40.6 %)	324,800 (40.6 %)	406,000 (40.6 %)
Age 72	171,200 (42.8 %)	214,000 (42.8 %)	256,800 (42.8 %)	299,600 (42.8 %)	342,400 (42.8 %)	428,000 (42.8 %)
Age 77	188,400 (47.1 %)	235,500 (47.1 %)	282,600 (47.1 %)	329,700 (47.1 %)	408,100 (47.1 %)	471,000 (47.1 %)
Age 82	208,200 (52.2 %)	261,000 (52.2 %)	313,200 (52.2 %)	365,400 (52.2 %)	417,600 (52.2 %)	522,200 (52.2 %)
Age 87	234,400 (58.6 %)	293,000 (58.6 %)	351,600 (58.6 %)	410,200 (58.6 %)	468,800 (58.6 %)	586,000 (58.6 %)
Age 92	263,200 (65.8 %)	329,000 (65.8 %)	394,800 (65.8 %)	460,600 (65.8 %)	526,400 (65.8 %)	658,000 (65.8 %)

*The **"Reverse Mortgage HECM Loans"** are the **"Federally Insured Loans"** from HUD and insured by FHA. **"HECM"** stands for **"Home Equity Conversion Mortgage"**.*

*It's a **"Conversion"** of your home's **"Dead Equity"** . . .*

TO CREATE "MORE CHOICES" FOR YOU !

*On <u>**Page 30**</u>, I've given you some examples for various home values, at different owner ages (based on the age of youngest owner).*

*This illustrates the **"Principal Limit"**, the **"Loan Amount"**.*

*As you can see, the **"Percentage"** of the available **"Loan Amount"** . . .*

<u>INCREASES</u> AS WE GET OLDER !

*The amount of our **"Loan Amount"**, in relation to the **"Appraised Value"** of our home, is <u>**ABOUT 37 %**</u> in our early 60's . . . and it steadily increases, up to <u>**ABOUT 66 %**</u> in our early 90's.*

*The <u>**ASSUMPTION**</u> of the HECM program and lender, is that the borrower(s) . . .*

WILL NEVER MAKE ANY FUTURE PAYMENTS FOR PRINCIPAL AND INTEREST THRU-OUT THEIR LIFETIMES.

*So the lenders need to allow for the <u>**INCREASING AMOUNT**</u> of the loan over the borrower's **"Life Expectancy"** . . . and they need to keep the **"Loan Amount"** <u>**BELOW**</u> the value of your home, so there will be sufficient collateral for future years.*

New Changes Started October 1, 2013

On October 1, 2013, HUD and FHA made some changes.

*The biggest change now limits the amount of our **"Principal Limit"** (Loan Amount) that's available to us, in the first **TWELVE MONTHS** of the loan.*

*This is limited to **60 %** of the **"Loan Amount"** . . . and you can take the **"40 % Balance"** of your **"Loan Amount"**, for **"Adjustable Rate Loans"**, following the 12 months after your closing date (not for the **"Fixed Rate Loans",** as I'll explain later).*

*There is an **"Exception"** to the **"60 % Rule"** . . . and this applies if you have a higher mortgage, or you have other liens on the property, that will need to be paid off at closing.*

*We are allowed to take up to the **"Full Balance"** of our **"Loan Amount"**, to pay off any mortgages or other liens . . . **PLUS** any closing costs . . .*

PLUS AN EXTRA 10 % OF OUR "LOAN AMOUNT"

IS AVAILABLE FOR US TO USE,

AS WE WISH, FOR ANYTHING ELSE.

Illustration 7

FHA Insurance Costs and Guarantees

BORROWER'S COSTS

- ***2 %*** *of home's* ***"Appraised Value"****, up to the* ***$ 1,089,300*** *maximum.*
- *Plus* ***1/2 of 1 %*** *is added to the loan's annualized interest rate and applied to any loan balance the borrower owes for the life of the loan.*

  (Previous HUD rules charged 1.25 % and this latest HUD change, effective 10/2/2017 for all new Reverse Mortgage loans, offers a big advantage to the Borrower to help preserve their equity.)

FHA GUARANTEES TO BORROWER

- *Never have to pay loan payments during your lifetime.*

  Repayment does not occur until the Borrower(s) dies, sells their home, no longer occupies the home for more than 12 consecutive months, moves out of the home or does not meet all the terms of the loan like paying property taxes, HOA dues when required, insurance, etc.
- *Never have to move as long as at least one owner/borrower resides at the home as their* ***"Primary Residence"*** *!*
- *The Borrower will receive any unused loan benefits (like the* ***"Line of Credit"*** *or other payments) even if the lender goes out of business !*

FHA GUARANTEES TO LENDER

- *FHA guarantees the Lender that they'll be paid the loan amount, even if the loan eventually exceeds the value of the home !*

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The HECM FHA Insurance Costs and Benefits

Please review ***"Illustration 7"*** *on* ***Page 33***.

The HECM Reverse Mortgage Loan, offers us more choices and security . . .

BECAUSE WE ALSO HAVE THE FEDERAL GUARANTEES FROM FHA !

FHA GUARANTEES THAT WE'LL NEVER

HAVE TO MOVE OUT OF OUR HOME !

AND WE'LL NEVER HAVE TO PAY BACK

THE REVERSE MORTGAGE LOAN

AS LONG AS WE LIVE IN OUR HOME !

OR MAKE ANY MORTGAGE PAYMENT

IN OUR LIFETIME . . . IF WE DON'T WANT TO !

IT'S ALWAYS OUR CHOICE !

This applies, as long as this home remains our ***"Primary Residence"*** *and we continue to pay our property taxes, homeowner's insurance, HOA dues and we also meet the other* ***"Loan Requirements"*** *and protect the value of the property.*

This ***"Federal Insurance"*** *from FHA, not only protects the* ***"Borrower"*** *from having to move out of their home, or pay back any part of the loan during their lifetime, but it also protects the lender.*

Why is this important to us ?

It's important – because unlike many of the other lenders' mortgage risks out there today, FHA guarantees the lender, that they'll always get most of their money back.

*In addition, this **"FHA Insurance"**, also guarantees the lender's obligations to you, even if your bank goes out of business.*

*This will also protect your un-used **"Credit Line"**, your **"Guaranteed Income Payments"** and other advantages of your contract.*

*FHA also charges **<u>½ of 1 %</u>** annually of your **"Loan Balance"** . . .*

*and this is pro-rated and added to your interest rate and your **"Loan Balance"** each month.*

Illustration 8

The Two Types of Reverse Mortgage Loans

CLOSED-END "FIXED-RATE" LOAN:

- *A* ***"Fixed-Rate"*** *of interest for the life of the loan . . . rates range from* ***6.75% to 7.5%*** *(as of 1/22/2023).*
- *You are required to borrow and withdraw the* ***"Full Loan Amount"*** *available at* ***"Closing"****.*
- *No* ***"Monthly Term or Tenure Payments"*** *or* ***"Line of Credit"*** *options are available to the borrower.*

OPEN-END "ADJUSTABLE-RATE" LOAN:

- *The* ***"Most Flexible"*** *type of Reverse Mortgage Loan . . .*

  Cash Lump Sum, Term or Tenure payments, Line of Credit or a combination of any of these!
- *Line of Credit - your* ***"Best Choice"*** *if you don't need much cash at* ***"Closing"*** *or extra monthly income!*
- *You don't pay interest on the* ***"Loan Amount"*** *you don't need to use . . . until you need it!*
- *Your* ***"Unused Loan Amount"*** *. . .*

  your ***"Line of Credit"*** *. . .* ***GROWS EVERY MONTH . . .***

  SO YOU CAN HAVE MORE FOR LATER!

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“Two Types” of Reverse Mortgage Loans

*Please review **“Illustration 8”** on **<u>Page 36</u>**. There are actually **“Two Types”** of Reverse Mortgage Loans.*

*We have the **“Closed-End Fixed Rate Loan”** and the **“Open-End Adjustable Rate Loan”**.*

*Yes, this does add to the confusion . . . but it also **<u>INCREASES</u>** the opportunities for our different needs and goals.*

The “Closed-End Fixed Rate Loan”

*Let’s start with the **“Fixed Rate Loan”** that was introduced in early 2009.*

*This can sometimes work best, if you have a **“High Mortgage”**, or a high amount of other liens against your home, you need to pay off.*

*Many of us want to **<u>ELIMINATE</u>** our mortgage payments.*

***“Fixed Rates”** vary, as I write this in April 2023, from **<u>6.75 % to 7.50 %</u>**.*

*Of course **“Money is <u>NEVER FREE</u>”** and with my primary lender today . . . it will **<u>COST YOU</u>** about an extra **<u>$ 6,000</u>** at **“Closing”**, to get the **<u>LOWEST</u>** **“6.75 % Rate”**.*

***<u>IT’S MY JOB</u>** to help you work through this.*

I’ve had many cases, looking at this from the broader viewpoint of a Retirement Income Planner . . .

*where it **<u>MAKES SENSE</u>** to pay off our mortgages early and **<u>ELIMINATE</u>** the monthly mortgage payments . . .*

*and **“Buy Ourselves Time”** – to delay starting and increase our Social Security Benefits.*

THIS IS A <u>POWERFUL COMBINATION,</u> THAT CREATES A VERY “POSITIVE RETURN”, OVER OUR FUTURE YEARS !

*I'll show you later, where the extra Social Security Benefits and the lack of mortgage payments, will not only help the rest of your savings to last **<u>LONGER</u>** . . .*

*but it will give you a higher and more secure **"Inflation Adjusted Income"** for your later years, that you'd never have otherwise.*

*I've done many **"Financial Plans"** for our clients and frankly, this is often the **<u>ONLY WAY</u>** their income will be high enough . . . to have a chance to make it later.*

*Here's another **<u>IMPORTANT POINT</u>**.*

*With a **"Closed-End Fixed Rate Loan"** . . .*

WE ARE REQUIRED TO WITHDRAW THE "FULL LOAN AMOUNT" THAT'S AVAILABLE TO US . . .

RIGHT AWAY AT "CLOSING".

*Remember, we are **<u>LIMITED TO 60 %</u>** of the **"Principal Limit",** in the **<u>FIRST 12 MONTHS</u>** . . . unless we have a **"Higher Mortgage"**, or other liens to be paid off, that allow us to qualify for more.*

*So one negative we need to be aware of . . . if we can only get the **<u>60 %</u>**, we'll have to **"Walk Away"** from the **"Remaining Loan Amount"** (or we can have a "set-aside", for future property taxes and/ homeowner's insurance premiums with this extra).*

PLEASE UNDERSTAND WITH THE "FIXED RATE LOAN"

THERE ARE NO "MONTHLY INCOME" . . .

OR "LINE OF CREDIT" OPTIONS . . .

<u>IT'S ALL "CASH" (OR "SET-ASIDE") AT CLOSING</u>.

*I know about now, all of these choices are sounding **<u>OVERWHELMING !</u>***

*But I'll get you through this and I'll get you the **"Best Loan"** I know of, that's available to you, at the time you apply.*

The "__Open-End__ HECM Adjustable Rate Loan"

*Let's discuss our **__SECOND TYPE__** of loan . . . **"The __Open-End__ HECM Adjustable Rate Loan"**.*

*This is all we had back in the **"Old Days"** until **__2009__**, when the Fixed Rate began.*

IT'S AN "__AMAZING__ FINANCIAL PLANNING TOOL" !

__INVEST THE TIME TO UNDERSTAND IT !__

This is what attracted me to this business as a Retirement Income Planner . . . and this is what my wife and I got for ourselves.

Just like its name says . . .

THIS IS NOT A "FIXED RATE LOAN"

AND YOUR "INTEREST RATE"

CAN CHANGE EVERY MONTH (or year).

*But it can only change - based on any movement in the **"One Month or Annual CMT Treasury Index"** (you can choose either at the time of your application).*

*Your Lender **__CAN NOT CHANGE YOUR RATE__** arbitrarily, anytime they want.*

*The **"Open-Ended HECM Adjustable Rate Loan"** is the **__MOST FLEXIBLE__** type of Reverse Mortgage Loan.*

*You can take **__CASH__** from your available **"Loan Amount"**, or part of it.*

*You can also receive this as a **__GUARANTEED INCOME__** . . . possibly for life !*

*Or you can use this, to plan ahead for your future needs, as a **"Line of Credit"**.*

*Or you can do **__ALL THREE OF THESE__** . . . and you can **__CHANGE__** your selection at any time . . .*

__YOU ARE NEVER "LOCKED IN" !__

I like to use the ***"Line of Credit",*** *when my client does not need a lot of cash right away.*

It's an incredibly smart ***"EXTRA Financial Planning Tool" . . .***

THAT HELPS US TO ENHANCE OUR OTHER OPTIONS AND KEEP EVERYTHING ELSE "TOGETHER" !

Why Would This Successful Couple Get A Reverse Mortgage Loan ?

Let's consider another situation.

*What if you don't have a **"Traditional Mortgage"** – or you're **<u>NOT CONCERNED</u>** about paying for one if you have it.*

And what if you . . .

DON'T HAVE ANY NEED FOR ANY EXTRA INCOME, OR CASH FOR ANYTHING, AT THIS TIME ?

<u>WHY WOULD IT MAKE SENSE FOR YOU, TO PAY A FEW THOUSAND DOLLARS IN COSTS NOW . . .</u>

<u>TO GET THE "OPEN-ENDED HECM ADJUSTABLE RATE LOAN" . . . YEARS BEFORE YOU NEED IT ?</u>

I'll share an example. Sally and George taught me a lesson I'll never forget ! They were both in their late-70's. I manage their investments and they have over $ 800,000 with me for starters.

They own a very nice home on the water, with their own private dock. It appraised for over a million dollars.

*They didn't have any mortgage and they didn't have any other debt. Even in their mid-70's, they still have a **"Positive Cash Flow"** . . . and they're still adding to their savings.*

*They earned every penny . . . **"Working Stiffs"** . . . **<u>GOOD PEOPLE !</u>***

SO WHY DID I RECOMMEND THEY GET

A REVERSE MORTGAGE LOAN . . .

<u>AND WHY DID THEY GET ONE ?</u>

*Both had health problems and both were **"Uninsurable"** for Long Term Care Insurance.*

*Working within the **"HECM Reverse Mortgage Loan"** limits, the most we could get, is a $ 1,089,300 appraisal (2023 limit), even though the market value was higher.*

Yes, it cost them over twenty thousand dollars to do this. While they could have financed all of the costs, we had them write a check and pay off most of this, soon after their loan closed. ***<u>So they only owed about $ 100.</u>***

THE BANK REQUIRES A "MINIMUM LOAN BALANCE", OR THEY'LL CLOSE OUT THE LOAN !

So if this is all they ever need and the kids inherit their home, they'll only have to write a check for ***<u>$ 100,</u>*** *plus any accumulated interest, on only this $ 100, they don't want to pay in the future (an optional choice).*

Since they didn't need any cash or income from this, they set up the loan balance in 2023, of about ***<u>$ 510,000</u>*** *with a* ***"Line of Credit"****.*

<u>THIS WILL INCREASE EVERY MONTH . . . AND LIKELY DOUBLE IN ABOUT TEN YEARS OR LESS . . . BASED ON CURRENT LOW INTEREST RATES !</u>

If they need cash for Long Term Care or anything else, the bank will have to pay them up to the ***<u>FULL AMOUNT</u>*** *of their* ***"Line Of Credit Balance"*** *. . .*

WITHIN FIVE BUSINESS DAYS . . . AND IT'S ALL <u>TAX-FREE</u> !

What's even more interesting about this couple . . . is about ***<u>THREE YEARS</u>*** *. . . after we put this together . . . their daughter and grandchildren needed their help.*

The parents, my clients, were able to borrow from their ***"Credit Line"*** *and buy their daughter a home for her and her children . . . without having to make any payments or touching their investments !*

Eventually, the daughter was able to get her own mortgage after her divorce settled and she paid them back. They paid down their Loan Balance and increased their remaining ***"Line of Credit"****, by paying back the amount borrowed against this.*

Here's my point . . . there are times when ***<u>CASH,</u>*** ***<u>FLEXIBILITY</u>*** *and* ***<u>LIQUIDITY</u>*** *–*

<u>ARE THE "MOST IMPORTANT BENEFITS"</u>

<u>OF ANY FINANCIAL TOOL !</u>

The <u>POWER</u> Of Your "Line Of Credit Option"!

Have you read in AARP, or other magazines and publications . . .

"THAT IT MAKES MORE SENSE <u>TO WAIT</u> AND GET YOUR REVERSE MORTGAGE LOAN LATER . . .

ONCE YOU GET OLDER . . .

BECAUSE YOU'LL QUALIFY FOR <u>MORE</u> MONEY WHEN YOU'RE OLDER ?"

While this is true in some respects, I'm going to show you . . .

HOW THAT ADVICE MAY COST YOU

<u>HUNDREDS OF THOUSANDS OF DOLLARS</u>

THAT COULD BE <u>C-R-I-T-I-C-A-L</u> TO YOUR FINANCIAL NEEDS LATER IN LIFE !

<u>THIS IS IMPORTANT . . . SO PLEASE INVEST</u>

<u>THE TIME TO UNDERSTAND THIS !</u>

*On **<u>Page 44</u>**, I've listed an example of the values of this **"Line of Credit"**, for different ages, with **"Illustration 9"**.*

*Let's concentrate on **<u>AGE 62</u>**. Using current interest rates, assuming we have a home worth **<u>$ 1,000,000</u>** – and also assuming, we've paid off the other mortgages . . .*

WE COULD SET UP A "LINE OF CREDIT" FOR THE AMOUNT OF <u>ABOUT $ 339,551</u> AT <u>AGE 62</u> . . .

AND THIS IS "NET TO US" . . . AFTER THE LOAN'S ESTIMATED CLOSING COSTS.

Illustration 9

Projected "Line of Credit" Increases !

- *Assume we have a **$ 1,000,000** home in this example.*
- *The **"Initial Line of Credit"**, Year 0, is based on interest rates from **3/28/2023**. Rates can change weekly for new loans. The numbers illustrated are **"Net"**, after estimated **"Closing and Loan Costs"**.*
- *Future growth for projections below are assumed to increase at the rate of **6.21 %** annually (based on the **"Expected Interest Rates"** from **3/23/2021** of **5.71 %** (assuming a 2.25 % margin) plus **0.50 %** for FHA Insurance. 10 year U. S Treasury rates closed at 3.537 on 3.27/23.).*
- *Assumes that you have no other debt beyond the **"Closing Costs"** for the loan. (You must keep a loan balance of $ 100 minimum.). **If your loan is paid off, the loan will be closed-out by the lending bank.**)*

Year	Age 62	Age 72	Age 82	Age 92
0	$ 339,551	$ 397,551	$ 491,551	$ 627,551
5	458,915	537,304	664,348	848,156
10	620,239	726,184	897,889	
15	838,274	981,463	1,213,528	
20	1,132,956	1,326,481		
25	1,531,229	1,792,784		
30	2,069,509			
35	2,797,012			

Note: For Example Only

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

WE <u>ARE NOT CHARGED</u> ANY INTEREST . . .

ON THE <u>UN-USED</u> "LINE OF CREDIT".

Under Federal Law, our bank will have to pay us . . .

ANY AMOUNT WE WANT OF OUR AVAILABLE CREDIT LINE, <u>WITHIN FIVE BUSINESS DAYS,</u> OF OUR REQUEST . . .

OR FEDERAL LAW REQUIRES THE BANK, TO PAY A PENALTY TO US !

AND NONE OF THIS IS "TAXABLE INCOME" WHENEVER WE WANT SOME MONEY !

Here's why we want to do this ***<u>JUST AS SOON AS WE CAN !</u>***

<u>OUR "UNUSED LINE OF CREDIT"</u>

<u>WILL G-R-O-W EVERY MONTH !</u>

Most people, including most in the media . . .

DON'T UNDERSTAND <u>THE POWER</u> OF THIS !

Our ***"Line of Credit"*** ***<u>WILL INCREASE EVERY MONTH !</u>*** *And this is based on the loan's* ***"Actual Current Interest Rate" . . .*** ***<u>PLUS ½ of 1 %</u>*** *(the FHA MIP cost.)*

We'll assume for our example, this will likely ***<u>GROW</u>*** *about* ***<u>5.675 %</u>*** *every year. (The assumption for this example, is the* ***"Expected Rates"*** *will likely average this level over the next ten years. And it will be more, if rates increase !)*

When this 62 year old, in our example, is ***<u>72</u>*** *. . .*

INSTEAD OF HAVING THE <u>$ 339,551</u> "LINE OF CREDIT" THEY STARTED WITH . . .

THEY'LL NOW HAVE ABOUT <u>$ 620,239</u>

OF EXTRA "TAX FREE CASH"

<u>WHENEVER THEY WANT IT !</u>

If you don't understand anything else . . . and if you don't feel you need a Reverse Mortgage Loan today . . .

YOU NEED TO FULLY UNDERSTAND <u>THE EXTRA VALUE,</u> THAT IS OFFERED TO US, BY THE "LINE OF CREDIT" !

*Let's go through this again on **<u>Page 44</u>**. Let's start again at **<u>AGE 62</u>** and we start with a **"Credit Line"** of **<u>$ 339,551.</u>***

AND IN "YEAR 10" . . . THIS HAS <u>GROWN</u> TO ABOUT <u>$ 620,239 !</u>

*Now let's look at the next column, to the right, for **<u>AGE 72</u>**. (Please note that this is also 10 years later than age 62 !)*

The beginning value . . .

IS <u>ONLY $ 397,551</u> . . . AND NOT <u>$ 620,239 !</u>

AND THE "DIFFERENCE" <u>COMPOUNDS</u> <u>MORE</u> IN THE YEARS AHEAD !

*Let's do this one more time. If we go back to **<u>AGE 62</u>** and we look down to the **<u>20th YEAR</u>** of our example . . .*

THE "LINE OF CREDIT" HAS GROWN TO <u>$ 1,132,956 !</u>

*And if we compare this to the **"Beginning Value"** . . .*

IF WE HAD <u>WAITED</u> 20 YEARS TO APPLY AT THE AGE OF <u>82</u> . . .

OUR "INITIAL LINE OF CREDIT" <u>IS ONLY $ 491,551.</u>

So let me ask you a question. Let's assume you're now in your 80's and either you or your spouse will need more income, Long Term Care, or both.

WOULD YOU RATHER HAVE THE <u>$491,551</u> OR THE <u>$ 1,132,956</u> . . . TO HELP YOU ?

*Now maybe the value of your home will go **<u>UP</u>** . . . or maybe it will go **<u>DOWN</u>**.*

*It would be nice to have that **"Crystal Ball"**, wouldn't it ?*

But consider this . . .

IF YOU GET YOUR REVERSE MORTGAGE LOAN <u>NOW</u> . . .

THE VALUES AND TERMS ARE <u>GUARANTEED</u> EVEN IF THE "YOUNGEST BORROWER" . . .

<u>LIVES TO THE AGE OF 150 !</u>

AND ALL OF THIS IS <u>INSURED BY FHA !</u>

*The bank may go out of business and the value of your home **<u>COULD GO DOWN</u>**.*

AND IT WOULD <u>NOT AFFECT</u> YOUR "UNUSED LINE OF CREDIT" IN ANY WAY !

<u>THINK ABOUT THE EXTRA SECURITY OF THIS !</u>

*And all of this is **<u>EXTRA CASH</u>** – beyond your other investments, that you'll never have otherwise (unless you sold your home and this is often offset by other costs).*

WITH THE REVERSE MORTGAGE LOAN . . .

ASSUMING WE SATISFY OUR LOAN OBLIGATIONS . . .

WE CAN NOT ONLY KEEP OUR HOME . . .

BUT WE ALSO HAVE THE <u>EXTRA CASH</u> . . .

THE <u>EXTRA INCOME</u> . . . OR THE <u>CREDIT LINE !</u>

This extra could help us pay for our Long Term Care . . .

OR IT COULD <u>EXTEND</u> OUR RETIREMENT INCOME FOR MANY YEARS !

*We'll have **<u>MORE OPTIONS</u>** to manage the rest of our money . . .*

AND KEEP OUR OTHER INVESTMENTS WORKING <u>MORE PRODUCTIVELY</u> FOR US.

We won't have to . . .

GIVE OUR MONEY, TO THE BANKS, FOR THEIR <u>STUPID CD'S</u> AND OTHER LOW-PAYING TAXABLE ACCOUNTS . . .

JUST TO HAVE AN "EMERGENCY FUND".

REMEMBER . . . WE CAN GET CASH FROM OUR "LINE OF CREDIT" . . . <u>WITHIN FIVE BUSINESS DAYS</u>.

*We can afford to lower our premiums and have **<u>HIGHER DEDUCTIBLES</u>** for our Long Term Care and other insurance.*

*We can afford **<u>TO INVEST FOR A LONGER TERM</u>**.*

*Or we can **"Tone-Down"** our investments . . .*

BECAUSE WE <u>WON'T NEED</u> TO TAKE ON <u>EXTRA</u> INVESTMENT RISKS !

*We can now afford to **<u>MINIMIZE</u>** our **"Taxable Distributions"** from our IRAs and other retirement accounts . . . and let them create **<u>VALUABLE NEW TAX ADVANTAGES</u>** for both ourselves and our Beneficiaries.*

AND THE <u>SOONER</u> WE PUT THIS TOGETHER . . .

THE <u>MORE SECURITY</u> WE'LL HAVE FOR OUR LATER YEARS !

Please consider this . . .

I'VE WORKED WITH HUNDREDS OF FAMILIES . . . AND I'VE LOOKED AT THIS FROM MANY ANGLES.

I've studied every book I've been able to find that's been written about this.

Here's my personal conclusion . . .

IF YOU CAN QUALIFY AND IF YOU HAVE ENOUGH EQUITY . . .

I CAN ONLY THINK OF THREE "GOOD REASONS" FOR ANYONE TO WAIT AND PROCRASTINATE . . . AND NOT GET YOUR REVERSE MORTGAGE LOAN NOW.

The FIRST REASON, is if you'll want to ***MOVE IN A FEW YEARS****.*

Maybe it makes more sense to wait and get your Reverse Mortgage Loan on your ***NEW*** *home.*

Of course, if you can CREATE A NEW BENEFIT from getting a Reverse Mortgage Loan, like helping you to INCREASE your Social Security benefits for the rest of your life, you'll likely come out ahead, even if you do move in a few years !

The SECOND REASON, is if your children will want to keep your home and you don't want to leave any debt on it for them.

But most of our children already have their own home . . . and our home is just another asset, they'll need to sell later. Personally, like most, I'd rather receive more cash.

But if you need the extra money now . . . or if you're planning ahead for your own needs . . .

WHICH IS YOUR HIGHER PRIORITY . . . YOUR NEEDS, OR YOUR KIDS ?

Of course this is your right – and your responsibility – to decide this !

The THIRD REASON is this . . .

<u>YOU ALREADY "HAVE MORE THAN ENOUGH".</u>

YOU KNOW <u>FOR SURE</u> – THAT YOU'LL NEVER NEED THE EXTRA CREDIT LINE FOR LONG TERM CARE.

YOU HAVE ENOUGH TO OFFSET INVESTMENT LOSSES, LAWSUITS OR ANYTHING ELSE THAT MAY COME UP LATER ON.

IF YOU'VE DONE THIS WELL . . . <u>CONGRATULATIONS !</u>

But frankly, very few of us have this luxury.

Besides, where else are you going to get . . .

A PROJECTED <u>5 % PLUS</u> ANNUAL INCREASE – FROM THE "DEAD AND UNPRODUCTIVE EQUITY" IN YOUR HOME . . .

that's also ***<u>INSURED</u>*** *by FHA . . .*

that grows ***<u>TAX-FREE</u>*** *and you can have* ***<u>TAX-FREE CASH</u>*** *. . .*

WITHOUT ANY PENALTIES, OR ANY "MARKET RISK", OR ANY "CREDIT RISK" . . . WHENEVER YOU WANT IT ?

Speaking as a Certified Retirement Income Planner® . . .

this has created ***<u>A NEW UNIVERSE</u>*** *of financial choices for many of my clients . . .*

AND FRANKLY, IT'S JUST "COMMON-SENSE"

<u>TO DO THIS NOW . . . AND NOT WAIT . . .</u>

FOR MOST OF US WHO CAN QUALIFY !

<u>AND BEFORE WE GET TOO COMPLACENT</u> . . .

WE NEED TO REMEMBER THE FEDERAL "HECM REVERSE MORTGAGE LOAN" . . .

IS A <u>POLITICAL PROGRAM</u> . . . AND OUR POLITICIANS <u>CAN CHANGE THIS</u> . . .

FOR HOMEOWNERS WHO PROCRASTINATE AND WAIT TO APPLY LATER.

There have been many changes, reductions and new restrictions to this program, since I started doing this in 2005. (There have also been positive changes.)

*I absolutely believe, that the **"HECM Reverse Mortgage Loan Program"** is one of the **<u>MOST IMPORTANT</u>** Federal programs for Retirees and future Retirees.*

*Yes, Social Security, Medicare and possibly Medicaid are likely more important to many of us in other ways. But frankly, many Retirees **<u>WILL ALSO NEED</u>** a Reverse Mortgage Loan . . . to help create extra cash or income to enjoy a meaningful retirement.*

SO A "WORD TO THE WISE" . . .

<u>LOCK THIS IN NOW,</u> IF YOU CAN QUALIFY . . .

SO THEY CAN'T <u>INCREASE YOUR COSTS</u> OR "PULL THE RUG OUT" FROM YOU LATER ON

<u>WHEN YOU MIGHT NEED THE MONEY.</u>

ANY HECM REVERSE MORTGAGE LOAN CONTRACT

YOU OWN, WILL BE <u>GUARANTEED</u> AND <u>INSURED</u> . . .

FOR THE LIFE OF ALL BORROWERS . . . UP TO <u>AGE 150</u>.

<u>TRANSLATION = S-E-C-U-R-I-T-Y !</u>

Are You "Living Off Your Investments"?

*Here's another HUGE ADVANTAGE we can create with our **"Line of Credit"**.*

*Are you **"Spending Down"** your investment portfolio, to pay the bills ?*

When you are retired and want to create an extra steady and reliable income from this . . . you are selling and liquidating your portfolio, your life's work.

*And if you are **"Dollar Cost Averaging"** out of a market risk investment, to create the retirement income you need . . .*

<u>YOU WILL BE SELLING MORE SHARES</u>

<u>WHEN THE PRICE IS "LOW" . . .</u>

<u>AND FEWER SHARES WHEN THE PRICE IS "HIGH" !</u>

When you need regular retirement income from your investment portfolio, many Retirees, will need to sell in both good times and bad.

*You are automating the **"Sell Low"** part . . . which is the opposite of what you want.*

*I'm not saying there's anything **"Wrong"** with market risk investments, for the right situations . . .*

but I do suggest it will be more profitable for every Retiree . . .

<u>IF YOU HAVE MORE CONTROL – WHEN YOU SELL !</u>

Sell when it makes sense to sell . . . not when you have to sell !

You will be less emotional when you sell, you'll likely make more money and you will likely have less stress – and get more sleep !

WHEN THE MARKET PRICES ARE <u>LOW</u> . . . USE YOUR "LINE OF CREDIT" TO PAY YOUR EXPENSES . . . AND YOUR INVESTMENTS WILL <u>LAST LONGER !</u>

New Home Equity - $ 100k, 200k, 300k & More !

We are seeing property values ***INCREASING,*** *over all of the counties we serve. This includes most of Western Washington.*

BUT HOW WILL YOUR NEW HOME EQUITY, YOUR NEW WEALTH, HELP YOU TO PAY YOUR OTHER BILLS AND INCREASING COSTS OF LIVING ?

I think we could also document the argument – that much of the cause of our wealth of new home equity, i.e. more people coming to our area with higher-paying jobs and relocating their home equity they earned elsewhere . . . are also increasing our property taxes, utilities, medical care, transportation costs, etc. . . . ***and we end up with even less positive cash flow . . . although "on paper", we're worth more !***

So do we sell and move ? Where do we move to ? (A few will and most won't.)

What about a traditional 2nd mortgage, or a Line of Credit from a HELOC ?

I have enclosed a good article about this later, on ***pages 132-133*** *. . . and if you are considering this, I encourage you to study this article first.*

The conclusion of the author of this article (and I agree) is the HELOC can be your best choice for a ***"Short-Term Problem"*** *. . .* ***but the Reverse Mortgage (HECM) Loan is a far superior choice, a much better solution, for the "Longer-Term Challenges".***

If you need more cash or income, why not get the Reverse Mortgage Loan ?

Many of us want to leave what we can to our loved ones . . . but if it's a sacrifice for you, do they really need all of this ?

My opinion, it's your money to use as you need and want ! (But your decision.)

$ $ $ $ $

But My "Loan Balance" Will Grow from the Interest, If I Don't Make Any Payments !

Yes, this is true. But let's consider this – your home value is likely to increase too.

*You can make regular or lump-sum payments to reduce your Loan Balance, if you want to . . . and there are no pre-payment penalties. You can do this, with either the **"Closed-End Fixed Rate Loan"** or the **"Open-End Adjustable Rate Loan"**.*

*With the **"Open-End Adjustable Rate Loan"** only, any payments you make, may also **INCREASE** your Line of Credit. So any payment will not only lower your Loan Balance, it will also lower the interest charged on your Loan Balance. **It will also increase your Line of Credit** – 100 **% OF YOUR PAYMENT** . . . **PLUS** your Line of Credit will grow every month, by the Current Rate charged on your Loan Balance and the pro-rated ½ of 1 % annual FHA insurance charge.*

I recommend if you have extra income or extra cash – and if you don't need this money elsewhere, I suggest that whenever you get an extra $ 5,000 or so, use this to pay down your Loan Balance. If you cash out another investment, consider applying this to your Loan Balance. (But always leave at least a $ 100 Loan Balance to keep this open.)

If you have extra IRA Required Minimum Distributions you don't need, consider paying down your Loan Balance. If you inherit extra money, or win the lottery, consider paying down your Loan Balance. (But always leave at least a $ 100 Loan Balance.)

Remember, your Line of Credit is "Liquid Money" . . . payable to you within 5 business days . . . TAX-FREE !

And if you don't want to, or you don't have the extra money, you don't have to !

You are in control and you can decide.

So is the Reverse Mortgage a "Negative" or a "Positive" ?

The answer really depends upon how you use and manage your opportunity, doesn't it ?

Create <u>New Tax Advantages</u>
For Your Loved Ones !

When I met with Jim, he shared with me that his son was concerned about what he thought were extra costs, if his Dad got a Reverse Mortgage Loan.

This is a valid question and I see this often. But there's more we need to understand !

The son's first concern was Jim would lose the income tax deduction from the mortgage he already had.

This can affect some situations - but it did not affect Jim. Most of his income was from Social Security and unless you have a lot of other income, none of this is taxable and none of the interest is tax deductible, for many retired homeowners anymore.

So Jim was not getting any tax deduction, for the interest on his present mortgage.

It is true – that none of the interest we are charged, from a Reverse Mortgage Loan, is tax deductible for many homeowners . . .

<u>BUT ALL OF THE "ACCUMULATED INTEREST" CAN BE TAX DEDUCTIBLE ,</u>

<u>WHEN THE REVERSE MORTGAGE LOAN IS PAID OFF OR RE-FINANCED !</u>

So if you sell your home during the owner's lifetime, please keep this in mind.

But let's assume Jim is able to live in his home for the rest of his life and his son and other children inherit the house. As I outlined before, they will typically need to pay off the Reverse Mortgage Loan, within a few months after Jim's death . . .

<u>AND WHEN THEY PAY THIS OFF, THEY WILL ALSO INHERIT THE "INCOME</u>

<u>TAX DEDUCTION", FOR ALL OF THE "ACCUMULATED INTEREST" !</u>

This could become a valuable asset, to help offset the income tax obligations many will inherit from IRAs and other retirement accounts, or even their wages.

<u>SO WE MAY CREATE . . . A NEW TAX DEDUCTION,</u>
<u>THAT WE COULD NOT TAKE ADVANTAGE OF,</u>
<u>WITHOUT THE REVERSE MORTGAGE !</u>

Let's consider another important question.

*Jim has lived in his home for over thirty years. He bought this for about $ 21,000 and it's now worth about $ 530,000 ! Over the years, Jim had made some improvements and he guessed his **"Cost Basis"** was about $ 150,000.*

So let's do the math. If he sold this house and moved somewhere else that may be "more affordable", Jim would create a capital gain of about $ 380,000. Any extra selling costs to market and sell his home, would lower this.

So let's assume his actual capital gain was $ 350,000, for this example.

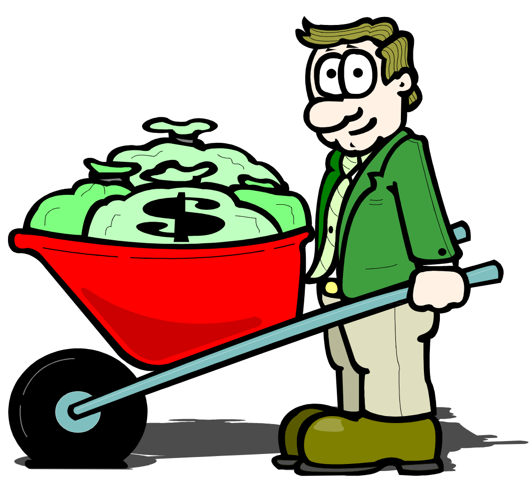
Jim was Single and his homeowner exemption would be $ 250,000. So Jim would owe taxes on this capital gain of $ 100,000. I'll let the tax accountants take it from here. (A couple would have two exemptions, or $ 500,000 total.)

On the other hand, if Jim stayed in this home and his children inherited this, the tax laws would totally erase all of this capital gain, up to the market value established at the time of Jim's death.

*It's what we call **"Step Up In Basis"**.*

Instead of a cost basis of $ 150,000 that Jim would have as the owner, if he sold his home during his lifetime . . . his children's cost basis at Jim's death, gets "stepped-up" to the $ 530,000 market value we assumed above (or higher, if the home's market value increases between now and when Jim dies later).

In conclusion, there are many different costs and benefits we need to consider. My company is not only a Mortgage Broker . . . but as the owner, I am also a licensed Retirement Income Certified Professional® and I have the additional education, training and experience, to help my clients work through these questions successfully.



She Will Run Out Of Money Without This !

I'm going to share a case with you. This illustrates the situation of a lady I met a few years ago.

*She was 69 and she had a nice **$ 700,000** home on Discovery Bay . . .*

BUT SHE STILL HAD AN EXPENSIVE MORTGAGE.

*And like many others, she had lost a lot of her investments and she had **LESS** than **$ 200,000** left. (This was back in 2009.)*

For many of us, $ 200,000 is a lot of money . . . but in her case, her lifestyle and her mortgage required a lot more.

Based upon her projected income, her expenses, tax rates, inflation and her portfolio's return . . .

SHE WILL RUN OUT OF MONEY, IN LESS THAN 10 YEARS !

*With the Reverse Mortgage Loan, this lady **COULD ELIMINATE** her mortgage payments and then she'll likely preserve and not spend-down her savings of $ 200,000.*

***PLUS** she'll still have enough equity to set up a nice **"Line of Credit"** with her Reverse Mortgage Loan. And this **"Line of Credit"** will continue to **GROW** over her lifetime, until she needs the extra money ! And for this lady . . .*

***INSTEAD OF RUNNING OUT OF MONEY
AT THE YOUNG AGE OF 79 . . .***

***AND ALSO ASSUMING, SHE HAS NO EXTRA EXPENSES
AND SATISFIES HER LOAN OBLIGATIONS . . .***

***SHE'LL STILL HAVE SOME SAVINGS LEFT, IF
SHE'S STILL ALIVE, AT THE AGE OF 100 !***

PLUS SHE CAN STAY IN HER WATER-FRONT HOME . . .

FOR AS LONG AS SHE WANTS TO LIVE THERE !

SHE CAN <u>NEVER</u> BE FORCED TO MOVE . . .

AND SHE <u>NEVER</u> HAS TO PAY BACK, A PENNY OF HER REVERSE MORTGAGE LOAN . . .

<u>DURING HER LIFETIME</u>.

OR MAYBE SHE'LL NEED SOME OF THIS FOR HER LONG TERM CARE . . . OR SOMETHING ELSE COMES UP . . . LIFE HAPPENS . . .

<u>AT LEAST SHE'LL HAVE . . . A LOT MORE "POSITIVE CHOICES"!</u>

Here's Another Similar Situation

I just had another case recently. The lady was 82 and she was a retired physician and professor at the University of Washington.

*And she'll be out of money **<u>WITHIN THREE YEARS</u>**.*

*She was **<u>A VERY SMART LADY</u>**.*

But like many of us, she also liked the BIG HOME, the BIG MOTOR HOME, travel and other expensive living.

A Reverse Mortgage Loan is the appropriate answer and it will help her do what she needs and wants.

<u>SHE WON'T HAVE TO COMPROMISE HER LIFESTYLE !</u>

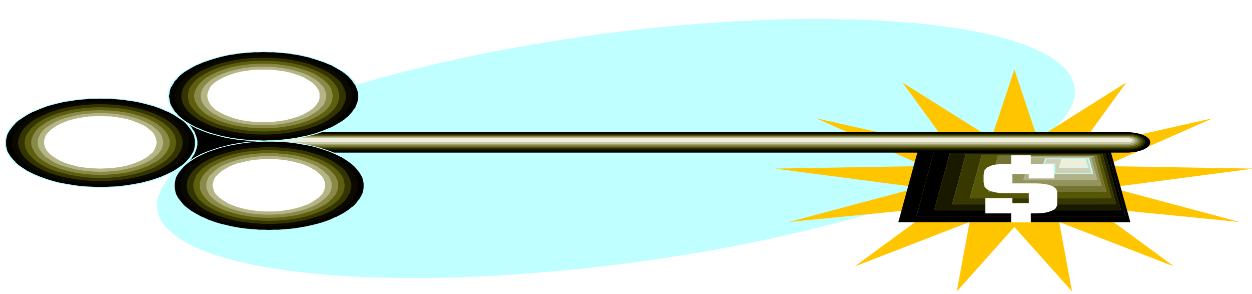


Illustration 10

How Will You Pay For Long Term Care ?

<u>26 %</u> Of Us, Will Need Long Term Care For More Than Two Years !

(About 70 % of us, will need some amount of Long Term Care.)

<u>Payment Options</u>

Have family take care of us (75 % helping, are uncompensated females)
Medicaid (welfare) eventually for many of us
Write a check from savings/investments
Sell your home (Medicaid can collect their costs from a Single's home.)
LTC Insurance
Life Insurance w/LTC Benefits
Annuities that have additional LTC benefits (the "Tripler")
Reverse Mortgages

Comment: It likely makes more sense, to have <u>MULTIPLE OPTIONS</u> available to you, at the time of need.

<u>HECM Reverse Mortgage Advantages</u>

Eliminate mortgage payments, to create more spendable income, as the LTC costs increase (help preserve your independence with home care).

If you have enough home equity, create more cash, for now or later, as needed – or set this up for extra income, for the at-home-spouse.

*Protect savings and investments - **<u>for couples</u>** - from Medicaid Spend-Down.*

<u>$ 1,033,000</u> *of your Home Equity can be an* ***"Exempt Asset"*** *in 2023*

Any amount in your Loan Amount can be an ***"Exempt Asset"***
<u>(includes your Line of Credit)</u>

Example: Couple has $ 300,000 of non-exempt assets
At-home-spouse gets half, up to $ 137,400
Medicaid claimant spouse keeps $ 2,000
<u>$ 300,000 less $ 137,400, less $ 2,000 = $ 160,600 excess</u>

<u>Take any excess you can and pay down your Rev Mort Loan Amount</u>

<u>Remember, 100 % of this, increases your Line of Credit - and is also available, for the at-home-spouse !</u>

*Please review **Page 59**. I've outlined some of the important facts about **"Long Term Care"**. I've been working closely with Long Term Care planning since 1984.*

*As a Certified Retirement Income Professional™, I sincerely believe you don't have much of a **"Financial Plan"** . . . unless you've included Long Term Care in your planning.*

IT'S LIKE BUILDING YOUR HOME . . .
WITHOUT A SOLID FOUNDATION !

***LADIES** . . . I'm not trying to pick on you . . .*

BUT YOU HAVE THE "HIGHEST RISKS"
FOR LONG TERM CARE !

If you make it to the age of 65 . . .

ALMOST EIGHT OUT OF TEN WOMEN, WILL EVENTUALLY
NEED SOME TYPE OF LONG TERM CARE !

*This could be for care in your home, an Adult Family Home, Assisted Living Facility or a Skilled Nursing Home. **40 %** of those who need Long Term Care . . . will need to be in a nursing home.*

*The average stay will be about **2 ½ years** . . . and the average semi-private annual cost in Kitsap County, will be about **$ 126,000** in 2021 . . . or about **$ 345** every day.*

***ONE OUT OF FIVE WOMEN** will eventually develop Alzheimers . . . and about one out of ten men.*

So here's my point about Reverse Mortgage Loans . . .

EVEN THOUGH WE MIGHT NOT FEEL WE NEED A REVERSE MORTGAGE LOAN TODAY . . .

*here's why owning a Reverse Mortgage Loan **TODAY** . . .*

*will help many of us **LATER !***

BUT THIS WILL ONLY WORK . . . IF YOU PLAN AHEAD

AND GET YOUR REVERSE MORTGAGE LOAN IN PLACE . . .

BEFORE YOU ACTUALLY NEED IT !

Here is what I mean . . . to qualify for a Reverse Mortgage Loan . . .

YOUR HOME MUST BE YOUR "PRIMARY RESIDENCE".

*If you're already in a **"Long Term Care Facility"** . . .*

YOU WON'T QUALIFY, FOR A REVERSE MORTGAGE LOAN.

*So it makes sense to have this in place . . . **BEFORE YOU NEED IT**.*

The funds from your Reverse Mortgage Loan, will often allow you . . .

TO RECEIVE THE CARE OF YOUR CHOICE . . .

and this can often mean care in your own home . . .

AND NOT SOME "SMELLY, DEPRESSING NURSING HOME" !

Put everything in place today . . .

WHERE YOU KEEP CONTROL . . . AND PRESERVE

ALL OF YOUR OPTIONS FOR LATER !

*If you don't need any **"Extra Money"** now . . .*

THEN SET UP YOUR REVERSE MORTGAGE LOAN . . .

WITH A "LINE OF CREDIT" . . . TO HAVE MORE LATER !

This makes a lot of sense, doesn't it ?

Sam's Wife Has Alzheimers and Her Needs Are Getting More Expensive !

Sam was a retired federal employee and his wife, Ruth, was a retired teacher.

Ruth has had Alzheimers Disease for a couple of years. Sam has been her primary caregiver – but he feels he now needs to hire extra help.

Sam feels, if he could eliminate their $ 1,000 monthly mortgage payment, he'd have enough to get the help he needs and take care of Ruth at home for a while longer.

He called me to see if a Reverse Mortgage loan was a solution for them. We ran the numbers and yes, they owned enough equity in their home, to create a Reverse Mortgage loan that was large enough, to pay off their current mortgage and eliminate their mortgage payments.

Sam decided to proceed and apply.

Yes, they would still have to pay their property taxes, homeowner's insurance and any homeowner association dues . . . but they would be able to eliminate their mortgage principal and interest, which was about $ 1,000 monthly.

The next question, was if Sam should apply for a Fixed Rate Reverse Mortgage option or the Adjustable Rate Reverse Mortgage option. Sam said he wanted the Fixed Rate option . . . ***but I recommended he apply for the Adjustable Rate option.***

I explained to Sam that the Adjustable Rate option, would allow him to use his remaining Loan Amount as a Line of Credit, that would provide him more for later, if he should need it. I further explained that this Line of Credit, is guaranteed to grow every month, currently at an annualized rate of 5 % or more, tax-free, in the years ahead.

Sam replied and pointed out to me, that in their situation, he didn't have that much left over, to create a significant Line of Credit from his Reverse Mortgage Loan Amount, after he used this to pay off his current mortgage and the Reverse Mortgage loan costs.

Then I showed Sam an important valuable reason to do this, that he had never thought about. Many Reverse Mortgage owners make this same mistake, in my opinion.

Sam thought he had too much income in his name for Ruth to qualify for Medicaid to pay for her care in the future. ***I showed him how Medicaid WOULD NOT CONSIDER HIS INCOME, as the Community Spouse (spouse at home).***

Sam and Nancy also owned about $ 200,000 in other savings and investments, in addition to their home.

Under their asset calculations, Medicaid ***<u>DOES INCLUDE THE ASSETS</u>*** *of the Community Spouse, (unlike his or her income), in addition to the spouse applying for Medicaid benefits. Ruth could only own a maximum of $ 2,000 in her own name.*

Sam would be allowed to keep up to about $ 100,000, or half in 2021, of their combined assets, in addition to their home.

THIS LEADS US TO THE NEXT QUESTION . . . IS THERE A LEGAL WAY THAT SAM <u>COULD ALSO KEEP</u> THE OTHER, CURRENTLY NON-EXEMPT $ 98,000 ?

If he left this where it was, in their various savings and investment accounts, the answer would be ***<u>NO</u>****. The $ 98,000 of non-exempt assets would have to be spent-down, before Ruth could qualify, for Medicaid benefits to pay for her care.*

HOWEVER, MEDICAID <u>DOES ALLOW</u> SAM AND RUTH'S HOME TO BE AN <u>EXEMPT ASSET</u> !

(As long as the couple's home equity, is less than $ 1,033,300 in 2023.)

<u>I advised Sam, that here is where the Adjustable Rate Reverse Mortgage option creates extra value.</u> *Rather than spending this down on Ruth's care, or other exempt assets, I showed Sam how he could take the $ 98,000 from their other savings and investments, before Ruth applied for Medicaid, and use all of this, to reduce their Reverse Mortgage Loan Balance.*

<u>And with the Adjustable Rate loan, ALL OF THIS would then create a higher Line of Credit, a Line of Credit that grows every month (unless withdrawals are taken). Sam would have that much more, to use for his own needs. And if Sam doesn't need it for himself, he would be able to leave more to his beneficiaries later.</u>

If Sam had the Fixed-Rate Option Reverse Mortgage, yes, he could still take the extra non-exempt $ 98,000, to reduce his loan balance . . . ***<u>but there would not be any Line of Credit . . . that would allow Sam to use this for his other needs.</u>***

Just like most senior homeowners, who don't own a Reverse Mortgage loan, his equity would be buried in his home - and he could not access any of this, unless he sold his home.

Sam decided to follow my recommendation and get the Adjustable Rate option. This is an example of how I often create additional value for my Reverse Mortgage clients.

Illustration 11

The Medicaid asset limit, also called the "asset test", is complicated. There are several rules of which the reader should be aware before trying to determine if they would pass the asset test. First, there are "countable assets" and "exempt assets".

An applicant's home, home furnishings, personal items, and vehicle are generally exempt. However, remaining portions of COVID-19 stimulus checks are countable assets. Second, all of a married couples' assets, regardless of whose name the asset is in, are considered jointly owned and are counted towards the asset limit. Third, asset transfers made by the applicant or their spouse up to five years (or 2.5 years in California) immediately preceding their application date are scrutinized. This is called the Medicaid Look-Back Period. If one has gifted countable assets or sold them under fair market value during this timeframe, a penalty period of Medicaid ineligibility will be calculated.

Use our Total Countable Asset & Spend Down Calculator.

A single applicant, aged 65 or older, is permitted up to $2,000 in countable assets to be eligible for nursing home Medicaid or a HCBS Waiver. New York is a notable exception allowing $16,800. (This is for 2022. The 2023 figure has yet to be released). Aged, Blind and Disabled Medicaid usually has the same asset limit. State specific Medicaid asset limits are available here.

For home exemption, an applicant for nursing home Medicaid or a HCBS Waiver must have a home equity interest under a specified amount. Home equity is the fair market value of one's home minus any debt on the home, such as a mortgage. Equity interest is the portion of the home's equity value that is owned by the applicant. In most states, the home equity interest limit is $688,000 or $1,033,000. California is the only state that does not have a home equity interest limit. Furthermore, if the applicant does not live in the home, there must be "intent to return" for it to maintain its exempt status. To be clear, there is no home equity interest limit for ABD Medicaid.

WASHINGTON 2023 LIMIT

Married couples with both spouses applying for nursing home Medicaid or a HCBS Waiver are typically allowed $4,000 in countable assets. In many states, married applicants are considered as single applicants and each spouse is permitted up to $2,000 in assets. A big change comes with married couples in which only one spouse is applying for one of these programs. While a husband and wife's assets are considered jointly owned, the non-applicant spouse is allocated a larger portion of the couple's assets. This is called a Community Spouse Resource Allowance (CSRA), and in most states, allows the non-applicant spouse countable assets up to $148,600. This is in addition to the $2,000 the applicant spouse is able to retain in jointly owned assets. The home is excluded from the asset limit, provided the applicant spouse or community spouse (non-applicant spouse) lives in it. If the non-applicant spouse lives in it, there is no equity value limit.

The rules are different for married couples applying for Aged, Blind and Disabled Medicaid. In this case, the couple, regardless of if one or both spouses are applicants, are permitted up to $3,000 as a couple. There is no Community Spouse Resource Allowance permitted.

The complexity of the Medicaid asset test underscores the importance of Medicaid planning, a process by which many families who are over the Medicaid asset limit still manage to become Medicaid eligible. Learn more about what Medicaid planners do. For further information on planning techniques when over the asset limit, read the section below, "Options When Over the Limits".

Illustration 12

Reverse Mortgages and Lines of Credit

We do not count as an available resource, beyond the idea, that it comprises home equity. It is not a resource all by itself. A line of credit is simply one method, someone can access their home's equity in a reverse mortgage. The equity is still in the home until the credit line is used.

Once the client takes a cash advance payment from the line of credit, the cash they take could become an available resource, if they still have it on the first of the month, after receiving payment.

A client takes out a reverse mortgage of $ 150,000 (principle before fees) and took the proceeds as a # 150,000 line of credit. Until the client actually uses the line of credit, it is still part of the home's equity. In that sense, it is a resource, but the client does not have a separate available resource of $ 150,000. If on March 2, they took a cash advance of $ 50,000 on their line of credit, the home's equity has been reduced by $ 50,000. The remaining $ 100,000 in the line of credit, is still part of the home's equity until it is accessed. If they put that $ 50,000 from the line of credit into a bank account, whatever is still in the account on April 1, is an available resource.

If a client who has $ 555,000 equity in their home, had taken out a reverse mortgage line of credit of $ 150,000 but had not accessed the credit, the client still had $ 555,000 (maximum allowed when this was written – now up to $ 1,033,000 in 2023 – Dave updated) equity (less any loan fees). If the client did not have a spouse, minor child, or dependent child residing in the home, then the client would not be eligible. The client still has equity in excess of $ 555,000 (maximum allowed when written – now $ 1,033,000 in 2023 – Dave updated.)

However, if the client had accessed their line of credit and had used $ 60,000 on debts, the home's equity is reduced by $ 60,000 by the time they request LTC, then the client's equity is less than $ 555,000 and is potentially eligible, (Again, increased to $ 1,033,000 for 2023 – Dave)

Source

https://www.hca.wa.gov/health-care-services-

supports/programadministration/reverse-mortgage-

promissory-notes-and-loans

Illustration 13

<u>WHY</u> OUR CLIENTS GOT A REVERSE MORTGAGE LOAN !

Why Our Clients Got A Reverse Mortgage Loan !

TO GET BACK THEIR "QUALITY OF LIFE" !

ENJOY THE EXTRAS AND REDUCE THE FINANCIAL PRESSURES OF EVERY DAY LIVING !

ELIMINATE LIFETIME MORTGAGE PAYMENTS ! *

PAY OFF OTHER DEBT !

ELIMINATE MORTGAGE PAYMENTS FOR THE LIFETIME OF THE ELIGIBLE SURVIVING SPOUSE ! *

TO OFFSET THE LOSS OF PENSION AND PART OF THE COUPLE'S SOCIAL SECURITY INCOME FOR THE ELIGIBLE SURVIVING SPOUSE !

BUY A NEW CAR OR TRUCK !

TRAVEL ! TRAVEL ! TRAVEL !

TO GIFT AND HELP THEIR FAMILY NOW !

CREATE NEW FINANCIAL OPTIONS WITH A "LINE OF CREDIT" !

HELP PAY FOR LONG TERM CARE AND PRESERVE THEIR CHOICES AND QUALITY OF CARE !

REFINANCE AN OLDER HECM LOAN TO TAKE ADVANTAGE OF THE NEW HIGHER HECM APPRAISED LIMITS !

BUY A NEW HOME . . . BUY A SECOND HOME !

CREATE A NEW SOURCE OF TAX-FREE REVENUE !

PRESERVE OTHER LONG-TERM INVESTMENTS AND MINIMIZE IRA DISTRIBUTIONS !

* *Repayment does not occur until the Borrower sells their home, no longer occupies the home for more than 12 consecutive months, moves out of the home or does not meet all the terms of the loan like paying property taxes, HOA dues, insurance, etc.*

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

I include Illustration 13 for your benefit, on ***<u>Page 66</u>****. Perhaps you will learn* ***<u>NEW REASONS</u>*** *how a Reverse Mortgage Loan, can help you pay for what you need.*

OR MAYBE YOU JUST WANT TO HAVE MORE FUN !

A few years ago, I heard a story where a man in his early 90's, got a Reverse Mortgage Loan, so he could get a new Harley Davidson motorcycle, with all the extras.

His younger girlfriend told him . . . he looked ***"Good"*** *on the motorcycle !*

<u>OF COURSE, THIS IS A "GOOD REASON", ISN'T IT ?</u>

One of our first cases was a couple. He had some serious health problems and had previously elected his pension option, without any ***"Survivor Benefit"*** *for his wife.*

They both understood she would not be able to stay in their home when he died. They got their Reverse Mortgage Loan, and yes, he eventually died several months later.

We saw the wife again at one of our seminars, a couple of years later. She was still in her home . . . and she brought her new boyfriend to the seminar. Of course, life goes on – and it can be a lot more comfortable and enjoyable, when we have made the smart decisions, to plan ahead for our loved ones and ourselves !

I had another case, where the daughter of my client, desperately needed to borrow some money from the Mother. The Mother was comfortable for her own needs but she really didn't have the extra to give, without compromising her own lifestyle.

But she did own her own home and she got a Reverse Mortgage Loan, to provide the funds to help her daughter. The Mother will never need to make any loan payments during her lifetime and keeps the option, to live her years at home (assuming she pays her property taxes, insurance and other loan obligations and this home is her primary residence). Yes, the loan will decrease the value of the home, as an inheritance for the daughter, if it's not paid back . . . ***<u>but the daughter needed the extra money now !</u>***

Another client, got a Reverse Mortgage Loan, from the extra equity in his home, to help a friend and her family buy a home. He had enough extra to buy two more homes, he used as rentals. He bought all three for about $ 250,000 total in the Phoenix area, when the market hit a low in 2009. (Phoenix area home values increased 20 % annually, over multiple past years !)

The friend managed the property and my client received extra rental income . . . ***<u>SMART GUY !</u>*** *(We learn a lot from our clients.)*

What About “Manufactured Homes”?

*Please review **“Illustration 16”** on <u>**Page 69**</u>.*

*I’ve listed some of the <u>**EXTRA HUD/FHA REQUIREMENTS,**</u> that will be required, to get a Reverse Mortgage Loan for **“Manufactured Homes”**.*

<u>MANY . . . BUT NOT ALL</u> MANUFACTURED HOMES

WILL QUALIFY FOR A REVERSE MORTGAGE LOAN IF YOU OWN THE LAND . . .

“RENTED LAND” <u>WON’T QUALIFY</u>.

*In addition to the **“HUD/FHA Requirements”** . . . the lenders will often have their own further limitations.*

*You won’t qualify, if your **“Manufactured Home”** was manufactured before <u>**June 15, 1976**</u> and you will need to prove the date of manufacture. (Some lenders, will only approve manufactured homes built after January 1, 1990.)*

My primary lender, goes back to June 15, 1976.

*Further, many lenders, will only offer the **“Open-End HECM Adjustable Rate Loan”**. . . and not the **“Closed-End Fixed Rate Option”** for manufactured homes. My primary lender does offer the Adjustable loan option.*

*Many lenders, also won’t allow any type of Reverse Mortgage Loan, for a manufactured home, using the **“HECM For Purchase Program”**.*

*Another HUD requirement, is that your manufactured home <u>**can not have been moved after installation**</u> . . . and your home must be on a **“Permanent Foundation”**.*

We also need to be aware, it may take extra costs to complete the loan process for a manufactured home.

HUD and the lender will require the home to be securely anchored to a permanent foundation and they will also require a licensed engineer, to inspect and certify that requirements have been met.

The engineer will require that his/her fee, typically $ 400 to $ 500, be paid at the time of their service.

Illustration 14

Requirements For Manufactured Homes

Many Manufactured Homes WILL QUALIFY !

But They ARE NOT ELIGIBLE if they were

Manufactured BEFORE JUNE 15, 1976.

To check the date, it may be stated in the electrical panel, under the sink or on the wall in bedrooms, or it may be stated on a red metal plate near the bottom of the outside siding. If none are available, there should be a serial number on the frame under the house and once you have this, you may be able to contact the manufacturer and get the date it was manufactured.

If you have a Manufactured Home, FHA will require the foundation system to be securely anchored to a permanent foundation . . .

and it will need to be inspected and certified by a licensed engineer.

*The engineer's fee typically ranges from **$ 400 to $ 500**. The owner will usually need to pay this at the time of service to the engineer.*

*Manufactured Homes must not be located in a **"100 Year Flood Plain"** (or you must have flood insurance).*

*They must be **larger than 400 square feet**.*

They must not have been moved after the original installation.

*You must own the land your home is located on. (A **"Life Estate"** may be acceptable if approved by the Beneficiary Owners.)*

IF YOUR HOME IS ON RENTED LAND . . . YOUR MANUFACTURED HOME WILL NOT QUALIFY.

New Credit Requirements – April 27, 2015

<u>The borrower must FULLY UNDERSTAND, that once they have their Reverse Mortgage Loan, they need to pay all future property taxes, homeowner's insurance, any HOA dues and maintain the value of the property.</u>

*This has been a problem and FHA/HUD had to foreclose on about **<u>9 %</u>** of the Reverse Mortgage Loan borrowers . . . who failed to pay their obligations in past years. (Much of this came from loans originated, before the real estate market crash of 2008.)*

This is certainly not a positive outcome for the borrower, the lender or FHA/HUD.

FHA/HUD decided to find a way to resolve this, in late 2013. After many revisions and postponements, they now have a new set of requirements for us, to be able to qualify for a Reverse Mortgage Loan.

*This is called **"Financial Assessment"** and this applies to all new Reverse Mortgage Loan applications, with an FHA Case Number, dated **<u>April 27, 2015 or later</u>**.*

*Nearly all homeowners have endured and understand the application process for the **"Traditional Mortgages"**. The Reverse Mortgage Loan application process will now be more similar to this.*

*We'll need your credit report and we'll need to document your income, expenses, assets and liabilities. The emphasis will be on your **"Character"** and **"Capacity"**.*

***"Character"** is about evaluating our willingness, to pay our obligations as required. For example, recent late payments for mortgages, homeowner dues and property taxes are now relevant, as well as other obligations, including credit cards and installment debt.*

*There are exceptions for **"Extenuating Circumstances"**, when any derogatory credit was caused because of medical reasons, or death of a spouse, for example.*

***"Capacity"** is evaluating our ability to pay our future property charges and other credit obligations. While we don't have to concern ourselves about mortgage payments with a Reverse Mortgage Loan, we'll still need to pay our property taxes, any homeowner dues, insurance, utilities, maintenance and other obligations.*

In addition to Social Security, pension or other income, the calculations may also include your IRAs, other retirement accounts and savings, to evaluate your ability to pay your future obligations on a timely basis.

Yes, all of us would prefer not to do this . . . but it is what it is. It's our job to minimize your aggravation where we can and help you get through this successfully.

LESA - New “Set-Aside Requirements”

*For most homeowners, **“Financial Assessment”** will often lead us, to a clear decision for your application. This could be either **“Approved”** (in most cases) or **“Rejected”** (in a small minority of cases).*

For other applicants, who had challenges with the “Financial Assessment” requirements, there could still be <u>ANOTHER OPTION</u>, if you have sufficient equity left in your home, after paying off any mortgage and new loan costs, for your Reverse Mortgage Loan.

*This is called a **“LESA”** (Life Expectancy Set-Aside). This will typically be required when the underwriter doubts (based on Financial Assessment guidelines) that the homeowner will be able to pay their property taxes and other homeownership costs, as each is due, in the future.*

*So once the previous mortgage and new loan costs have been deducted from the **“Loan Amount”** for the new Reverse Mortgage Loan, part, or all, of any remaining amount in the **“Line of Credit”** will be **“Set Aside”** . . . and this amount will not be available to the homeowner, except to pay future property taxes or other obligations, deemed relevant by the underwriter (based on Financial Assessment guidelines).*

*The Borrower(s) will not be charged any interest for this part, until the funds have been used. And like we discussed earlier in this book, any remaining **“Line of Credit”** will continue to **<u>GROW</u>** . . . based on the current interest rate, plus ½ of 1 %.*

So why would it still make sense to do this ?

Let’s assume you want to stay in your home . . . but maybe you’re having trouble paying your mortgage payments, other debt or your property taxes and other homeownership obligations.

*Even though you may not be allowed, to take out additional cash from your Reverse Mortgage Loan . . . it may still create enough **<u>EXTRA CASH FLOW,</u>** to help you do what you need or want to do . . .*

<u>BECAUSE YOU’LL NO LONGER HAVE A MONTHLY MORTGAGE PAYMENT, OR PAY THE PROPERTY TAXES, OR HO INSURANCE OUT OF OTHER INCOME, ETC.</u>

*While I understand none of us like these extra restrictions . . . I believe the **“LESA”** will be a **“Positive”** for many homeowners, who would have been **“Rejected”** and left without this extra chance, to make better use of their home equity, to resolve their obligations and stay in their homes.*

Illustration 15

What Is The Reverse Mortgage Loan's "Loan Process"?

FREE CONSULTATION:

- *Discuss your questions! (Financial Planning is also available with Dave.)*
- *FREE REVERSE MORTGAGE LOAN QUOTE . . . with all costs detailed.*
- *List of HUD APPROVED Reverse Mortgage Loan Counselors.*
- *Dave's FREE BOOK –* ***"The Truth About Reverse Mortgage Loans !"***

GET "THIRD PARTY INDEPENDENT COUNSELING":

- *Counselors must be HUD approved.*
- *$ 125 to 200 cost to the Borrower (can often be paid out of loan amount).*
- *You may complete this over the phone or in person. This takes about an hour.*

  The purpose is to help you make your BEST DECISION !

- *Counselor will issue their HUD approved* ***"Counseling Certificate"*** *and the Borrower must apply for their Reverse Mortgage Loan within 180 days.*

SCHEDULE APPOINTMENT FOR YOUR APPLICATION:

- *This will take an hour or two and it's best to do this in our office.*

FROM APPLICATION TO LOAN'S CLOSING:

- *Once the Application and other requirements have been received, the Lender will order the appraisal and whatever else may be needed.*
- *The time from Application to Closing is typically about 30 to 60 days.*

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

The Reverse Mortgage Loan Process

*If you want to learn more . . . **<u>YOUR NEXT STEP</u>** is to discuss your situation with me. I'll do my best to get your questions answered and provide you with a quote.*

THERE'S NEVER ANY CHARGE OR "NONSENSE" !

***<u>NEXT</u>** . . . you'll want to get **"Third Party Independent Counseling"**. This is required for all types of Reverse Mortgage Loans.*

*No bank or mortgage company **<u>IS ALLOWED</u>** to order an appraisal, or incur any expenses on your behalf, **<u>UNTIL YOU'VE COMPLETED COUNSELING</u>** . . . and only after you've submitted your application and received your FHA Case Number.*

The government's purpose is to make sure . . .

THAT YOU'RE FULLY INFORMED AND NOT PRESSURED WHILE YOU MAKE YOUR DECISION ABOUT THIS.

I ALSO PROMISE – WE'LL NEVER RUSH YOU !

*Counseling only takes about an hour and you can complete this with a phone call, or meet with a Counselor in person . . . **<u>IT'S YOUR CHOICE</u>**. The Counselors now charge about **<u>$ 125 to $ 200</u>** for this service. This can be paid out of your Loan Amount.*

*Once you've received your **"Counseling Certificate"**, you will have **<u>180 days</u>** to apply for your Reverse Mortgage Loan. Once we get your **"Certificate"**, we will prepare your **"Loan Application"** from the lender.*

*We'll set an appointment and we'll help you with your application . . . **<u>WE DON'T JUST MAIL A PILE OF CONFUSING PAPERS, TO COMPLETE ON YOUR OWN !</u>***

*Then, in a few days, we'll get the appraisal ordered and the **"Average Loan Processing Time"** for our company, is typically about **<u>30 to 45 days</u>**. If we run into any structural, land or title problems, old tax liens, etc., it may take longer.*

*Throughout the **"Loan Process"** . . . you have the **"Right of Rescission"**. This means you can cancel your application at any time during the **"Loan Process"** and within **<u>3 DAYS AFTER CLOSING</u>**.*

*If you cancel . . . **<u>YES</u>**, you are responsible for any **"Third Party Costs"** we incurred on your behalf (like the appraisal or an engineer fee for a manufactured home).*

BUT WE NEVER CHARGE YOU A PENNY FOR OUR TIME !

*So you might typically risk about **<u>$ 800 to $ 1,200</u>** if you later decide to cancel your application (more for manufactured homes with the extra engineer's fee).*

WHY SHOULD YOU GET YOUR REVERSE MORTGAGE LOAN FROM US ?

*First, our office is **<u>WELL-QUALIFIED</u>** to offer Reverse Mortgage Loans . . .*

<u>WE ARE ALWAYS COMPETITIVE . . . AND WE DO A LOT OF THEM !</u>

I ALSO PROMISE THAT <u>EVERY</u> RECOMMENDATION WE MAKE . . .

WILL BE BASED ON WHAT WE BELIEVE, IS IN OUR <u>CLIENT'S BEST INTERESTS !</u>

*My company, Creative Retirement Planning, Inc., is a licensed **"Mortgage Broker"**. (When I last checked in early 2022, there were only 330 of us, who are licensed as Mortgage Brokers in Washington, including those who offer traditional forward mortgages and over 32,000 Mortgage Loan Originators, licensed in Washington.)*

To qualify as a broker, our state regulator requires a minimum of two years of experience in the mortgage business, additional testing, additional bonding, extra licensing fees and other regulatory requirements.

It is a significant effort and commitment of time and money to qualify for this !

*I believe we're **<u>WELL-QUALIFIED,</u>** to assist our clients with **"Reverse Mortgage Loans"** . . . and we are one of only about 10 Mortgage Brokers, who specialize in Reverse Mortgages in Washington.*

*I am **<u>ALWAYS</u>** going to give you **"My Best Advice"** . . . and I promise we will **<u>ALWAYS BE COMPETITIVE,</u>** with both our pricing and service.*

*As a licensed **"Certified Retirement Income Professional®"**, with additional education and almost 40 years of active experience, for comprehensive **"Retirement Income Planning"** . . .*

<u>I OFTEN CREATE "ADDITIONAL VALUE"</u>

FOR MY CLIENTS AND I HELP THEM

TO MAKE THEIR "OVER-ALL BEST DECISIONS".

*The Reverse Mortgage Loan is a **"Tool"** to help us enhance other financial decisions in our lives.*

BY HELPING OUR CLIENTS WITH THEIR REVERSE

MORTGAGE LOAN CHOICES, WE CAN OFTEN HELP

TO CREATE OTHER "ADDITIONAL VALUE" . . .

<u>"ADDITIONAL VALUE" THAT OFTEN FAR OFFSETS</u>

<u>ANY COSTS OF THE REVERSE MORTGAGE LOAN ITSELF !</u>

<u>CREATE MORE</u>

WITH YOUR

HECM LINE

OF CREDIT!

ADDITIONAL DETAILS AND CLARIFICATION FROM OUR SEMINAR

Introduction

*According to research, on average, U.S. men will outlive their savings by **eight years** and **eleven years** for U.S. women, leaving only their Social Security or pension type income to get by.*

*For them, these years are not their **"Golden Years"**.*

It can often make a positive difference to plan ahead and understand our best options. Some of these take more time, to work to their full potential, so we want to make our best informed decisions earlier, rather than later.

I have studied our retirement options since 1984. This is what I do and this is where I can often help others and create additional value for them.

Because many of these valuable options and solutions are all-too-often misunderstood, I have written a series of various booklets to help those of us who want to learn more, to create more and make their best decisions.

I encourage you to invest some time with what I have put together in this booklet. I believe this positive solution will be important for many of us.

I will help where I can and I invite you to call me if you have questions, if you want additional details or schedule an appointment.

Let's Understand "The Big Picture" First !

We often need to ***"RETHINK Retirement Planning"****.*

Please review Page 79.

For the U.S. ***"Average Homeowner"*** *the ages of 65 and over – our savings, investments and retirement accounts are only* ***about 30 %*** *of the assets we own for our retirement income needs.*

The rest is in our home's equity – this averages ***about 70 %*** *of our total net worth.*

To clarify this further, if you want to keep your home (and not sell it), like most of us do, then about ***35 % to 65 %*** *of our home's equity, depending on our ages, may be available to us with a federal HECM Reverse Mortgage.*

This is not available until the youngest borrower is the age of 62.

But this in itself, on average, often ***DOUBLES*** *the savings we have to work with, to create the income we'll need to pay our retirement expenses !*

For most of us, this one choice – will have the largest impact to help bridge the gap we have now, or later, with our retirement needs !

As a Financial Planner, I started working with Reverse Mortgages 18 years ago, back in 2005. All-too-often, I'd do a Financial Plan for my client and it was obvious, there would not be enough money to fund their future years without more $$$s ! So we did our homework and found the $$$s !

And this has proven to be an excellent choice for ***OVER ONE THOUSAND*** *of my clients !*

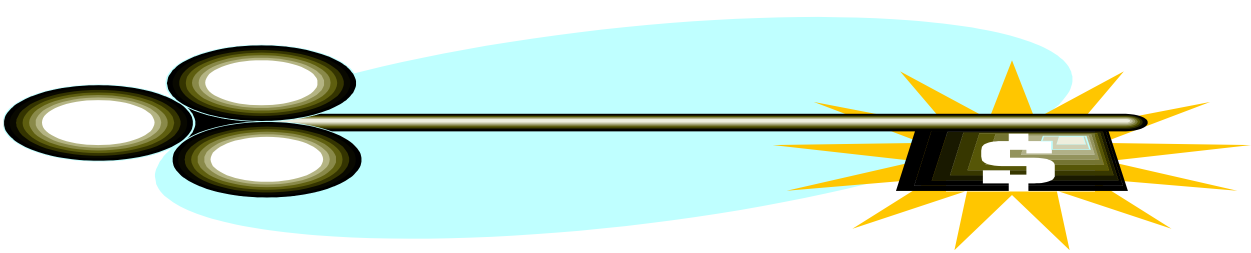


Illustration 16

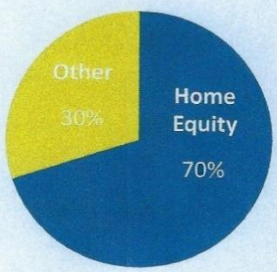
Rethinking Retirement Planning

If you are like most people, retirement planning generally relies on assets such as: 401(k)s, IRAs, traditional pensions, Social Security benefits, as well as regular taxable savings and investment accounts. But as a homeowner, you have another, often overlooked, retirement planning asset: **Home Equity**.

U.S. homeowners age 62+ have more than $7 trillion in home equity,[6] making it the largest asset for most households entering retirement.[7] For the average retiring couple, home equity makes up 70% of their net worth—with other assets like IRAs, savings and personal property only making up 30%.[8]

With such a large proportion of personal wealth tied up in one's home, it's time to rethink how home equity can be used as another tool in your financial arsenal.

Home Equity as a Percent of Net Worth among Homeowners Age 65 and Above



New Ways to Access Home Equity

Over the last 30 years, reverse mortgages have gained acceptance as part of strategic retirement planning. In fact, a growing number of respected retirement researchers, such as Harold Evensky, Dr. John Salter, Dr. Wade Pfau, and the Center for Retirement Research at Boston College have all conducted numerous studies to evaluate the pros and cons of reverse mortgages for the benefit of consumers. They have concluded that the reverse mortgage is an important option, with multiple uses that can often help consumers be better financially prepared in retirement, and avoid outliving their money.[9]

"Several recent research articles have demonstrated how responsible use of a reverse mortgage can enhance an overall retirement-income plan...Reverse mortgages give responsible retirees the option to create liquidity for an otherwise illiquid asset, which can, in turn, potentially support a more efficient retirement-income strategy (more spending and/or more legacy)."

—Wade Pfau, Ph.D., CFA, "Reverse Mortgage Background and History"
Forbes, September 12, 2018

[6]Source: National Reverse Mortgage Lenders Association (NRMLA)/RiskSpan Reverse Mortgage Market Index (RMMI).
[7]Sass, Steven A., "Is Home Equity an Underutilized Retirement Asset?", Center for Retirement Research at Boston College, Number 17-6, March 2017
[8]US Census Bureau, "Wealth, Asset Ownership & Debt of Households Detailed Tables: 2015"
[9]Salter, John., Evensky, Harold., & Pfeiffer, Shaun. (Aug 2012). Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions. Journal of Financial Planning, pg. 40. | Pfau, Wade. D. (2016) Reverse Mortgages: How to use Reverse Mortgages to Secure Your Retirement. Retirement Researcher Media.

Please consider this example. I recently had a lady from Bellevue call me and her home was worth about $ 1.7 million. This was just a tract home, no view and about 2,000 s/f. Zillow had this valued at $ 1.7 million !

I asked her why she wanted to get a Reverse Mortgage. She said she needed a new furnace and couldn't afford this !

On paper, she's a millionaire ! And I have many Reverse Mortgage clients who are millionaires.

But this widowed millionaire did not have the cash or income to finance a new furnace she needed. All of her extra million was trapped in her home's equity. Even millionaires need cash and new income at times.

And I see variations of this every week.

Some of us need a Reverse Mortgage to help with our needs now. Others will want to use this to help prepare ahead for their future needs.

Expensive <u>Limitations</u> of Your Traditional Mortgage

For our purposes now, for the Traditional Mortgage we've been forced to work with all of our younger lives, our ***"Loan Amount"*** *has only one part. This is our* ***"Loan Balance"****, the amount we still owe.*

So we make our payments like we agreed – and this is applied first to our ***"Loan Balance"*** *– and any remainder vanishes, into our home equity.*

<u>We lose control of 100 % of our mortgage payment when we pay this.</u> *And we have no further ability to access any of this mortgage payment, until we sell our home, or refinance our mortgage.*

Sometimes we have enough equity, where we can also get a HELOC, a home equity line of credit. But this is an additional mortgage loan and it is independent of our first Traditional Mortgage.

This combination, now requires two payments and any payments for either mortgage, do not help relieve our obligations to the other mortgage.

But once we reach the age of 62, federal opportunities may allow us to ***<u>GRADUATE</u>*** *– and we may qualify for the HECM Reverse Mortgage !*

Valuable HECM Reverse Mortgage Advantages !

*You **<u>DO NOT</u>** give up ownership of your home and once you understand how this works and the following **<u>ADDITIONAL ADVANTAGES</u>**, the federal HECM Reverse Mortgage offers to us, you will likely agree . . .*

<u>IT'S A BETTER DECISION TO "GRADUATE"</u>

<u>TO THE HECM, IF YOU CAN QUALIFY !</u>

*First, we need to determine your **"Loan Amount"**. And this is based on your home's appraised value, the age of the youngest borrower and a U.S. Treasury Index, similar to the ten year U.S. Treasury Bonds.*

*The **"Loan Amount"** is typically **<u>35 % to 65 %</u>** of the appraised value.*

*Unlike the Traditional Mortgage, the HECM Reverse Mortgage Loan Amount, is comprised of **<u>TWO</u>** separate – but integrated parts. We have the **"Loan Balance"** – just like the Traditional Mortgage, the amount we owe. And the 2nd part is any amount that's left, our **"Line of Credit"**.*

*The HECM Loan Balance and its Line of Credit will always be **<u>100 %</u>** of the Loan Amount.*

The HECM Reverse Mortgage always allows us to make a payment, without any pre-payment penalties, to reduce our Loan Balance (but never requires any payment, as long as we are alive and still qualify for the loan).

<u>THIS IS IMPORTANT !</u>

ANY HECM LOAN PAYMENT WE MAKE, NOT ONLY REDUCES OUR LOAN BALANCE – BUT <u>100 %</u> OF THIS <u>IS ALSO CREDITED AND ADDED,</u> TO OUR HECM LINE OF CREDIT !

Let's refer to Page 84 as we go thru this.

*We start with a home appraised at **__$ 1,000,000__**. Our Loan Amount is assumed to be **__$ 500,000__** for this applicant. (The remaining $ 500,000 is the Owner/Borrower's equity and theirs if they sell, or leave to their beneficiaries. Plus, they still own any unused Line of Credit, the Borrower does not need.)*

*Out of this **__$ 500,000__**, we'll assume our Loan Balance, the amount we owe, is **__$ 400,000__** and the remaining unused Loan Amount of **__$ 100,000__**, goes to our HECM Line of Credit.*

Any amount of our Line of Credit is available to us within five business days. It is tax free. We are not charged interest for any amount of the Line of Credit – and we do not owe one penny of this. It's all for us when we want it.

__ADDITIONAL VALUE__

OUR LINE OF CREDIT IS CREDITED AT THE __SAME INTEREST RATE__ THAT IS CHARGED TO OUR LOAN BALANCE !

*This HECM is an Adjustable Rate Loan, so if this rate for our Loan Balance, increases or decreases, the Line of Credit adjusts to the **__same rate__**. The lender will always require that there is a specified minimum amount in the Loan Balance – and we'll assume this is only **__$ 100__**, which is typical.*

*We want to create the best situation we can. We decide to make the maximum payment allowed of **__$ 399,900__**, leaving the **__$ 100__** Loan Balance.*

__Remember, all of this, is also credited to our Line of Credit and we add this $ 399,900 to our original $ 100,000 Line of Credit – and this now totals $ 499,900 of our $ 500,000 Loan Amount.__

*We now have a Loan Balance of **__$ 100__** – which is all we are being charged interest on, about 7 % annually at this time, or only **__$ 7__**. Our Total Line of Credit will increase about **__$ 35,000__** this year and compounds ! These additional funds are available to us now, or later, as needed or wanted !*

Illustration 17

This Is <u>Creative</u> Retirement Planning !

$ 1,000,000
Home Appraised Value

$ 500,000
Loan Amount

Less

$ 400,000
Loan Balance

equal

$ 100,000
Line of Credit

$ 500,000
Owner Equity
(Amount for Owner and/or Beneficiaries plus any unused LOC)

Note: The Loan Balance and Line of Credit <u>ALWAYS</u> equal the Loan Amount.

We Decide To Pay Off As Much Of Our Loan Balance As Allowed

Note: Lender requires a minimum of <u>$ 100</u> Loan Balance. So we make a HECM loan payment of <u>$ 399,900</u> ($ 400,000 less $ 100) and

<u>100 % OF THIS . . . IS ALSO ADDED TO OUR LINE OF CREDIT !</u>

$ 399,900	**New HECM Loan Balance Payment**
<u>+ $ 100,000</u>	**Original HECM Line of Credit**
$ 499,900	**Total New HECM Line of Credit**

With this extra $ 399,900 payment, we not only eliminated, the current 7 % interest cost on the Loan Balance (almost $ 28,000 a year) . . . but our Line of Credit will also <u>GROW</u> at the same rate (another $ 28,000 a year – <u>14 % total difference</u>) !

When Our Single Premium Payment Lessens Our HECM Loan Balance

*I'm going to share **four** VALUABLE opportunities, where the HECM Reverse Mortgage can create **MORE DOLLARS** for us.*

*This **"First Opportunity"** can make a lot of sense, if you have extra cash or other investments you want to sell and reposition the proceeds, to **MAXIMIZE THE VALUE** of your HECM Loan. We will minimize our Loan Balance (and interest charged on this) and maximize our Line of Credit (and credits to increase this).*

I'll share a personal example. Vicki (my wife) and I had a very good year in 2021. And we had quickly accumulated an extra $ 200,000 in our personal checking account at one point.

I think we only made about 25 cents a month from our bank at the time. And it did not take a Financial Planner to know, we needed to make a more productive decision with our money !

*This was our **SAFE MONEY** and we did not want this part of our portfolio at risk, in the investment markets. And we wanted easy access and all of this to be quickly available, if we needed or wanted any of this. So CDs, or other choices, with penalty options, were not what we wanted.*

*We also owed about **$ 180,000** for our home's Traditional Mortgage. So like many of us, we briefly thought about paying this off. Yes, we would lower our debt and interest costs and this would be a good return in itself for our safe money. **But what's the problem if we did this ?***

If we did this, we would not be able to use any of this for anything else we needed or wanted, without additional complications and costs. *(This payment would only be available if we sold our home, or refinanced this with another mortgage. We did not want to do either.)*

*So we decided to get the federal HECM Reverse Mortgage. First, this paid off our Traditional Mortgage and this in itself eliminated our mortgage payments – **BUT WE TOOK IT ONE STEP FURTHER !***

*As stated earlier, this does not work with the Traditional Mortgage because it only has the **ONE PART**, the Loan Balance. **And it does not have the integrated Line of Credit.***

*But our HECM Reverse Mortgage **"Loan Amount"** has **TWO PARTS**. This includes the Loan Balance and any remainder, is credited, **100 %**, to our Line of Credit.*

*We do not owe this Line of Credit and we are not charged any interest for this. But any amount is **INSURED** and **AVAILABLE** to us within five business days, tax-free, if we need or want part, or all of it.*

If we don't need or want it, it will continue to grow and compound at the same interest rate, we are charged on our Loan Balance !

*Remember what we stated earlier, our Loan Balance and our Line of Credit always equals **100 %** of our Loan Amount ! And any payment we make, not only reduces our Loan Balance and the interest we are charged for this – but **100 %** of our loan payment is **ALSO ADDED** to our Line of Credit – because the Loan Balance and Line of Credit always equal **100 %** of the Loan Amount we were approved for, plus accumulated growth !*

*We wrote a check from our personal checking account for **$ 180,000** and we paid off our HECM Loan Balance, except for the **$ 100** minimum Loan Balance, our lender required to keep the Loan Amount in force.*

*So now, we only owe this **$ 100** and the rest is paid off !*

IT'S A GREAT FEELING . . . BUT HERE'S THE BEST PART !

*All of the **$ 180,000** we paid, is still available to us in our Line of Credit. It is also currently growing and compounding about **7 %** annually, available to us within five business days and income-tax-free !*

*Today, less than two years later, our HECM Line of Credit has grown to about **$ 200,000**. And the growth rate is also about **7 %** . . .*

THIS IS AN EXTRA $ 14,000 A YEAR FOR US AT THIS TIME !

Making Monthly Payments Comparison

We'll refer to Page 88, as we go thru this.

*This is our **"2nd Opportunity"** of the four we'll review. If you are still making monthly payments for your traditional mortgage, you absolutely need to understand this and then **"Graduate"** to the HECM Reverse Mortgage !*

*Page 88 illustrates how much of our money we lose control of, when we make monthly (or other) payments for a traditional mortgage. It typically adds up to **HUNDREDS OF THOUSANDS OF DOLLARS OVER TIME !***

*For example, if we paid $ 2,000 monthly for 10 years, this totals **$ 240,000** that we lose control of. **We'll never get this back, until we either sell our home or refinance it with another mortgage.***

*And if we assume a 5 % interest in the bottom chart, this increases to over **$ 310,000** for these ten years ! And at 7 %, there's even more !*

The HECM Reverse Mortgage provides us with a positive alternative. While we are not required to make payments in our lifetime, as long as we qualify, we can always make single, monthly or other payment amounts as we wish, when it fits our needs (and not the lenders !)

And as we saw, 100 % of any payments we make, will increase our HECM Line of Credit by the same amount. And this Line of Credit will continue to grow, at the same rate that is charged to our Loan Balance.

*This allows us to **recapture** all of our payments – plus any growth – to use for other needs or wants. And we still have the choice to pay this back if we want to, or not.*

IF YOU ARE 62 OR MORE AND IF YOU CAN QUALIFY, ARE YOU READY TO "GRADUATE" ?

Illustration 18

100 % OF EVERY LOAN PAYMENT WE MAKE
IS ALSO CREDITED TO OUR LINE OF CREDIT !

Let's consider the NEW LIQUID, TAX-FREE MONEY over time . . .

Monthly Payment	$ 1,000	$ 1,500	$ 2,000	$ 2,500	$ 3,000
5 Years	$ 60,000	$ 90,000	$ 120,000	$ 150,000	$ 180,000
10 Years	$ 120,000	$ 180,000	**$ 240,000**	$ 300,000	$ 360,000
15 Years	$ 180,000	$ 270,000	$ 360,000	$ 450,000	$ 540,000
20 Years	$ 240,000	$ 360,000	$ 480,000	$ 600,000	$ 720,000

Assume this ***INCREASES 5 %*** *compounded annually . . .*

Monthly Payment	$ 1,000	$ 1,500	$ 2,000	$ 2,500	$ 3,000
5 Years	$ 68,006	$ 102,009	$ 136,012	$ 170,015	$ 204,018
10 Years	$ 155,282	$ 232,923	**$ 310,564**	$ 388,205	$ 465,846
15 Years	$ 267,288	$ 400,933	$ 534,577	$ 668,222	$ 801,866
20 Years	$ 411,033	$ 616,550	$ 822,067	$ 1,027,584	$ 1,233,101

Note: Property tax and Homeowner insurance not included.

What If Your Home Is Paid Off ?

*I'll begin by saying "**Congratulations"** ! Why would it make sense to get your HECM Reverse Mortgage ?* ***(BECAUSE IT OFTEN DOES !)***

*This is our **"Third Opportunity"** of our four. We will refer to Page 17.*

Unless you want cash or income for something else, the reason we'll still benefit with a HECM Line of Credit, is for the additional insured, liquid, tax-free funds we'll create, to have available when we need it or want it !

When I'm in the Seattle area, the average home value is already $ 800 to $ 900,000. So if you have a million dollar home, I have illustrated the estimated Line of Credit that will be available to you, given your age, home value and expected (10 year U.S. Treasury CMT index) interest rates.

If your home is valued at less than one million, simply pro-rate what I have provided on Page 17 – and the amount available to you will be close.

For example, with a million dollar home value, if you are the age of 72, your Line of Credit starts out a bit under ***$ 398,000*** *when I wrote this. And because this accumulates at the same interest rate that is charged to your Loan Balance, I estimate this will be over* ***$ 726,000*** *in just ten years ! (This assumes you do not take withdrawals and let all of this grow.) And you are only the age of 82 at that point –* ***WITH AN EXTRA $ 700 GRAND !***

I have HUNDREDS of smart clients who have gotten their HECM Reverse Mortgage – just to create the additional Line of Credit and have it available if they need or want part, or all, of this later !

Let me ask you this. If we can create an additional ***$ 700,000*** *for you, or any alternative that creates hundreds of thousands of additional dollars for your future - INCLUDING LONG TERM CARE – wouldn't this take some of the pressure off your other income, savings or investments . . . and pressure off you ?* ***OF COURSE IT WILL !***

And maybe these new dollars will be enough to pay for Long Term Care for BOTH spouses if needed !

Illustration 19

Projected "Line of Credit" Increases !

- *Assume we have a **$ 1,000,000** home in this example.*
- *The **"Initial Line of Credit"**, Year 0, is based on interest rates from **3/28/2023**. Rates can change weekly for new loans. The numbers illustrated are **"Net"**, after estimated **"Closing and Loan Costs"**.*
- *Future growth for projections below are assumed to increase at the rate of **6.21 %** annually (based on the **"Expected Interest Rates"** from **3/23/2021** of **5.71 %** (assuming a 2.25 % margin) plus **0.50 %** for FHA Insurance. 10 year U. S Treasury rates closed at 3.537 on 3.27/23.).*
- *Assumes that you have no other debt beyond the **"Closing Costs"** for the loan. (You must keep a loan balance of $ 100 minimum.). **If your loan is paid off, the loan will be closed-out by the lending bank.**)*

Year	Age 62	Age 72	Age 82	Age 92
0	$ 339,551	$ 397,551	$ 491,551	$ 627,551
5	458,915	537,304	664,348	848,156
10	620,239	726,184	897,889	
15	838,274	981,463	1,213,528	
20	1,132,956	1,326,481		
25	1,531,229	1,792,784		
30	2,069,509			
35	2,797,012			

Note: For Example Only

Disclosure: Please note that these materials are not from HUD or FHA and were not approved by HUD or a government agency.

HECM Line of Credit and Long Term Care !

How have you planned to pay for your Long Term Care needs ?

<u>70 %</u> *of us will need some amount of Long Term Care. A lot of this is for the short-term recuperative-type care. But about* ***<u>1 out of 4 of us</u>*** *will need Long Term Care for two years and more. And the costs for this will often be 200 to 300 grand for just a couple of years !*

I've helped my clients with Long Term Care options since 1984 and I also offer all of the other planning choices. I am well-versed in each.

The HECM Reverse Mortgage is one of our very ***<u>BEST OPTIONS</u>*** *! And few of the insurance agents, or advisors, ever bring this up – because they are not licensed and don't get paid and/or understand this ! (I have both the insurance and mortgage licenses needed, to discuss either alternative.)*

The HECM Reverse Mortgage often works very well by itself, or in combination with other planning tools – and it is the most flexible and often the lowest cost choice for LTC – and offers valuable and unique benefits !

Let's review our ***"4th Planning Opportunity"****, where the HECM Reverse Mortgage offers us both unique benefits and additional dollars, to protect our money and future choices, if we or our spouse need LTC.*

As I understand this, it's tough to help singles with this. So I always suggest you confer with an Elder Law Attorney to help insure, you don't overlook any opportunity to help you and your loved ones through this ordeal.

But for married couples – this does not work for unmarried couples – the Medicaid rule for this is much clearer as a ***"Spousal Exemption"****. Medicaid does provide extra rules and opportunities for both married spouses and disabled children.*

<u>We need to understand these Medicaid rules will often favor a HECM Line of Credit, compared to other savings choices.</u> *For example, in 2023, the Washington State DSHS allows the at home married spouse -*

UP TO <u>$ 1,033,000</u> OF MEDICAID <u>EXEMPT</u> HOME EQUITY !

*This is Home Equity and not Home Value. This **$ 1,033,000** is your Net Equity after any mortgages or liens. And here is the key . . .*

OUR "HECM REVERSE MORTGAGE LINE OF CREDIT" IS INCLUDED IN THIS $ 1,033,000 EXEMPTION !

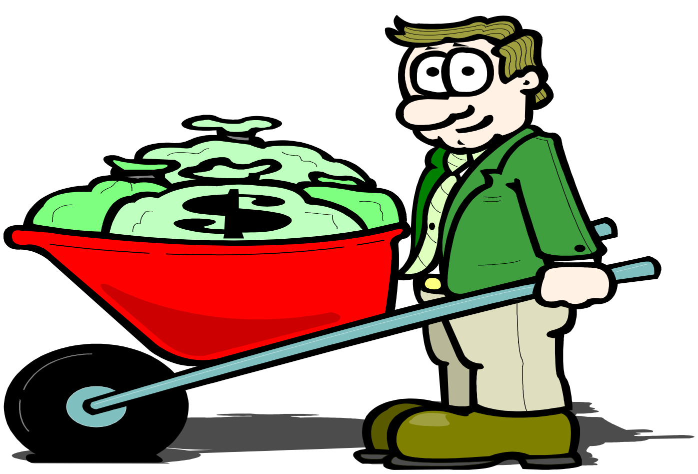
Remember, all of your Line of Credit is liquid and accessible money, available to the spouse at home within five business days and all tax-free !

Your Medicaid EXEMPT home equity can now be available ! How else will she/he access their hundreds of thousands of exempt equity ? Sell the home or get a new mortgage ? (It's often harder to qualify at this time !)

Here is my point. It is often advisable to think ahead, sell and reposition your other savings and investments, to pay down any HECM Loan Balance and increase your Line of Credit !

*Be advised that Medicaid **DOES LIMIT** the **EXEMPT AMOUNT** of your other savings, investments, retirement accounts, collectibles, boats and vehicles. And you'll want to have all of this re-positioned ahead of time.*

When you procrastinate and need to scramble at the last minute, you'll rarely have your BEST OPTIONS available – and everyone will suffer.



Is Your Line of Credit A "Savings Account"?

*Can you leave any of your Line of Credit to your children or other loved ones ? Does it pay you taxable interest ? The answer is **"NO"** to both. However, any unused amount of your Line of Credit, is added to the Owner's Equity when they sell or pass away - and then it is 100 % available to others.*

The Line of Credit is only available to the Borrowers of the Reverse Mortgage Loan. This could include the spouse, others and even children, if they are old enough to be Borrowers on the loan - and own and live in the home, as required for any Borrower (i.e. age 62 and older).

*There is no taxable interest – because any amount you withdraw is part of your equity, your share of the home's total value available to you. So why is the LOC important ? **IT INCREASES YOUR OPTIONS !** (Our goal is to help create the most income and cash for you, for the years ahead.)*

*When you close on your Reverse Mortgage Loan, you are **locking in** the market value of your home, **even if it does go down in the future**.*

*For whatever amount you don't withdraw, your Line of Credit will continue to **GROW EVERY MONTH**. Since this is only available with the **"Open-End Adjustable Loan Option"**, the interest rate will vary and likely increase in the foreseeable future, as it now appears to many of us.*

*The rate that will actually be credited to you, will be the **"Current Interest Rate"** for that month (based on the Monthly or the Annual U.S. Treasury CMT Index), plus the ½ of 1 % fee, FHA charges annually for any Loan Balance.*

*So the rate you will be credited, will be **EXACTLY THE SAME** as the total rate you are being charged, for any amount you have borrowed.*

*If you have a low Loan Balance – the amount you owe – and a high Line of Credit . . . and if we have **INCREASING** interest rates in the future, these will always work to your advantage and increase your Line of Credit !*

YOUR LINE OF CREDIT WILL INCREASE EVEN MORE !

*Any amount you withdraw from your **"Line of Credit"** will increase your HECM Loan Balance and ultimately lower remaining equity you own in your home when it is sold. Yes, you will be spending your home equity . . .*

BUT IT'S EXTRA CASH OR INCOME – WHEN YOU NEED IT !

The extra advantage, from the growth of your Line of Credit, is you will have more of your home's equity available to you for other needs and wants,

ALL FHA INSURED AND GUARANTEED . . . EVEN IF THE FUTURE VALUE OF YOUR HOME GOES DOWN FOR ANY REASON !

In other words, you are preserving and enhancing your future options . . . to have access to more income or cash if you need or want it later !

(And most of us likely will at some point !)

Illustration 20

Creative Retirement Planning, Inc.
Mortgage Broker, NMLS # 1175810

Dave Nute, RICP®, CLU®, ChFC®
Retirement Income Certified Professional®

www.NorthwestReverseMortgage.com

Positive Comments From Our Clients !

5 Star Google Review *Dave is a lifesaver ! My husband and I were in desperate need of sound financial advice and we found the answer in Dave Nute. He was so caring, competent, knowledgeable, understanding and non-judgmental of our situation. Dave realized what we needed to do and he devised a personal plan for us – which led us on a path to financial security. Dave deserves all 5 stars ! (Beverly and Guy Heder, MD, formerly from Sequim)*

5 Star Google Review *EXCELLENT service and professional demeanor. Dave has assisted us twice in our mortgage planning and we have been well-satisfied each time. (Nancy and Bob Dachtler, Sequim and Port Orchard)*

5 Star Google Review *Dave began assisting us with our financial accounts over 10 years ago – which has allowed us to enter retirement with a sound financial base. While working, Dave provided assistance for investing in financial products to enhance our accounts, later used in retirement. He diversified our accounts – which included stocks, bonds, Reverse Mortgage and several annuities. He also advised obtaining an umbrella policy on our home for security for unexpected issues. We trust his advice and happy to have a comfortable retirement. We have enjoyed working with Dave. (John and Donna VanAckeren, Port Townsend)*

5 Star Google Review *Dave was able to guide me – and previously my Mother – through the Reverse Mortgage process and kept me informed every step of the way. He was always available to answer questions and was able to clarify what I did not understand. I really enjoyed working with him and would gladly refer him to anyone seeking Retirement Plans of any sort, as he is very professional and knows his business well. (Barb Byers, Port Angeles)*

5 Star Google Review *We have been with Creative Retirement Planning for over 10 years and during that time, Dave has been a valued asset to our financial goals and retirement plan. Dave's insight and guidance allowed us to retire two years earlier than planned. Dave is ALWAYS very responsive to any questions or concerns we have. But to me, his guidance to a long term care option has been priceless. As a diabetic, I had been turned down on three different occasions for a long term care policy. Dave found me an annuity policy that gave us 3 times our investment for long term care and if not used, our initial investment and interest would be returned and even better, no monthly premiums. This has been a great relief to my wife and I. (Richard and Trudy Fink, Oak Harbor)*

Dave, thank you for all of your help and your perseverance, in getting this thing done. I will be grateful to you for the rest of my life, that I will be able to stay in my home. (Janet Little, Sequim. She mailed this to me back in early 2016 and passed away a few months ago.)

5 Star Google Review *Dave is very well-informed about information on retirement strategies and a valuable asset for planning. (Howard and Sharon Porter, Langley)*

5 Star Google Review *Dave is a patient and kind teacher/counselor/expert on tricky complex financial tools, like the Reverse Mortgage ! He helped us through recently and I appreciated his focus on timely responses to my questions and he explained in layman terminologies so I could understand. I recommend Dave as an honest and forthright financial consultant. (Robert and Judy Burkhart, Port Angeles)*

5 Star Google Review *Dave has helped us with our financial decisions for several years now ! We appreciate his sound business advice and knowledge. All of us are just trying to figure out how to continue forward. Dave can help us guide that ship. (Susan Glover, Gig Harbor)*

5 Star Google Review *Dave has been handling our entire retirement portfolio since 2012. We wanted to be relatively conservative and he set us up with a diversified portfolio that has grown more than we imagined. He also set up long term care insurance for us, which we were concerned about. We are grateful for his help and especially the peace of mind, knowing that our finances are in good hands. (Doug and Bonnie Cole, formerly from Sequim, now in Kennewick)*

5 Star Google Review *We had Dave help us with a refinance of a Reverse Mortgage. Pleasure to work with, upfront and honest, good communications. Highly recommend. (Jerry and Jenny Pyle, Bothell)*

5 Star Google Review *Dave represented me with the refinance of my Reverse Mortgage. He is well-connected in the mortgage finance community that led us to a lower interest rate, efficient customer service and fast results. His professional, quality service, was nothing less than impressive. (Kathleen LaBelle, Port Ludlow)*

5 Star Google Review *We have used David Nute as an investment advisor for the past ten plus years and found him to be very informed and professional. He has guided us in making investments which we are very satisfied with. We can recommend him for sound planning and advice. (LeRoy & Regina LaMar, Poulsbo).*

Dave Nute, RICP®, ChFC®, CLU®

Mortgage Loan Originator # 91704

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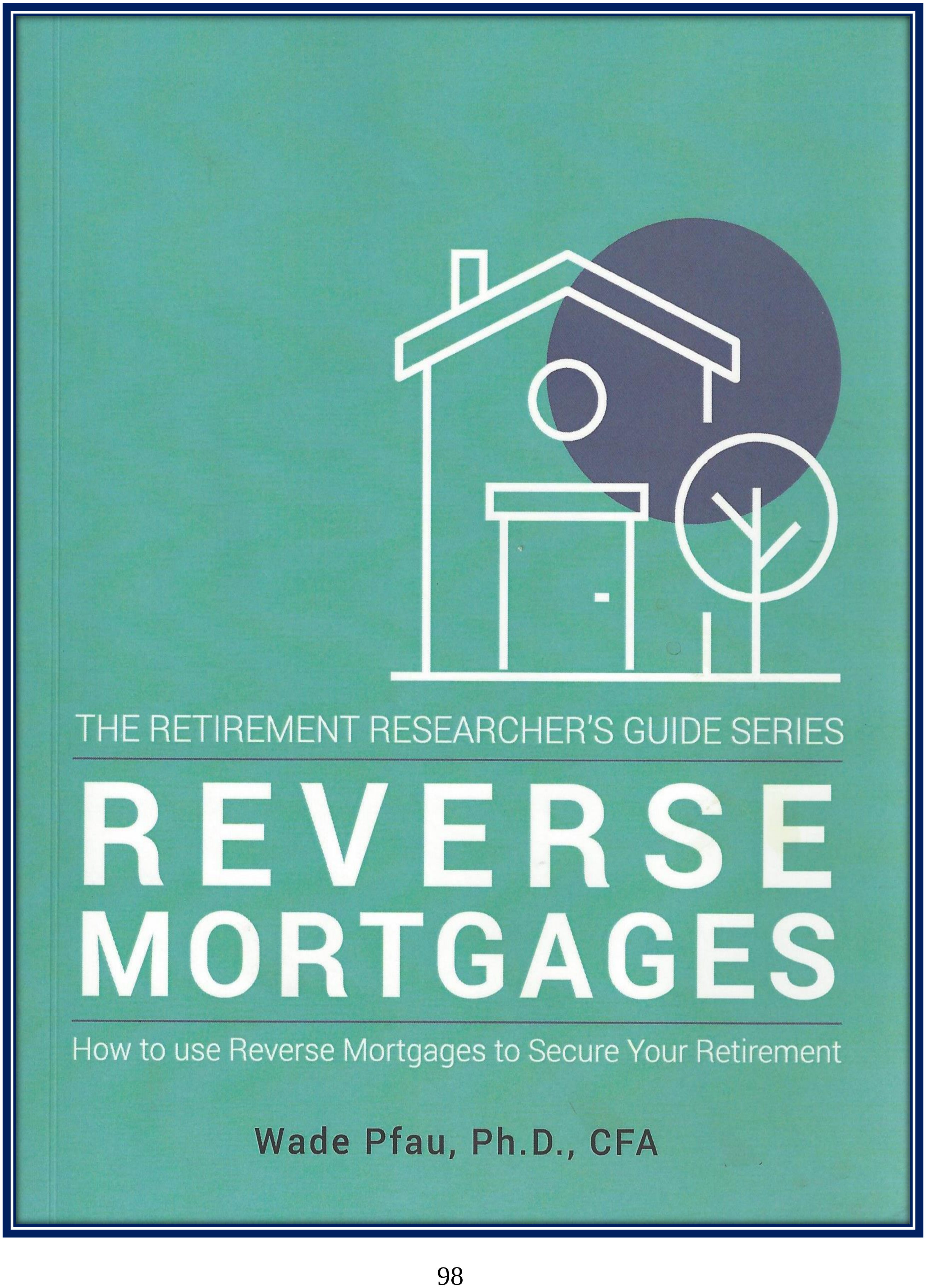
What Do Other Retirement Income Planning Professionals Have To Say About Reverse Mortgages ?


THE RETIREMENT RESEARCHER'S GUIDE SERIES
REVERSE MORTGAGES
How to use Reverse Mortgages to Secure Your Retirement
Wade Pfau, Ph.D., CFA

Dave's Comments About Dr. Pfau's New Book

<u>SOLID ANSWERS</u> *about Reverse Mortgage Loans and other Retirement Income Planning ! You can get your copy of this book on Amazon.com for about $ 20.*

Dr. Pfau was one of my professors at the American College, for my advanced study of Retirement Income Planning . . . and he is truly one of the best !

On page 46, of the first edition of his book, Dr. Pfau states . . .

"Well-handled Reverse Mortgages have suffered from the bad negative press surrounding irresponsible Reverse Mortgages for too long. Reverse Mortgages give responsible retirees the option to create liquidity for an otherwise illiquid asset. This can potentially support a more efficient retirement income strategy with more spending and/or more legacy (inheritance for others)."

On pages 47 thru 53, Dr. Pfau emphasizes . . .

"When a household has an investment portfolio and home equity, the "Default Strategy" tends to value spending down investment assets first and preserving home equity as long as possible, with the goal of supporting a legacy through a debt-free home. A Reverse Mortgage is viewed as an "Option" . . . but it's only a last resort, once the investment portfolio has been depleted and vital spending needs are threatened.

<u>While taking money from the Reverse Mortgage reduces the home equity, it does not necessarily reduce the overall net worth or legacy value of assets.</u>

Stigma about using debt is a psychological constraint. If you think about your investment portfolio and home equity as assets, then meeting spending goals requires spending from assets somewhere on the household balance sheet. <u>In this regard, spending from home equity would not be framed as accumulating debt any more than spending from investment assets.</u> A Reverse Mortgage creates more liquidity and more options from an otherwise illiquid asset."

On page 79, Dr. Pfau brings up a valuable suggestion . . .

"Legacy for family . . . when the loan is paid off, <u>the accumulated interest from the Reverse Mortgage is tax deductible</u>. This could help to offset the taxable income the family inherits like IRAs, 401k, annuities and other retirement accounts.

On page 85, Dr. Pfau illustrates another great idea . . .

"Use the Reverse Mortgage to pay the taxes for Roth IRA conversions. This is an excellent way to enhance your legacy." *(Change "Taxable" to "Tax-Free")*

How Reverse Mortgages Protect Women's Retirement from Major Life Events

Posted By*Alana Stramowski*On December 22, 2016 @ 6:49 pm In News,Retirement,Reverse Mortgage | 1 Comment

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Due to the fact that women live longer than men and that women still are only making 79 cents for every dollar men make, they have a more difficult time achieving retirement security. Even with statistics not in their favor, women do still have options when it comes to financially securing themselves as they age.

The first step is to get a financial plan together as early as possible, Jocelyn Wright, director of The American College State Farm Center for Women and Financial Services and assistant professor of women's studies, said in a recent webinar hosted by the American Society on Aging and sponsored by the National Reverse Mortgage Lenders Association (NRMLA).

And part of that financial plan could include a reverse mortgage, Wright points out.

There are major life events that a large portion of older women go through, which include divorce and becoming a widow. These two life events are tough enough to get through, but they also can derail retirement savings.

One way women can get through these life events and other events similar to them is by tapping into their home equity through a reverse mortgage, Lorraine Geraci, vice president of the training division at Finance of America Reverse (FAR), explained during the webinar.

"I feel it's imperative that we collectively provide choices to assist older adult women by sustaining financial longevity and establishing peace of mind," Geraci said.

Obtaining a reverse mortgage will not play out the same for each woman nor will each woman use a reverse mortgage in the same way.

There are many different strategies when it comes to figuring out how to use a reverse mortgage to its fullest potential. The first step is to choose between a fixed rate and an adjustable rate home equity conversion mortgage (HECM), Geraci shared.

"An adjustable rate HECM is similar to a home equity loan line of credit except that amount of line of credit is accessible to them whenever they want and also grows while it's in the credit line, which can increase the amount of equity available to the borrower as times goes on," she said.

Once the borrower has chosen either a fixed rate or adjustable rate HECM, setting a strategy should be addressed next. A strategy could be anything from using the proceeds to manage long-term care payments, social security planning, income planning or to purchase a new home altogether.

Conclusions

By Danielle Andrus

Retirees Should Consider Reverse Mortgages

Reverse mortgages have acquired an undeserved bad rap, according to Wade Pfau

Using home equity conversion mortgages — commonly known as reverse mortgages — strategically can help improve clients' retirement sustainability and build a larger legacy to leave their heirs, according to Wade Pfau, professor of retirement income at The American College and director of retirement research at McLean Asset Management and inStream Solutions.

Conventional wisdom on reverse mortgages or HECMs is that they are irresponsible, expensive or a last resort, and has made them unattractive to many retirees and their advisors.

"I was in the same situation as many advisors of knowing about the conventional wisdom, which is that reverse mortgages are generally a bad idea," Pfau said on a webinar for the Financial Planning Association in April. After joining a study group on the products, he changed his mind, finding reverse mortgages are a "viable retirement income tool," and can be useful in managing sequence risk.

"I think it's really important for advisors who may have done their due diligence about reverse mortgages 10 or 15 years ago to look at what all has changed starting in 2012 and to do their due diligence over," he said.

There are four ways to manage sequence risk in retirement, according to Pfau. One is spending conservatively by employing the familiar 4% rule, for example.

Flexibility in spending is also important to managing sequence risk. "If you're able to cut your expenses when the market declines, you don't have to sell off as much of your portfolio at that point," he said.

Advisors can also reduce volatility for their retiree clients by building a retirement income bond ladder, incorporating income annuities or using a funded ratio to manage asset allocation.

Creating "buffer assets" to avoid selling at losses is the final way to address sequence risk, and that's where reverse mortgages come into play.

UNDERSTANDING REVERSE MORTGAGES

Reverse mortgages can be complicated, Pfau acknowledged. "I think one of the most difficult things to understand is the line of credit on a reverse mortgage and why it's able to grow over time."

The HECM program is administered by the Housing and Urban Development Department and Federal Housing Authority.

In the past, some investors used reverse mortgages inappropriately or irresponsibly. "It's not really meant to be the case for someone who's desperate," Pfau noted.

Family misunderstandings between children who expected to inherit a family home when their parents passed away also led to a "negative image that wasn't really justified," Pfau said.

Policywise, there have been a number of changes to HECMs that make reverse mortgages more attractive. To qualify for a reverse mortgage, borrowers now have to undergo a more complete financial assessment.

New regulations have eliminated the risk that a non-borrower spouse could be pushed out of the home on the death

ILLUSTRATION: ELLEN WEINSTEIN

of the borrower spouse. Pfau also noted that the perception that the borrower loses the title to the home when he or she takes a reverse mortgage is a myth.

High costs can still be an issue, he acknowledged, but he said it's still worthwhile for potential borrowers to shop around. "Unfortunately, there's no central clearinghouse type of service for comparing different options from different lenders, but the initial costs on a reverse mortgage can range from anywhere between $100 up to more than $10,000," he said.

To qualify for a reverse mortgage, borrowers must be 62 or older, and have equity in their home. They must also prove that they're able to pay property taxes, homeowners' insurance and continued maintenance on the home.

Borrowers must also undergo a counseling session with an approved counselor, and an appraisal by the FHA on their home, which must be their primary residence. Assuming they meet those qualifications, borrowers can be approved for up to $625,500.

A reverse mortgage loan must be repaid when borrowers no longer meet these eligibility requirements, due either to their death or a move to a nursing home or assisted living facility.

Borrowers who take out an HECM can choose to take the payment as a lump sum; a tenure payment, which acts as an income annuity and provides a payment as long as they're in the home and remain eligible; a term payment, which provides guaranteed payments over a set term; a line of credit; or a modified tenure or term payment, which carves off part of the line of credit for regular payments.

While interest rates are low, retirement is expensive because investments are generating lower returns. Still, Pfau identified two strategies that can use low interest rates to their advantage. One is delaying Social Security because it has a "built-in implicit rate of return of 2.9% after inflation. That's better than you're going to get on any sort of bond investment in today's environment."

The other is to open a reverse mortgage line of credit. "The amount you can borrow is essentially based on a present value calculation," Pfau said. "The lower the discount rate, the lower the interest rate, the higher the present value."

A lower expected rate means a larger initial principal limit that grows at a lower rate than if interest rates were higher. "To the extent that interest rates are low today, you get a bigger initial amount and then if we see any sort of mean reversion where eventually interest rates go up again, then the principal limit's going to grow faster as well."

USES FOR REVERSE MORTGAGES

Pfau identified four categories where reverse mortgages could be used depending on whether the client is trying to spend down credit or preserve it.

Clients can use the reverse mortgage in combination with their retirement portfolios to pay off an existing mortgage, fund home renovations to age in place or to use the HECM to buy a new home.

Clients can use the HECM to fund their retirement while their portfolios grow, but Pfau noted one risk with that strategy is that in low markets, their portfolios may not grow that much.

Clients can also use the HECM to improve retirement efficiency by taking tenure payments as an alternative to annuities, to support them while they delay Social Security benefits, or to cover taxes for Roth conversions or long-term care insurance premiums. However, "it's important to not use it to fund a new [LTC] policy, but to keep paying premiums on a current policy," Pfau warned.

Finally, an HECM can help preserve credit if borrowers open the reverse mortgage early but don't access the line of credit until they deplete their retirement portfolio. **IA**

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Don't Want a Mortgage in Retirement? Start Planning Now, Voya Survey Says

More Americans prefer to own rather than rent their homes in retirement, according to survey results from Voya Financial.

Voya conducted a survey of 1,000 Americans (from millennials to retirees) to gauge the opinions of Americans on a number of topics related to where and how they want to live in retirement.

Among current retirees in the survey, approximately eight in 10 (79%) own their home, while 18% rent.

Of those who had not yet retired, even more (85%) said they planned to own their home in retirement, while a smaller number (12%) anticipated renting. This goal of homeownership in retirement was consistent across all segments of non-retirees, the survey found, regardless of gender and age (men, women, millennials, Gen X and baby boomers all represented between 81% and 87%).

Voya's survey also revealed some deeper insights into the topic of mortgages.

A significant majority of homeowners with an outstanding mortgage were optimistic about their ability to pay it off prior to retirement, according to the survey, although the survey results suggested that some of these homeowners may be overly optimistic.

According to the survey, one-third (33%) of non-retirees reported having a mortgage, and roughly half in this group (16%) had an outstanding balance of $100,000 or more.

Less than one-in-five (19%) of those non-retirees with a mortgage expect to still have a mortgage in retirement. However, among current retirees, more than one-quarter (26%) still have an outstanding mortgage balance and a significant percent of this group (16%) still had a balance of $50,000 or more.

"Those heading toward retirement should plan accordingly so they don't overestimate their ability to achieve their goals," the survey found.—**Emily Zulz**

Reverse Mortgages and the Holy Grail of Retirement Planning

Posted By*Jason Oliva*On March 30, 2016 @ 6:12 pm In HECM,News,Retirement,Reverse Mortgage | No Comments

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Retirees face many challenges in retirement, but perhaps none is greater than the risk of outliving their savings. As research in recent years has shown, reverse mortgages can be the holy grail for some retirees' financial plans.

For retirees, maximizing higher fixed costs in retirement increases their exposure to sequence risk by requiring a higher withdrawal rate from remaining assets, writes Wade Pfau, professor of retirement income at The American College, in a recent Forbes article.

Through the strategic use of a reverse mortgage, particularly a Home Equity Conversion Mortgage (HECM) line of credit, retirees can mitigate such risks of depleting their investment portfolios and locking-in losses at inopportune times.

"The holy grail for retirement income strategies is improved efficiency: being able to spend more while preserving a larger legacy," Pfau writes in the Forbes article. "The synergies created by strategic use of an HECM line of credit can support a higher spending level in retirement and/or support a greater legacy value for remaining assets."

In recent years, the effective use of home equity to supplement a retirement income strategy has been demonstrated in various research articles from members of the financial planning community.

At the crux of this research has been the concept of obtaining a reverse mortgage early during retirement, thus letting the line of credit grow over time, which can then be used to draw from in instances where the retiree's investment portfolio suffers negative returns. This concept allows retirees to strategically spend from their reverse mortgage credit line and, above all else, helps improve the sustainability of retirement income strategies.

While this strategy has been written about extensively on many different occasions, Pfau draws attention to research published by Barry and Stephen Sacks, which he credits as getting the ball rolling for other planners to begin considering this use for reverse mortgages in retirement income planning.

The Sacks brothers' sought research sought to reverse the conventional wisdom of using home equity to supplement retirement income, by examining three strategies for incorporating home equity into a retirement income plan.

Such strategies included (1) using a HECM as a last resort only once the investment portfolio has been depleted (also referred to as the conventional wisdom approach); (2) opening a HECM line of credit at the start of retirement, which retirees can spend down first; (3) and finally, opening a HECM credit line at the beginning of retirement, drawing from it only during years that follow a negative return for the investment portfolio.

Through this research, the Sacks found that the remaining net worth of the household—the value of their remaining financial portfolio, plus any remaining home equity—after 30 years in retirement is twice as likely to be larger with an alternative strategy than with the conventional wisdom of using home equity as a last resort.

"For withdrawal rate goals of between 4.5% and 7% of the initial retirement date portfolio balance, the residual net worth after thirty years was 67% to 75% more likely to be higher with a coordinated strategy than with a strategy using the reverse mortgage as a last resort," Pfau said. "In other words, spending home equity did not ruin the possibility for leaving an inheritance."

Instead, the opposite was true, Pfau noted, because strategies (2) and (3) "provide a cushion against the dreaded sequence of returns risk that is such a fundamental challenge to building a sustainable retirement plan."

When retirees use home equity last, they are spending down their volatile investment portfolio earlier in retirement and are more exposed to locking-in portfolio losses, which Pfau notes, more easily leads them on the path to depletion.

"Sacks and Sacks make clear that their point is not that all retirees should take a reverse mortgage, but that retirees who wish to remain in their homes for as long as possible should view it as more than a last resort," Pfau writes. "If a retiree decides to spend at a higher level, which could lead to portfolio depletion and then possible require them to also generate cash flows from their home equity, there is indeed a better way."

Why Financial Advisors Must Accept Reverse Mortgages in Retirement Planning

Posted By*Jason Oliva*On October 18, 2016 @ 5:53 pm In News,Retirement,Reverse Mortgage | 2 Comments

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The negative perception surrounding reverse mortgages not only stunts the growth potential for these products to reach a wider consumer audience, but also deters financial planners from recommending the use of home equity for retirement income planning.

"In short, well-handled reverse mortgages have suffered from the bad press surrounding irresponsible reverse mortgages for too long," writes Wade Pfau, professor of retirement income at The American College and director of retirement research at McLean Asset Management, in his new book, an excerpt of which appeared in Investment News this week.

Pfau's book, "Reverse Mortgages: How to Use Reverse Mortgages to Secure Your Retirement," hit shelves last month and has been generating considerable press in various financial planning news outlets, including Investment News and TIME Money.

Although the media begun to acknowledge the improvements that have taken place for reverse mortgages in recent years, the trend of positive coverage is still a new phenomenon.

And with so much pre-existing bias against these products, Pfau says it can be hard to view reverse mortgages objectively without a clear understanding of how the benefits exceed the costs.

"Reverse mortgages give responsible retirees the option to create liquidity from an otherwise illiquid asset, which can, in turn, potentially support a more efficient retirement income strategy," he writes book.

At the crux of the book is the concept that retirees must support a variety of expenses if they want to enjoy a successful retirement. So while retirees will have to manage overall lifestyle spending, as well as account for unexpected contingencies and their legacy goals, they will have to look beyond traditional funding sources like Social Security and pensions.

But suppose retirees have two other assets such as an investment portfolio and home equity. The task then, according to Pfau, is to link these assets to spending obligations efficiently while also mitigating retirement risks like longevity market volatility and spending surprises that can impact the person's plan.

"The fundamental question is this: How can these two assets work to meet spending goals while simultaneously preserving remaining assets to cover contingencies and support a legacy?" he asks.

Since spending from either asset (an investment portfolio and home equity) today means less will be available for future spending, the dilemma becomes how a retiree can best coordinate the use of these two assets to both meet spending goals and still preserve as much legacy as possible.

A reverse mortgage can be one viable option, Pfau notes, but this product is typically only considered as a last resort once the investment portfolio has been depleted.

"The research of the last few years has generally found this conventional wisdom constraining and counterproductive," he writes. "Initiating the reverse mortgage earlier and coordinating spending from home equity throughout retirement can help meet spending goals while also providing a larger legacy."

This, he says, is the nature of retirement income efficiency: "using assets in a way that allows for more spending and/or more legacy."

6 Strategies for Using Reverse Mortgages in Retirement Planning

Posted By*Jason Oliva*On November 11, 2015 @ 6:23 pm In HECM,News,Retirement,Reverse Mortgage | No Comments

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Following research released earlier this week detailing the various strategies for using a reverse mortgage in retirement income planning, a new paper explores six methods of incorporating home equity into a retirement plan and how they impact spending and wealth.

The paper, published earlier this month by Wade Pfau, a professor of retirement income at the American College of Financial Services, is the latest in a series of research that has demonstrated the use and value of reverse mortgages when used as part of a comprehensive retirement planning strategy. Pfau is also a member of the Funding Longevity Task Force, an organization of distinguished academics and financial professionals, several of which have respectively researched how home equity via reverse mortgages can be a valuable asset in financial planning.

But where other papers have made significant contributions in this regard, Pfau's digs deeper into the underlying analysis about how reverse mortgage retirement strategies impact spending and wealth.

Past studies, Pfau writes, have generally struggled with explaining the combined impacts of home equity use on sustaining a retirement spending goal as well as preserving assets for legacy. Other studies have also struggled with simulating the random future fluctuations for all key variables that will impact response, he added.

"While past studies have employed Monte Carlo simulations for stock and bond returns, none of these studies simulated the future paths of interest rates, nor did they link future bond returns to future interest rates," Pfau writes. "This misses the ability to see how changing interest rates impact line of credit growth, the amount of credit available when delaying the decision to open a reverse mortgage, and the interplay of growth in the line of credit or loan balance for the reverse mortgage and the return on bonds in the investment portfolio."

The main objective of Pfau's research is to analyze the different reverse mortgage possibilities in order to provide financial planners and their clients with a deeper context for considering how to incorporate home equity into a retirement income strategy.

Pfau specifically examines six strategies that involve spending from a Home Equity Conversion Mortgage (HECM). A breakdown of the various strategies can be found on pages 8-9 of the paper.

Of the six methods, the strategy supporting the smallest increase in success is the one that embraces the conventional wisdom of using home equity as a last resort, and only utilizing the reverse mortgage when it is first needed.

Meanwhile, opening a reverse mortgage line of credit at the beginning of retirement, in order to let the credit line grow before being tapped, provides the highest increase in success rates.

"Especially when rates are low, the line of credit will almost always be larger by the time it is needed when it is opened early and allowed to grow, than when it is opened later," Pfau writes.

The basic understanding, according to Pfau, is that strategies which open the line of credit early, but delay its use for as long as possible, will offer increasing success rates as more of the credit line is available to be drawn from if, and when, it is eventually needed.

"Generally, strategies which spend the home equity more quickly increase the overall risk for the retirement plan," Pfau writes. "More upside potential is generated by delaying the need to take distributions from investments, but more downside risk is created because the home equity is used quickly without necessarily being compensated by sufficiently high market returns."

The line of credit growth opportunity specifically, Pfau says, serves a stronger role than the benefits from mitigating sequence risk through the use of coordinated strategies.

"Nonetheless, use of tenure payments or one of the coordinated strategies can also be justified as providing a middle ground which balances the upside potential of using home equity first and the downside protection of using home equity last," Pfau writes.

Financial Advisors Need 'Fresh Look' at Reverse Mortgages

Posted By*Jason Oliva*On December 6, 2015 @ 1:29 pm In HECM,News,Retirement,Reverse Mortgage | 1 Comment

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Reverse mortgages have received an "undeserved bad reputation" in the past not only among seniors, but financial professionals as well. But as retirees today face longer life expectancies requiring greater financial longevity from their assets, advisers and retirement planners need to open their minds and reexamine the way they look at reverse mortgages, says one respected financial planner.

People are living longer than ever before, but this increased longevity presents a challenging retirement picture. However, financial advisors maintain a dismal view about reverse mortgages, says a recent Advisors Perspective article written by Wade Pfau, Ph.D., CFA, principal and director at McLean Asset Management; and professor of retirement income in the Ph.D. program in financial services and retirement planning at The American College in Bryn Mawr, Penn.

Times have changed, Pfau notes, citing updated regulations to the Home Equity Conversion Mortgage (HECM) program since 2013, specifically those aimed at protecting non-borrowing spouses and ensuring borrowers have sufficient financial resources to continue paying their property taxes and homeowner's insurance—i.e., the Financial Assessment.

"The thrust of these changes has been to better ensure that reverse mortgages are used responsibly as part of an overall retirement-income strategy rather than simply as a way to fritter away assets in an unsustainable and irresponsible way," Pfau writes.

Furthermore, even before those critical rule changes took effect, there has been a series of research demonstrating how the responsible use of a reverse mortgage can enhance a retiree's overall retirement income plan—some of which Pfau has undertaken, himself. Yet today, the financial planning community has still not largely acknowledge the reverse mortgage product as a viable retirement tool, even with this research.

"It is odd that more advisors are not embracing reverse mortgages for clients wishing to stay in their home as reverse mortgages improve the odds for clients to enjoy a greater overall net worth while also supporting a greater financial portfolio for the advisor to manage," writes Pfau.

Lack of acknowledgement may still be due to old habits and misperceptions regarding reverse mortgages as loans of last resort, without a clear understanding of how the benefits of these products can exceed the costs, Pfau suggests.

"When a household has an investment portfolio and home equity, the strategy that tends to serve as the 'default' is to spend down investment assets first and preserve home equity for as long as possible," he writes.

Various research over the past few years, however, has shown that using a reverse mortgage as an absolute last resort option, to be used only after investment assets have been depleted, is actually counterproductive.

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

In a recent article published by The Wall Street Journal, Pfau noted that reverse mortgages may be reaching a "tipping point" at which they will become more predominant, especially as the government continues to strengthen the regulations for these loans and as new research comes to light on how reverse mortgages fit into retirement income planning.

And financial advisors better get familiar with reverse mortgages, Pfau says.

"Clients will be asking about them, and advisors need to be ready to provide an opinion about their use after updating the due diligence for how the reverse mortgage tool has changed in recent years," he said.

WSJ: Reverse Mortgages Have an Undeserved Bad Reputation

Posted By*Jason Oliva*On December 1, 2015 @ 11:39 am In News,Retirement,Reverse Mortgage | 5 Comments

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The assumption that reverse mortgages should only be used as a last ditch effort to bolster funds, rather than a financial planning tool, has long hindered their effective use in helping retirees finance longevity. But considering the string of recent policy updates over the past few years and wealth of reverse mortgage research, one financial planner says it is time to lay those long-held misperceptions to rest.

More often than not, discussing reverse mortgages in the context of retirement planning typically focused on "perceived negatives" related to high costs or misuse of loan proceeds, says Wade Pfau, principal at McLean Asset Management and a professor of retirement income in the Financial and Retirement Planning Ph.D. program at The American College, in an column published by The Wall Street Journal this week.

"The assumption in financial and retirement planning was that reverse mortgages should only be considered as a last resort, once all other resources and possibilities had failed," Pfau writes. "Well, a lot has changed in the past several years, and the result is that reverse mortgages have an undeserved bad reputation."

Pfau, who also serves as a member of the Funding Longevity Task Force, has focused extensively on the strategic use of a reverse mortgage in retirement planning. Just recently, he published a paper that appeared in the Social Science Research Network, highlighting the various methods to incorporate home equity into a retirement income strategy.

This research incorporates the realistic costs for reverse mortgages related to the upfront origination fee, closing costs and continued growth of any outstanding loan balance. Overall, the work is meant to show the benefits from using reverse mortgages even after incorporating their costs and despite their bad image with the public, Pfau noted.

"The reverse mortgage option should be viewed as a method for responsible retirees to create liquidity from an otherwise illiquid asset, which in turn can create new options that potentially support a more efficient retirement income strategy, such as more spending and/or more legacy," Pfau writes.

One valuable strategy for using a reverse mortgage early in retirement, as opposed to a last resort, Pfau notes is the ability to manage the sequence of returns risk that retirees face.

"Retirees are more exposed to investment volatility because volatility has a bigger impact on financial outcomes when taking distributions from the portfolio as compared with when adding new funds to the portfolio," he writes. "Reverse mortgages provide a buffer asset to sidestep this sequence risk by providing an alternative source of spending after market declines."

Another potential benefit for taking a reverse mortgage early in retirement, Pfau adds, is using the line of credit feature to let the principal limit grow over time.

Because reverse mortgages are non-recourse loans, an added benefit he suggests is the possibility that the credit line may grow to be larger than the value of the home. In these instances, borrowers or their estates will not be on the hook for repaying more than 95% of their home's appraised value when the reverse mortgage becomes due and payable.

"As the government continue to strengthen the rules and regulations for reverse mortgages, and as new research continues to pave the way with an agnostic approach about their role, we may be at a tipping point in which reverse mortgages become much more predominant in the years ahead," Pfau concludes.

Read The Wall Street Journal article.

Written by Jason Oliva

Study Makes Case for $1 Million Reverse Mortgage Retirement Strategy

Posted By*Jason Oliva*On August 23, 2016 @ 6:03 pm In HECM,News,Retirement,Reverse Mortgage | 1 Comment

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Several studies have already demonstrated the potential benefits to be reaped when using a reverse mortgage as part of a coordinated retirement strategy, but one recent case study further expounds on the efficacy of the reverse mortgage line of credit.

With the arrival of new program changes and consumer protections in recent years, the reverse mortgage industry has strived to assert the legitimacy of the Home Equity Conversion Mortgage (HECM) as a viable retirement income planning tool.

A variety of financial planning research published within the last decade has added layers of credibility to reverse mortgages as a financial resource that can help "buffer" against volatility in investment markets, increase retirement spending and, above all, significantly improve the longevity of a retiree's retirement income.

The crux of these strategies invariably requires retirees to obtain a reverse mortgage line of credit early in retirement. By doing so, retirees can accumulate a greater share of home equity over time, which they can use to supplement their retirement spending and help shore up losses in their investment portfolio during years of negative market returns.

"In this strategy, the reverse mortgage credit line is used to offset the 'adverse sequence of returns,'" states a case study published by Barry Sacks and Mary Jo Lafaye this year and further discussed by Tom Davison, a wealth manager who has frequently researched and written about reverse mortgages in the context of financial planning.

In demonstrating the coordinated planning strategy, which was previously introduced by Barry and Stephen Sacks in the Journal of Financial Planning in 2012, Sacks and Lafaye establish a retiree with a $500,000 equity/bond portfolio split 50/50. Beginning in 1973, the case study examines a 30-year spending horizon, incorporating an initial 5.5% withdrawal rate increasing at a 3.5% inflation rate.

Sacks and Lafaye then compared two scenarios involving the same retiree: one scenario in which the retiree obtains a reverse mortgage only after his investment portfolio is depleted; and a scenario in which the retiree takes a reverse mortgage line of credit early in retirement, only drawing from the credit line after suffering negative returns on his portfolio.

Utilizing a reverse mortgage as a last resort strategy, the retiree ends up depleting his portfolio in 1996—six years short of the 30-year retirement horizon, according to Sacks and Lafaye.

On the other hand, by tapping into the reverse mortgage loan proceeds after suffering negative returns, the same retiree is able to fund their retirement for the full 30-year period. What's more is that in this scenario, the retiree's total portfolio value has grown in excess of $1 million after 30 years.

Taking the difference between the total portfolio value and the accumulated reverse mortgage loan balance, the retiree ends up with a net $394,991, whereas under the "last resort" strategy the same retiree is left with a $538,773 reverse mortgage loan balance and no money in the investment portfolio to offset this debt.

"Using the simple coordinated strategy has dramatic results: they don't run out of money," Davison writes in a recent post on his blog, Tools for Retirement Planning. "Their estate size increases over $900,000. Rather than the portfolio exhausting in the 24th year, it lasts through the 30th year, with a $1,000,000 balance."

Taking the reverse mortgage was critical to the long-term sustainability of the retiree's portfolio, especially during the first decade of retirement when the portfolio suffered various years of negative returns in close succession.

"The strategy is simple to state and simple to use," Davison writes. "It is a direct attack on investment risk, and especially sequence of returns risk. Individual homeowners can do this!"

As the research shows, homeowners need to obtain a reverse mortgage line of credit as early in retirement as possible for the coordinated planning strategy to be effective.

"Naturally, the larger the reverse mortgage line of credit is, the more it can help the homeowner," writes Davison.

Reverse Mortgages Play Vital Role in Planning for the Costs of Aging

Posted By*Jason Oliva*On April 19, 2016 @ 6:48 pm In FHA,HECM,News,NRMLA,Retirement,Reverse Mortgage | No Comments

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Reverse mortgages can be used to serve a variety of needs in retirement, not the least of which is using home equity as an insurance tool to cover aging related expenses.

Today, Americans are living longer lives than ever. Thanks to advancements in modern medicine, the average life expectancy in the U.S. has grown steadily since the 1950s, from approximately 68.2 years to 78.8 years in 2013, according to the U.S. Census Bureau. But with this increased longevity also comes increased risk, particularly when planning for the future.

Such risk is only exacerbated as retirees face unexpected health issues that may arise as they age. The high price tag generally associated with medical costs, coupled with the sudden shock of a personal health issue, demands having a strategic retirement income plan in place—one that doesn't ignore the value of housing wealth, according to several professionals in the financial services, gerontology and reverse mortgage sectors.

The costs that retirees face during their non-working years can be broken down into two main categories: expected expenses (e.g. housing, food, health care coverage, including premiums and co-pays, etc.) and unexpected expenses (e.g. changes in health status, long-term services and supports, home modifications, home repairs, vehicle maintenance, etc.).

As people age and live longer, paying for health-related expenses stand to bear the heaviest financial burden on retirees.

For couples who retire at age 65, it is estimated that they will spend approximately $245,000 on health care expenses during their retirement, according to a recent study from Fidelity Investments. If this same couple wants a 90% chance of having enough money to pay for health care expenses in retirement, they will need to have saved at least $392,000 by age 65 to cover these costs, according to the Employee Benefit Research Institute.

"If you fail to plan for those expenses, you have planned to fail," said Barbara Howard, adjunct professor of gerontology at the University of Bridgeport in Connecticut, during a webinar Tuesday.

The webinar, which was hosted by the American Society on Aging, is part of the inaugural Education Week initiative spearheaded by the National Reverse Mortgage Lenders Association. Through a series of webinars, Education Week aims to teach professionals who work with seniors about reverse mortgages and how these loan products can help meet their clients' needs.

Tuesday's webcast brought together Howard, a gerontologist, alongside Jamie Hopkins, associate professor of taxation at The American College in Bryn Mawr, Pa., as well as Dan Hultquist, an Atlanta-based Certified Reverse Mortgage Professional with Open Mortgage.

Together, each of these presenters discussed the use of home equity in retirement income planning, and how it can be used within the context of helping retirees plan for the costs of aging.

Hopkins, a frequent reverse mortgage commentator, likened retirement income planning to shooting a moving target in the wind. The "target," which is being able to meet a client's goals, is going to change over time, he said, but so will that person's goals and the expenses they encounter on their path to retirement.

Meanwhile, the "wind" is all of the risks people face in retirement, including longevity, the need for long-term care and sequence of returns risk (to name a few)—all of which are going to influence the path it takes for workers to finally reach their future retirement goals from where they are today.

"However much we can reduce the wind, the easier it is going to be to plan," Hopkins said. "Taking home equity into consideration can help reduce those risks."

Reverse mortgages can fit into a retirement income plan in several different ways, Hopkins noted, whether it is simply providing retirees with additional cash flow, allowing them to defer Social Security, or helping them improve their systematic withdrawal strategy to reduce sequence of returns risk—a method that various research has highlighted using reverse mortgages as a standby line of credit.

"Home equity needs to be part of a comprehensive retirement income plan—and I stress needs," Hopkins said. "It's one of the biggest assets people have and it can dramatically improve the retirement income plan."

TIME: Personal Finance Expert Champions Reverse Mortgages

Posted By*Alana Stramowski*On May 12, 2016 @ 6:40 pm In News,Retirement,Reverse Mortgage | No Comments

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TIME recently featured a segment with renowned author and personal finance columnist, Jane Bryant Quinn, where she discusses how her perspective has changed on reverse mortgages and why it can be a good option, even if you aren't running out of retirement income.

As many in the industry are aware, recent changes have put new rules in place for reverse mortgages—changes that Quinn admits really pushed her to give reverse mortgages another look.

Formerly, people would take their reverse mortgage in a lump sum, then would run out of money and wouldn't be able to pay their insurance or taxes, she explains.

"Now congress changed the rules, basically they take the money out for you and they only give you a certain amount per month that they are sure will last for life," Quinn says. "This change has very much reduced the risk for older people with very little money."

For people on the younger side, she explains that it can be very helpful if you take a credit line instead of a lump sum if you qualify for a reverse mortgage. This way, people could make interest on it for each year they don't use it.

"Then if you're taking money out of your savings or investments and the market is down and you want to sell investments, you can take money to pay your expenses out of your home equity credit line," she says.

Quinn talks more in-depth about how her views on reverse mortgages have changed in her latest book, How to Make Your Money Last: The Indispensable Retirement Guide.

HuffPost: Reverse Mortgages Help Homeowners Hedge Property Value Risk

Posted By*Alana Stramowski*On November 29, 2016 @ 6:07 pm In News,Retirement,Reverse Mortgage | No Comments

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One of the greatest advantages for homeowners is the opportunity to grow their home equity as their property value increases year over year, and potentially use that wealth to support themselves in retirement.

But one way homeowners can hedge property value risk is by using a reverse mortgage, according to a recent article written by Jack "The Mortgage Professor" Guttentag, professor of finance emeritus at the Wharton School of the University of Pennsylvania in the Huffington Post.

When it comes to the Home Equity Conversion Mortgage (HECM), the government assumes a home will appreciate by 4% a year, which is used in calculating the amount a senior can draw using the loan, Guttentag wrote.

"The individual taking out a HECM reverse mortgage today could experience 4% appreciation, but more likely the rate will be higher or lower," he said. "The way the program is designed, the borrower is protected against the adverse consequences of a rate below 4%, and allowed to enjoy the benefit of a rate above 4%."

This is how the program allows a homeowner to hedge his or her property value risk.

Guttentag creates a scenario for Jane Doe, age 65, who has a home worth $200,000 and wants to draw the maximum amount possible every month for as long as she lives in the house.

Relying on data provided by five lenders who share pricing information on Guttentag's website, he then compares two "extreme" possible situations about the future value of Jane's property.

In the first situation, Jane's home does not appreciate in value and her home's worth remains at $200,000. Her HECM debt, however, grows each month. Assuming the initial interest rate on her reverse mortgage continues, Guttentag estimates that her debt exceeds $200,000 in the 18th year of the loan, and if she lives to 90, she will owe about $335,000.

"Since there are no deficiency judgements against Jane or her estate, the loss is taken as a charge against the Government's reserve account," Guttentag writes. "In sum, Jane continues to receive the payment calculated on a 4% appreciation assumption, even though her house has not appreciated at all."

In the second, alternative situation, if the home appreciates at a rate of 8%, then after 10 years Jane's home will be worth about $432,00. At this point, she will owe about $96,000 on her HECM according to Guttentag's scenario.

"Her equity at this point is the difference of $336,000, which is more than when she took our her HECM, and she is now 10 years older with a shorter life expectancy," he writes. "If she refinances after 10 years, which means paying off the balance on the first HECM, her new monthly payment is $1,024, or almost twice as much as the payment on her first HECM."

"The refinance option allows Jane [the homeowner] to profit from the atypically high appreciation rate on her home," Guttentag added.

A REVERSE MORTGAGE CAN NOW BE A GOOD THING

The Seattle Times
Sunday, July 20, 2014

Scott Burns
Syndicated Columnist

Question: I am receiving numerous sales calls for reverse mortgages. Please tell me about the downside to this program, if there is one.

Answer: Historically, reverse mortgages have had two major drawbacks.

First, they were relatively expensive in closing costs, insurance cost and interest rate.

Second, most of the people who took them out shouldn't have.

Recent reforms have reduced the costs for reverse mortgages. New regulations have limited the amount of the loan value that a borrower can take out in the first year.

The problems with reverse mortgages came about because they were often given to people who had no other assets, were in debt and really needed to re-think their shelter needs rather than borrow.

The result was that borrowers would take out the maximum amount and then fail to make tax and insurance payments.

This put the lenders in a tough place. But if you are retired, healthy and not dead broke, new research indicates that a reverse mortgage can be what they were hoped to be . . . another tool for managing retirement income and spending.

One thing that contributes to the use of reverse mortgages is that the money borrowed is tax-free, since it is your home equity. Added withdrawals from retirement accounts, on the other hand, can be burdened with high tax rates.

Reverse Mortgage Line of Credit: A 'Powerful' Retirement Tool

Posted By*Jason Oliva*On October 26, 2015 @ 5:01 pm In News,Retirement,Reverse Mortgage | 1 Comment

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The line of credit feature on a reverse mortgage has garnered considerable attention lately for its usage as part of a coordinated retirement planning strategy. And for many people, a reverse mortgage line of credit can be 'the most powerful tool,' according to a recent The Dallas Morning News column.

A reverse mortgage line of credit can be especially valuable for retirees who own a nice house and don't have any debts, but aren't satisfied with their savings as they approach retirement, says syndicated columnist Scott Burns, who is also a principal of the Plano, Texas-based investment firm AssetBuilder, Inc.

"Indeed, if you are looking for a big lever, a reverse mortgage line of credit will be the most powerful tool available for many people," Burns writes in The Dallas Morning News column.

With the help of ESPlanner, a financial planning software for individuals and financial planners, Burns provides several scenarios of fictitious couples and how a reverse mortgage line of credit can bolster their consumption in retirement.

In one scenario, an already retired couple, ages 76 and 77, has a home worth $443,000; savings of $150,000; and $2,000 per month in Social Security benefits. If they decide to "do nothing," Burns says they will have $30,300 a year in constant purchasing power for the rest of their lives.

"But if they take out a reverse mortgage line of credit, their lifetime consumption will rise to $45,700 a year in constant purchasing power," Burns writes. "That's a 50.8 percent increase in the money they can spend on daily living."

In another scenario, Burns notes a couple that recently lost their jobs before they retired. The couple, aged 65 and 67, has $2,000 per month in Social Security benefits; only $70,000 in savings; and own a home worth $200,000.

"If they do nothing, their lifetime consumption will be $20,000 a year in constant purchasing power," Burns writes. "But if they take out a reverse mortgage line of credit, their lifetime annual consumption will be $25,900 a year. That's a 29.5 percent increase."

Reverse Mortgage Line of Credit is 'Best Bet' for Retirement Planning

Posted By*Jason Oliva*On September 21, 2015 @ 6:05 pm In News,Reverse Mortgage | 1 Comment

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As the reverse mortgage industry continues to grapple with the "loan of last resort" reputation, the line of credit feature may be the product's best bet in becoming a serious retirement planning tool in the eyes of retirees and the financial professionals working with them.

Notable changes to the Home Equity Conversion Mortgage (HECM) program, including the Financial Assessment, have arguably made reverse mortgages more sustainable products for borrowers, their non-borrowing spouses and the Federal Housing Administration.

In turn, this has fostered a big push to increase exposure of the reverse mortgage product to the untapped market opportunity of qualified borrowers who would benefit from a HECM. Perhaps even more top-of-mind has been the push to reach financial advisors and educate them on how a reverse mortgage could be a viable supplement to their clients' retirement portfolio.

But while more education still needs to be done to raise awareness of using reverse mortgages in modern-day retirement planning, the line of credit feature could be the ticket to helping the HECM ditch that "loan of last resort" reputation once and for all.

"If you are talking about planning, then yes, that has to be the focus," says Dr. David Johnson, associate professor of finance in the John E. Simon School of Business at Maryville University in St. Louis.

A standby reverse mortgage line of credit can offer borrowers—those who are planning for the long-run and not seeking a last resort—peace of mind in knowing that they will have funds, which grow over time that they can access for a number of reasons, be it to pay for unexpected health emergencies, supplement income or delay drawing Social Security benefits

"Clearly, there are so many different ways you can use that line of credit," he says. "I'm confident that if you do a reverse mortgage and have a line of credit—whether you access it or not—it still changes people's minds and gives them peace of mind knowing they have money that they can access in a short period of time if they need to," Johnson says.

There are so many different ways to use a line of credit, Johnson said during a recent appearance on Savvy Senior Resources...Talking With Experts, a local cable segment in Minnesota, as well as on YouTube, hosted by Certified Reverse Mortgage Professional Beth Paterson of Reverse Mortgages SIDAC that is spreading the word about reverse mortgages to seniors and their adult children.

"It's almost like a nest egg that's going to grow even if you may not need the funds right now," said Johnson, an academic who previously worked as a reverse mortgage originator in the Las Vegas area just prior to the housing crisis.

Johnson is also one of three co-authors of a paper titled "Retirement Trends, Current Monetary Policy, and the Reverse Mortgage Market," which assess the current and future challenges facing retirees, and demonstrates how a reverse mortgage can be used to provide supplemental retirement income.

But he is not alone, as others in the financial planning community have also tackled the topic of the hidden value of the standby reverse mortgage line of credit in retirement planning, and how this feature can benefit borrowers as they prepare to fund their longevity.

"We need to start thinking about and planning what we're going to do in the future, because most of us are going to outlive our assets and if we don't have some alternative, it's going to be much tougher when it occurs," Johnson said in the Savvy Senior Sources segment.

While a reverse mortgage has the potential to help many retirees, a lack of education is still the biggest hindrance to greater utilization.

"There's so much misinformation about reverse mortgages," Johnson says. "People don't realize how creative you can be; how many different ways you can use it; and how it makes sense to set it up now even though you may not need it now, because you can use it in the future."

But what's even tougher is getting people to change their opinions of reverse mortgages.

"You can't force people to become educated," he says. "You can provide different avenues for them to become educated, but it's tough. If someone out there has a strong opinion that there's something wrong about reverse mortgages it's difficult to change their opinion."

"If we can educate them, at least we're making a start," he says. "But we've got to find a way to trickle the message down to get more people to understand it."

New Paper Spells Out Reverse Mortgage Strategies for Financial Planners

Posted By*Jason Oliva*On November 9, 2015 @ 6:49 pm In Data,HECM,News,Retirement,Reverse Mortgage | No Comments

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A recent paper published in The Journal of Retirement offers a comprehensive catalog of the various strategies in which a reverse mortgage can be used in retirement planning today, detailing the effectiveness of these loans in increasing portfolio longevity and spending power for retirees.

The article—authored by Tom Davison, a reverse mortgage blogger and financial planning partner emeritus at Summit Financial Strategies, Inc., and Keith Turner, a reverse mortgage advisor with Retirement Funding Solutions—mainly addresses financial planner working with clients who have an interest in reverse mortgages.

In doing so, Davison and Turner frame the paper around a slew of research from established reverse mortgage researchers such as John Salter, Harold Evensky, Shaun Pfeiffer, who have studied the "standby" reverse mortgage line of credit strategy; as well as Wade Pfau and Barry Sacks, whose respective research has also focused on the use of a reverse mortgage line of credit and the synergies it can produce when used as part of a comprehensive retirement planning strategy.

"Today, there is an evolving understanding of reverse mortgages as a valuable financial planning tool," write Davison and Turner. "Reverse mortgages are now seen as well suited for retirees—not only homeowners who are underfunded and turn to a reverse mortgage as a last resort, but also those who enter retirement well-funded."

Because reverse mortgages do not offer a one-size-fits-all solution, the authors note that it is useful to think of these products as being used differently by three homeowner profiles: individuals whose retirement plans are well-funding, those whose plans are constrained and others who are under-funded.

Those fitting into the "well-funded" description, the authors note, may use a reverse mortgage line of credit as a standby or emergency fund; their Monte Carlo success rate is high (over 85%), indicating they may rarely face a spending shortfall during retirement.

Meanwhile, constrained clients are those who typically have Social Security or a pension and a "medium-sized" investment portfolio. This group, according to the authors, has a Monte Carlo success rate ranging from 65% – 85%, indicating higher chances they will need to cut future spending due to underperforming financial markets.

"Their plan may have no cushion to absorb unplanned-for events such as higher medical costs or greater longevity," write Davison and Turner. "Constrained clients may especially benefit from using a reverse mortgage in concert with their investment portfolio or other assets."

Lastly, there are under-funded clients—those who may need cash flow immediately and may obtain a reverse mortgage as a last resort only after exhausting all of their other resources. This group's Monte Carlo success rates are low, perhaps 60% or less.

"These clients may have the greatest need for a reverse mortgage," the authors write. "However, it can be demonstrated, using Monte Carlo simulation, that under-funded retirees with home equity that is equal to, or greater than, their relatively low level of invested assets can gain a tremendous boost from the use of an RMLOC [reverse mortgage line of credit]. The challenge may be to maintain a strong financial discipline and to use the reverse mortgage judiciously to their greatest long-term advantage."

An important conclusion of the article is that reverse mortgages can help with a retiree's three basic concerns: enhancing sustainable spending, serving as an emergency fund, and even boosting estate sizes, according to Davison and Turner.

"Overall, the major positive surprise is the value reverse mortgages can add to the lives of retirees, both those who already look forward to a satisfying retirement and those who are not as well prepared financially but will make it through," Davison and Turner write. "This bodes well for a country with a rapidly expanding and aging retiree population."

ROBERT C. MERTON

has been called a groundbreaking economist, an options guru and one of the finest minds in finance. For those in tune to the finance world, Merton is as high-profile as it gets.

A sought-after speaker on the investor circuit, Merton caught the attention of the crowd at an asset management conference in St. Louis last fall when he commented on the value of reverse mortgages. "Americans have wrongly steered clear of reverse mortgages," he said. "This is going to become one of the key means of funding retirement in the future."

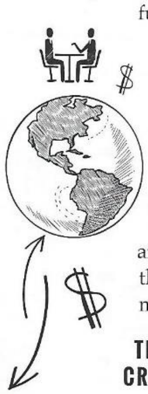
Merton's advocacy of reverse mortgages coincides with support from other leading academics and financial experts. It just might signal the beginnings of a shift in public opinion. Certainly, support from someone as influential as Robert Merton is a tremendous boost for reverse mortgages, one that might help elevate the product in the financial community, in the press and in the public eye.

WHO IS ROBERT MERTON?

Robert Cox Merton is a longtime student of economics. He holds a B.S. in engineering mathematics from Columbia University, an M.S. in applied mathematics from the California Institute of Technology and a Ph.D. in economics from MIT, in addition to honorary degrees from 13 universities. (Merton's father, a prominent sociologist, was also a noted academic, known for pioneering the focus group and coining the terms "role model" and "self-fulfilling prophecy.")

In 1997, Merton was awarded the Nobel Prize in Economics for his work in developing a new method to determine the value of derivatives. His options-pricing method, the Black-Scholes model, has been labeled one of the most revolutionary concepts in modern finance.

Nowadays, Merton sits on the faculty at MIT's Sloan School of Management, serves as a professor emeritus at Harvard University, and is a resident scientist at global asset management firm Dimensional Fund Advisors. His current research includes a focus on lifecycle investing and retirement funding solutions, a topic that has led him to assess the benefits of home equity conversion. His work takes him around the world, where he speaks before groups of riveted followers and sometimes extols the reasons why reverse mortgages have such value.



THE GLOBAL RETIREMENT CRISIS

According to Merton, home equity conversion stands to play a key role in solving the retirement crisis—a problem that plagues countries around the world, not just the U.S.

The global financial crisis that exploded in 2007/2008 depleted savings for many and volatile markets prevented a significant rebound. Add to this a dramatic increase in the 65-plus population and increasing life expectancies around the world, and it's clear that the world economy is experiencing pressure like never before. Faced with an aging population, government benefits and pension plans in many countries are stifled as resources once earmarked for retirement funds are being funneled toward health care and other services to accommodate aging.

"The world is getting older," Merton says. "With our baby boomers in the U.S., we are an older society. China is aging even faster than the U.S., and Korea faster than China. Increasing demographics is putting pressure on funding."

This means that the traditional three-legged stool of retirement funding—government benefits, employer pensions and personal savings—is getting awfully wobbly. It appears that now, the responsibility to fund retirement has mostly shifted to the individual.

RETHINKING RETIREMENT

But the picture is not entirely bleak, as Merton points out. "There is good news, and I underscore, it is very good news: Future generations are going to live longer. This is great. But, as with many good things, there comes another challenge, which is simply how to fund those extra years."

If you live 10 years longer than your parents, but still want to retire around 65 as they did, you now have to save enough to support 20 years of retirement, Merton points out. "The only way you can do that is to save 33 percent of your income."

If saving more during your working years proves impossible, the alternative is to alter your lifestyle in retirement. ▸▸

GOING TO THE SOURCE

"The world is getting older. With our baby boomers in the U.S., we are an older society. China is aging even faster than the U.S., and Korea faster than China. Increasing demographics is putting pressure on funding."

"If you want to work the same number of years your parents did, fine, but you'll have to accept a lower standard of living," he says. "If you want to have the same standard of living as your parents, you can have 12 years of retirement—they only had 10—but you have to work 48 years, not 40."

Basically, Merton says it boils down to this: "You either have to work longer or accept a lower standard of living. What you can't do is work the same number of years as your parents, live longer and enjoy the same standard of living. That's not feasible."

FINDING A SOLUTION

For those who can't work longer or save more, Merton draws attention to another solution.

"There is one more thing we can do to try to address the challenge, and that is to take the assets people have and get more benefits from those assets. Now, I don't mean get higher returns; we're already trying to get the highest returns on our investments that we can for the level of risk, we can't just dial up the return… So how do we get more from the assets? Well, we use them differently and we develop tools that are efficient for doing that."

One specific asset that needs to be tapped, says Merton, is the house.

"There's no magic potion here. For working middle-class people, the biggest asset they have is not their retirement pension, it's their house. And it's typically the only major asset they have, but it is big. I'm talking about the house they want to live in in retirement."

Merton says we need to start thinking about the house differently, viewing it as an asset rather than treating it as part of our legacy.

"The house is like an annuity: It provides the housing you need for as many years as you need it," he says, adding that the idea of leaving the house as a bequest is flawed. "In our society, and even in Asian societies that are transforming from agrarian to industrial, the children don't move into the house. No matter how precious the house is, how sacred, in any culture, in the end when you don't need it anymore, it's going to get sold, and that makes it a financial asset. So it's an annuity while the retiree needs it, and then it becomes just a financial asset."

> **"The house is like an annuity: It provides the housing you need for as many years as you need it."**

OVERCOMING OBSTACLES

While Merton praises the concept of a reverse mortgage, he takes issue with the name itself, which he says has hindered the product's acceptance.

"I hate the name. First of all, it's misleading because saying it's a mortgage makes it sound like it's a loan. But with reverse mortgages, you don't pay anything as long as you stay in the house. So it's a very different animal. It also sounds like you're leveraging your house."

Merton points out that other countries with similar equity conversion programs have much better names. "In England they call it equity release, that's a little more neutral. I like the Korean name; they call it a home pension. It's more descriptive. The house itself provides you a pension, and the home pension allows you to take some of the value from the house to provide you additional pension. It doesn't say anything about a mortgage or imply that you may owe money."

Merton admits that confusion about the product is problematic, and says the HECM program as it currently stands may need some tweaking to help the product reach its full potential.

"We also have to educate people as to the proper use of them and in general make them much more efficient," he says.

"You hear some people say reverse mortgages are bad, but I think what they may mean is the way that they are currently being produced and sold, and the cost associated with them, is not a good example of the product," he says. "I think that's what they mean, but people hear it as, 'Reverse mortgages are not a good idea and we should ban them.' I say that a reverse mortgage is a good idea, but maybe we need to fix the design a bit. Let's fix it if we need to, but don't get rid of it."

Merton says making product improvements, which have already taken place with recent changes from HUD, is a large but feasible undertaking.

"It's going to require a lot of hard work and innovation, which we know how to do. It's a simple engineering problem," he says, adding that he doesn't believe a government-sponsored program is the right way to go.

"There's going to be a need to find wide-based funding sources, and I don't believe government is the answer. HECMs are about the only reverse mortgages out there, and it's a government plan, but government balance sheets just aren't big enough," he says. "We have to find very efficient ways to provide the funds for the reverse mortgages, but we can do it."

GLOBAL ACCEPTANCE

Merton predicts that home equity conversion—whether it's called a home pension, an equity release or a reverse mortgage—is going to be a crucial part of solving the retirement income problem.

"I believe it is going to be essential for a good retirement around the world. In Asia, they are paying a lot of attention to it, they are working on it. There is a lot of interest in developing it in many countries. Even in Colombia and Latin America, where they don't have a reverse mortgage, they are very interested in finding out about it."

"Sooner or later, to have a decent retirement, a number of people are going to have to tap into this. It's not a matter of choice. This is going to be an essential part of the foundation for funding retirement around the world."■


Jack M. Guttentag Become a fan
Professor of Finance Emeritus at the Wharton School of the University of Pennsylvania

Is a HELOC Better Than a HECM?

Posted: 10/16/2015 9:22 am EDT | Updated: 10/16/2015 9:59 am EDT

Where they overlap in meeting the needs of consumers, I could find only one situation where the HELOC might work better than a HECM. In all other situations where both could be used, the HECM worked better for the borrower. In addition, the HECM can be used for purposes that the HELOC cannot touch at all. The downside of the HECM is that you must be 62 to qualify.

Definition of HELOC

HELOC stands for home equity line of credit, or simply "home equity line." It is a loan set up as a line of credit for some maximum draw, rather than for a fixed dollar amount. For example, with a $150,000 HELOC, the borrower receives the lender's promise to advance up to $150,000, in an amount and at a time of the borrower's choosing.

HELOCs have a draw period, during which the borrower can use the line, and a repayment period during which it must be repaid. Draw periods are usually 5 to 10 years, during which the borrower is only required to pay interest. Repayment periods are usually 10 to 20 years, during which the borrower must pay off the entire balance. HELOCs can be first mortgages or second mortgages, which the lender typically retains in its portfolio without insurance.

Definition of HECM

HECM stands for home equity conversion mortgage, because it is designed to allow elderly homeowners who have equity in their homes to convert some or all of it into spendable funds. They can draw the funds at closing, intermittently as needs arise, or in the form of monthly payments for as long as they reside in the house or for any specified shorter period. Repayment of a HECM is not required until the borrower dies or moves out of the house permanently. To qualify for a HECM, however, borrowers must be 62 or older. HECMs are always first mortgages, are insured against loss by FHA, and are almost always sold by the lenders originating them.

HELOC Credit Line Versus HECM Credit Lines

Credit Line Differences: Both HELOCs and HECMs provide borrowers with credit lines using adjustable rate mortgages. Upfront fees are substantially lower on the HELOC, but the HELOC borrower must pay interest on line usage immediately and must repay the entire balance within the repayment period. In contrast, HECM borrowers who draw on credit lines are not obliged to make any payments so long as they reside in the house.

There are also important differences in how credit line amounts change over time. With a HECM, the portion of the credit line that is not used grows month by month at the interest rate on the HECM. The lender has no discretionary control over this process. With a HELOC, in contrast, the amount of the initial line does not change unless the borrower can negotiate an increase, which is uncommon. But lenders reserve the right to freeze lines that have not yet been fully used, and they do so when adverse information emerges about the borrower's credit or the market in which the borrower is involved. These differences affect how the different lines can be used for various purposes.

Meeting Intermittent But Temporary Expenses: A borrower 62 or older faced with the need to finance outlays that will occur intermittently over future months -- financing additions to a home, for example -- can finance them with either a HELOC credit line or a HECM credit line. In both cases, they will be borrowing with an adjustable rate mortgage that exposes them to the risk that interest rates will rise during the draw period.

If the borrower intends to repay the balance shortly after the outlays have been completed, the HELOC probably will be more cost-effective, because the initial interest rate and upfront fees are lower. However, over extended periods borrowers are more exposed to interest rate increases on HELOCs because rate maximums are higher and there are no rate adjustment caps as there are on HECMs.

Managing Fluctuations in Income: Both HELOCs and HECMs can be drawn against when income is low, and repaid when income is high. With a HELOC, however, this can be done only during the draw period.

Protecting Against Adverse Future Contingencies: Because unused HECM credit lines grow over time, they provide insurance against a wide range of adverse contingencies, including loss of pension income resulting from the death of a spouse, and exhaustion of the financial assets that were supposed to last a lifetime but didn't. HELOCs don't have this capacity.

Other Uses of HECMs That Are Not Available With HELOCs

With a HECM you can buy a house and not repay the mortgage used to finance the purchase so long as you live there. You can't do that with a HELOC.

With a HECM you can supplement your monthly income by borrowing a set amount each month, with no required repayment for as long as you reside in the house. This is called a "tenure" payment if it continues for as long as the borrower resides in the house, and a "term payment" if it terminates after a specified period. Neither is available on a HELOC.

You can explore all the HECM options applicable to your personal financial situation using my **Reverse Mortgage Calculator**.

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MORE: HECM Reverse Mortgage Housing Crisis Reverse Mortgage

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