



**Reverse Mortgage;  
Myth vs. Reality**  
1 Hour Course Program ID # 201772  
Complexity: Intermediate

Presented by  
**American C.E. Institute, LLC.**



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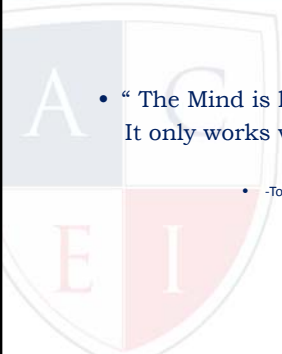
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**Something to think about...**

- “ The Mind is like a parachute....  
It only works when it is open.”
- -Tony Robbins



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**Is the Reverse Mortgage a Product of  
Last Resort?**

- Or is it a viable option as a component in an  
overall and more comprehensive retirement  
plan?
- You decide...



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### Short History of Reverse Mortgages

- 1961- 1985 – Mostly “proprietary products” were sold with little to no regulation
- 1986 – AARP enters the reverse mortgage arena and develops the “Home Equity Information Center”
- 1987- The U.S. House Ways and Means Committee hears testimony on the relationship of long term care and reverse mortgages



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### History Continued

- 1988 – Many consider this year as the birth of today’s generation of reverse mortgages as President Reagan signed the FHA Reverse Mortgage Insurance legislation into effect
- Later in 1988 – Fannie Mae announces it’s intention to start purchasing reverse mortgages
- 1990’s – This decade sees large banks enter the reverse mortgage industry as the product goes from regional to national



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### History Continued... 2001-2007

- The Reverse Mortgage emerges from obscurity to huge popularity as major banking institutions such as Countrywide, Financial Freedom, Bank of America, Wells Fargo and Met Life join the industry
- HUD introduces Uniformed National Loan Limits
- The Fixed Rate Reverse Mortgage is introduced



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**History continued  
2008 - present**

- The “great recession” implodes the real estate and mortgage industries nationwide.
- All the major investors mentioned on the previous slide withdraw from the reverse mortgage industry
- New giants emerge as new government regulations make it extremely difficult for banks to remain in the mortgage industry
- As new national players emerge the reverse mortgage itself evolves




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**Reverse Mortgage Myths**

1. The lender actually owns my home.  
False – a lien is filed as with any other mortgage. The client still retains full control of the property.
2. The lender will ultimately take title to my home...  
False. Home owner will remain on title and maintain all ownership rights & benefits as with any other mortgage.
3. I’m going to owe more than the house is worth?  
Possible but depends on many circumstances. Please note a Reverse Mortgage is a non-recourse loan, which means that you and/or your heirs are not personally liable for the loan if it exceeds the value of the home.




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**Reverse Mortgage Myths**

4. The children will lose their inheritance.  
An amortization table is presented to the client at application showing the projected amount of equity in the property each year. All remaining equity in the home after the Reverse Mortgage is satisfied goes to the heirs.
5. Heirs (Children) are against their parents securing a reverse mortgage  
False. Nothing could be further from the truth. Today’s “sandwich generation” places their parent’s quality of life above their inheritance!




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### Reverse Mortgage Facts

6. The costs of this loan are too high.  
False. The Reverse Mortgage is a government insured loan. The costs are similar to any other government endorsed mortgage product, such as FHA and VA loans.

7. Rights of the surviving borrower  
The surviving borrower has the option of remaining in the home until they pass or choose to sell the home and still make no monthly P&I payment. Or of course, they can choose to sell the home.



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### Reverse Mortgage Facts

8. Disposition of home after last borrower dies.  
The lender is notified of the borrowers passing. Once the death is confirmed a letter is sent to all known heirs. At this point the Heirs/Estate are given two choices: Sell the home or pay the debt in full\*

9. Is this truly a “non-recourse” loan?  
YES! The Heirs or Estate are guaranteed they can never be obligated to repay the debt if they choose to relinquish ownership.

\*In addition, if they choose to keep the home they can never be obligated to pay more than 95% of the present value of the home!



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### Flexible Payout Options

- Lump sum, all at once
- Line of Credit
- Payment for Life (Tenure)
  - Term payments
- Combination of the above



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### Who Is Eligible for a Reverse Mortgage?

- ▶ Clients over age 62
- ▶ Principal residences
- ▶ SFH up to 4 units
- ▶ Existing liens OK



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### Types Of Reverse Mortgages

- FHA HECM  
(Home Equity Conversion Mortgage)
- Government Insured
- Fixed Rate & Adjustable



- HECM for Home Purchase
- Designed for Downsizing or Relocation
- Maintains Maximum Liquidity



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### H4P – Is It the “Sleeping Giant” of the Senior Real Estate Market?

- Millions of seniors have had their retirement plans affected negatively due to losses taken in their portfolio these past several years
- Add to this the value of their present home decreasing 30-50%
- Add to this record low rates of returns on CD’s, Annuities and Savings



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### H4P Example 1- Cash Buyer

- Both Borrowers are age 65
- Purchase Price - \$500,000
- Funds Required from Borrower - 261,902
- Funds from Reverse Mortgage - 271,000
- Results
- Borrowers purchase \$500,000 retirement home
- Retain liquidity of \$238,098.00
- No monthly P&I payment for as long as one of the borrowers remain in the home
- \*Rate based on 4.99% fixed rate program and subject to change without notice
- \* Amount borrowed is based on age of youngest borrower, interest rate and purchase price



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### H4P Example 2 Comparison with Standard Mortgage

- Both Borrowers Age 65
- Purchase Price - \$500,000
- Down Payment - 261,902
- Mortgage Amount - 271,000
- 30 Year Mortgage @ 4.50% - \$ 1,373.12
- Annual Payment - \$ 16,477.44
- 10 Year Cash Flow Savings - \$164,774.40
- 20 Year Cash Flow Savings - \$329,548.80



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### What Are The Borrower's Responsibilities?

- Keep taxes current
- Homeowner's Insurance
- Maintain the property



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### When Does A Reverse Mortgage Come Due?

- Permanently ceasing to live in property
- Selling the property
- Last remaining borrower passes away



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### Reverse Mortgages and the Long Term Care Industry

- LTCI Industry
- In Home Care Industry
- Moving to a Facility vs. Staying at Home
- Average Cost of living at a Nursing Home
- Soars to \$80,000

\*<http://money.cnn.com/2013/04/09/retirement/nursing-home-costs/index.html>



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### Effects on Social Security Medicare and Medicaid

- No effect what so ever on Social Security
- No effect what so ever on Medicare
- Securing a Reverse Mortgage can have a devastating effect on Medicaid if not done with the assistance of an Elder Care Attorney



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**The Reverse Mortgage:  
An Entirely New Facet  
of Retirement Planning**



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**A Senior's # 1 Fear  
Outliving Their Savings**

- As Incredible as this sounds it is true:
- Death Has Moved to #2!
- In an AARP survey of people ages 44-75 :
- 39% listed death as their #1 fear
- 61% Listed running out of money!

[http://www.aarp.org/work/retirement-planning/info-06-2010/running\\_out\\_of\\_money\\_worse\\_than\\_death.html](http://www.aarp.org/work/retirement-planning/info-06-2010/running_out_of_money_worse_than_death.html)



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**American C.E. Institute's Position  
Concerning Financial Products**

- Funds are not to be used for the intention of funding investments!
- Funds should only be utilized to improve clients quality of life or preserve assets:
- Provide Supplemental Retirement Cash Flow
- Enhanced Retirement Lifestyle
- Purchase Long Term Care
- Protect Estate
- Increase Estate Value



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### HERA – The Role of Government

- Unified National Loan Limits - \$635,150
- (This is our maximum claim amount)
- Cap on Origination Fees
- Cross Selling of Insurance Products
- Using Reverse Mortgage Proceeds




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### Why Reverse Mortgages? Why now?

Studies show:

- We are all living longer!
- Seniors want to stay in their home!





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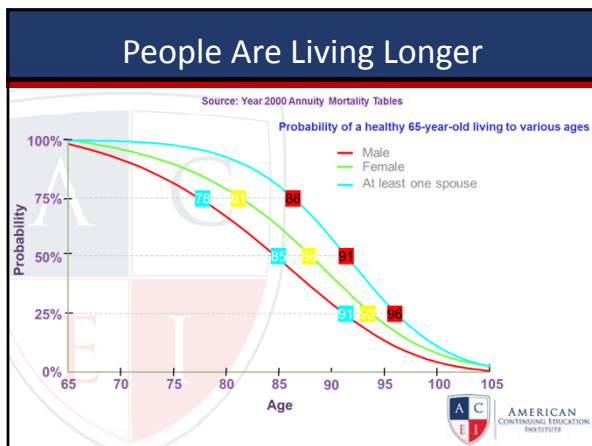
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### Possible Uses of a Reverse Mortgage

**Cost of Living:**

- Health Care
- Taxes
- Insurance
- Transportation
- Utilities



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### Possible Uses Continued...

Home modifications are costly

- New roof
- Remodeling
- Upgrades
- And more...



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### Possible Uses Continued...

- Travel
- Living Expenses
- Emergency Fund
- Pay Off Credit Cards



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**Wealthy Retirees**



(Those \$1 million+ estates)

**Many Are facing income shortfalls!**





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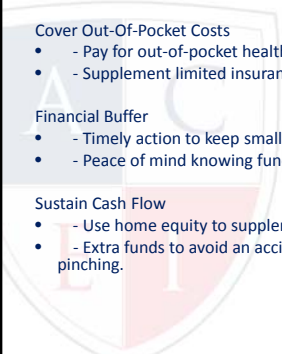
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**Reverse Mortgages Can Enhance Financial Resilience**



**Cover Out-Of-Pocket Costs**


- Pay for out-of-pocket health and disability expenses.
- Supplement limited insurance coverage.

**Financial Buffer**

- Timely action to keep small problems from becoming a crisis.
- Peace of mind knowing funds are available for emergencies.

**Sustain Cash Flow**

- Use home equity to supplement monthly income.
- Extra funds to avoid an accident or illness due to penny-pinching.




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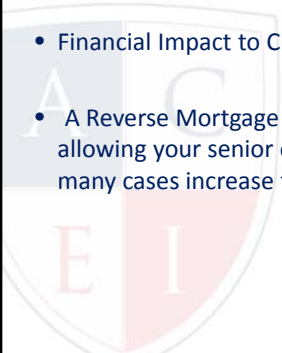
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**Reverse Mortgages As An Estate Planning Tool**



- **Financial Impact to Client:**
- A Reverse Mortgage has the impact of allowing your senior client to maintain or in many cases increase their quality of life...




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### A Simple Process

- Schedule appointment.
- Visit with a reverse mortgage specialist.
- Family and friends are encouraged to attend.
- Receive HUD counseling.
- Counseling session will last 30-45 minutes
- Reverse mortgage is originated
- Processing commences
- Receive loan approval
- Close loan in approximately 30 - 45 days.
- (3 day rescission period prior to funding)



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### For Further Information Contact

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