Reverse Mortgages

Milking Your Cash Cow?

By James P. Ruth

If you're like most Baby Boomers, your home is your castle. Thirty years of faithfully making mortgage payments is proof of that. However, for some it's also a strategic piece of their retirement planning puzzle offering a stream of guaranteed lifetime funds or other cash and income options. So, castle or retirement plan, it makes no difference. Either way, milking your cash cow could be a valuable financial strategy to keep in your hip pocket – just in case.

Leave it to the Kids?

First of all, you need to get over the guilt of a Reverse Mortgage (RM). Many Boomers feel there's something sacred about leaving the family homestead to the children. Truth be told, it's just another asset. And remember this: ***The best gift you can ever give your children is the knowledge that you will never be dependent on them for financial support.*** If your home allows you to deliver that gift, they will be more appreciative than you can ever imagine.

Step-Child?

Twenty years ago, RMs were the step-child of the mortgage industry. There was little media advertising and negative articles appeared in the press regularly. If you wanted one, you had to ask. Today, that's no longer true. The Center for Retirement Research at Boston College says, *"Accessing home equity will become increasingly important in a world where retirement needs are expanding. People are living longer and face rapidly rising health care costs…"*

The New York Times put it this way, *"Many baby boomers will need to consider how their homes – and the value locked inside – will help finance their retirement years."* RMs have steadily grown in use and acceptance and are now full-fledged members of every mortgage lenders portfolio.

How it works

With a forward mortgage, you usually pay the bank for 30 years. A RM is similar a forward mortgage - only shifted into reverse. It's like annuitizing the equity in your home to provide a stream of monthly income (or a lump sum or line of credit). But, here's the difference: Your previous mortgage payment ***to*** the bank transforms into tax free monthly cash flow ***from*** the bank. And, with a HECM mortgage, the government assumes some of the risk. If the bank ever pays you more than the home's residual value plus accumulated interest, neither you nor your estate are ever on the hook for the negative equity. However, if you live only a short time, any residual equity is yours (or your estates) to keep.

Borrower Eligibility

If you are a homeowner and are currently living in your home, you may be eligible to participate in FHA's Home Equity Conversion Mortgage (HECM) program. Here are the basic requirements. You must:

- Be 62 years of age or older
- Own the property outright or paid-down a considerable amount

- Occupy the property as your principal residence
- Not be delinquent on any federal debt
- Have financial resources to continue to make timely payment of ongoing property expenses such as taxes, insurance and Homeowner Association fees, etc.
- Participate in a consumer information session given by a HUD-approved HECM counselor

The amount you can borrow is based on three factors:

1. The age of the youngest borrower,
2. The current interest rate, and
3. The appraised value of your home.

You can search online for a FHA-approved lender or you can ask the HECM counselor to provide you with a listing.

Property Requirements

To be eligible your home type must meet the following description as well as all other FHA property standards and flood requirements:

- Single family home or 2-4 unit home with one unit occupied by the borrower
- HUD-approved condominium project
- Manufactured home that meets FHA requirements

Borrower Options

With senior homeowners holding more than $7 trillion of equity in their homes, it's no wonder many are considering liberating some of the cash sitting in this dormant asset to meet retirement expenses. Harvard University reports that nearly 40% of seniors age 65 or better are still paying on a traditional mortgage. Many RM borrowers use the proceeds they receive to retire their current mortgage, using the liberated cash flow to maintain or improve their retirement lifestyle.

Others just like the idea of having a line of credit they can draw on at a later date, if or when they need it. So, whether you need extra cash to pay off the mortgage, repay mounting debts, make home improvements or pay for healthcare expenses, under the right circumstances, tapping the equity in your cash cow could make sense. Listed below are the seven REM options currently available under the HECM rules:

Option	Description	Payments Stop
Tenure Payments	Offers borrower(s) a **fixed monthly payment as long as the owners live in the home** as their primary residence. The amount received will not decline even if the home decreases in value.	Payments stop only when the borrower(s) permanently leaves the home or dies.
Term Payment	Offers borrower(s) a **fixed monthly payment for a specified period of time**. The amount received will not decline even if the home decreases in value.	Payments stop at the end of the specified period of time or when the borrower(s) permanently leaves the home or dies.
Line of Credit (LOC)	Offers borrower(s) a **standby line of credit** to be accessed only when funds are needed. An important feature of the LOC is that the unused portion grows over time. The growth feature is not from interest earnings, but rather takes into consideration that you are a year older and your home has appreciated in value.	Line of credit or loan stops when the borrower(s) permanently leaves the home or dies.
Modified Term & Line of Credit	Offers borrower(s) a **combination of a line of credit and fixed monthly payments for a specified period of time**.	Income, line or loan stops when the borrower(s) permanently leaves the home or dies.

Modified Tenure & Line of Credit	Offers borrower(s) a **combination of a line of credit and fixed monthly payments for as long as borrower lives in the home**.	Income, line or loan stops when the borrower(s) permanently leaves the home or dies.
Single Lump Sum	Offers borrower(s) the opportunity to take a **single lump sum disbursement of cash** for any reason (home improvement, etc.).	Loan stops when the borrower(s) permanently leaves the home or dies.
For Purchase	Offers borrower(s) the chance to **downsize and purchase a new home outright with no monthly mortgage payments**.	Loan stops when the borrower(s) permanently leaves the home or dies.

Monthly Cash Flow & Line of Credit Estimates - Tenure Payments

The following chart illustrates on a *net* basis, various ages, loan amounts, fixed monthly cash flow and line of credit (LOC) amounts available for a $500,000 home with no outstanding mortgage. If your home is worth $250,000 the numbers would be about 50% of those indicated. For borrowers who want both monthly cash and a LOC, the numbers would be less than those illustrated below.

$500,000 Home Value – No Mortgage - HECM Annual LIBOR

Your Age	Loan Amount	Monthly Cash Flow	Line-of-Credit (LOC)
65	**$233,855**	**$1,061**	**$137,999**
70	**$249,855**	**$1,220**	**$158,999**
75	**$261,855**	**$1,409**	**$158,999**
80	**$280,355**	**$1,726**	**$158,999**

Source: NRMLA calculator; The *net* amounts indicated are the maximum available after loan origination fees, mortgage insurance and other closing costs.

A calculator for RMs can be found on the National Reverse Mortgage Lenders Association's (NRMLA) website www.reversemortgage.org/About/Reverse-Mortgage-Calculator/

Proprietary Reverse Mortgage

A newer variation on the traditional RM theme is called a Proprietary Reverse Mortgage (PRM). Companies offering these mortgages are privately insured (not by FHA) and are not subject to all the same regulations as HECMs. However, most PRM companies follow the same consumer protections that are found in the HECM program, including mandatory counseling.

PRMs are for senior homeowners whose properties are ineligible for FHA financing:

- Units in non-FHA approved condominiums, or
- Planned unit developments (PUDs), or
- Home values that exceed $1 million.

These loans are sometimes referred to as "jumbo" reverse mortgages because the borrowers may be eligible for more proceeds than they would be with an FHA-insured HECM.

The following is a sampling of companies offering PRMs from a list provided by the National Reverse Mortgage Lenders Association (NRMLA):

- Finance of America Reverse, based in Tulsa, OK. Phone: 855-421-4745
- Liberty Home Equity Solutions, based in Rancho Cordova, CA. Phone: 866-497-6746
- Longbridge Financial, based in Mahwah, NJ. Phone: 855-523-4326
- Nationwide Equities, based in Mahwah, NJ. Phone: 866-312-4370
- Reverse Mortgage Funding LLC, based in Bloomfield, NJ. Phone: 877-485-1359

**** Note: The author receives no compensation of any type from the above mortgage companies or the National Reverse Mortgage Lenders Association (NRMLA).***

Risks & Disadvantages

Like any financial product or strategy, there are pros and cons which should be discussed with the appropriate financial professionals before making a decision. Safeguards instituted in 2013 make it more likely that a borrower won't get into trouble down the road: Things like not being able to take all of their home equity at once and protection for non-borrowing spouses.

However, borrowers can still face certain risks like investing their equity proceeds in stocks and later suffering losses or spending RM proceeds frivolously. The problem is not the product, it is how the product is sometimes used or abused that can lead to difficulty.

Seniors need to make sure they still have the ability to pay property upkeep expenses including taxes, utilities, insurance and maintenance. Additionally, since RM fees and expenses are larger than those with a traditional forward mortgage, extra care should be exercised before signing on the dotted line.

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