The Reverse Mortgage Solution…

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…For Today's Seniors

Dave Hershman

- Speaker(s) introduction page

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Our Goals Today

- What is a Reverse Mortgage?
- Reverse Mortgage Evolution
- Why Are They So Popular Today?
- The Dilemma
- The Solution
- Opportunities For Realtors
- What It Means For Seniors
- Marketing Reverse Candidates

Feel Free To Ask Questions

What Is A Reverse Mortgage?

In the word's of national expert: Sue Haviland….

A reverse mortgage is a unique loan that allows borrowers age 62 years and over to tap a portion of the value of the home, use those funds for practically any purpose, and never make a payment as long as the home is the primary residence.

Reverse Mortgage Evolution

- 1961: First reverse mortgage.
- Started very slowly during first decades.
- Available through Federal Housing Administration (FHA) as "Home Equity Conversion Mortgages" (HECM)—Section 255.
- Fannie Mae also had a reverse program, "HomeKeeper," but the program was discontinued in 2008.
- 2008: FHA added the ability for lenders to offer a fixed mortgage rate for reverse mortgages in 2008.
- 2008: FHA introduced the Reverse Mortgage Purchase Program.
- 2009: The Economic Stimulus Act extends national reverse mortgage limits to $625,000 until December 31, 2011.
- 2010: FHA introduces the HECM Saver. Lower up-front premium costs.

Why Are Reverse's So Popular?

Despite the general real estate "slump" because of the aging of America and the need for older Americans to keep up with rising costs, Reverses have flourished.

The Numbers

The older population--persons 65 years or older--numbered 39.6 million in 2009 (the latest year for which data is available). They represented 12.9% of the U.S. population, about one in every eight Americans. By 2030, there will be about 72.1 million older persons, more than twice their number in 2000. People 65+ represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.

….Administration on Aging

The Dilemma

The Senior Citizens League said older Americans have lost 32% of their buying power since 2000. This is because the Social Security Cost of Living Adjustment has gone up just 31% since that year, while typical expenses have jumped 73%. This data is from the group's Annual Survey of Senior Costs. The study noted that homeownership costs have increased between 2000 and 2011 by 32%, while apartment rental costs over the same time frame are up 39%. The cost to keep their home warm has skyrocketed in the time frame. To put it in perspective, for every $100 worth of expenses could afford in 2000, they can afford just $68 today." ….SourceMedia

The Solution

- Millions of older adults are "house rich but cash poor."
- They own their homes, but their annual income makes it difficult — or impossible — to make ends meet or get the care they need.
- The good news is that more than 13 million older adults have equity in their homes that they could use to help them stay independent. ….National Council on Aging

For example, the cost of long-term care insurance has skyrocketed along with health care costs.

Now There Are Two Solutions

1. Help Seniors Keep Their Home.

2. Help Seniors Downsize and Purchase a Home.

   But still preserve capital with no monthly payment.

What It Means For Realtors

Opportunity

- A growing segment in need.
- You can fill that need.
- Typical reverse purchase mortgage typically has two real estate transactions:
  - Sale* of present home; and
  - Purchase of new, downsized home.
- Very little competition in this segment.

*note that senior could purchase without selling their present home **IF** they have the required down payment. This would be fairly rare.

Older American's Fear?

The Mortgage Process!

a. No income questions
b. No asset questions
   (except down payment)
c. No credit criteria
d. Most of all: No monthly payment

….And no health questions!

Senior must participate in a consumer information session given by an HUD-approved counseling agency or HECM counselor.

What Determines Payment?

- The age of the youngest borrower.
- Their Loan-to-Value
  - Property appraised value or sales price (which ever is lower).
  - Size of mortgage.
  - Difference is downpayment
  - Selection of “Regular” or “Saver” Program.
- Current interest rate (similar to “regular” mortgage rates).
- If a refinance---
  - No down payment, using equity in home.
  - They can take money as monthly payment, lump sum or line of credit (or a combination of the three).

What Is The HECM Saver?

- This program reduces the FHA up-front mortgage insurance premium from 2.0% to a nominal amount (.01%).
- The monthly mortgage insurance premium is the same for both programs: 1.25%.
- However, the amount that can be borrowed for the Saver Program will be reduced, which means that the monthly payment received for the Saver program will be less as well.

Example

From BankRate.com…

Julia is a 72-year-old who wishes to sell the home, worth $450,000, she owns free and clear in Ohio and wishes to downsize to a smaller home in Florida for $185,000, to be closer to her children and grandchildren. She decides to use the HECM for Purchase Program to buy her new home and will have more money left over than if she used a straight purchase transaction.

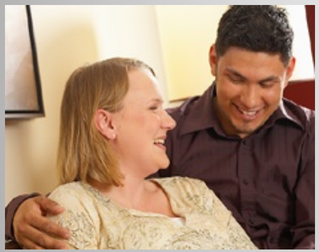
After she sells the house in Ohio, she can buy the Florida home using a $116,000 reverse mortgage and $69,000 cash. Now she owns the house in Florida and does not have to make any mortgage payment and has the $381,000 remaining from the sale of the Ohio home to invest, giving her extra income.

Another Benefit

- An additional benefit to the "for purchase program" is that the senior can't outlive the loan because they can never owe more than the value of the home at the time the senior or your heirs sell the home. When the home is sold, the senior or the estate will repay the cash received from the reverse mortgage plus interest and other fees to the lender. Any remaining equity belongs the senior or heirs.
- If the borrower defaults, the lender's recovery is limited to the sale value of the house. For example, if real estate values have declined at the time the loan comes due, and the home no longer is worth as much as the amount loaned, the FHA pays the lender the amount of the shortfall.

Marketing Reverses

- Statistically? Look for homeowners who have been in their home for a long time. They are more likely to have equity in their home and be within the age range.
  - Condos need to be FHA approved.
- Financial planners and CPAs who specialize in helping elderly clients.
- Attorneys, especially those who specialize in living trusts, estate planning, elder law---even bankruptcy attorneys.
- Insurance, especially those who sell long-term care policies.
- Senior organizations: local chapters of the AARP; National Association of Retired Persons; local Council on Aging. Alumni associations; employee associations such as State Employee/Retirement Systems -- **Present seminars such as this one.**
- Religious institutions. They know of those who are in need.
- Home improvement contactors—many don't have the money to improve their home.
- Doctors who specialize in geriatrics.



The Ultimate Question—

Does anyone think they can use this program help someone they know and increase their transactions?

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Ready For Questions?