Misconceptions about Reverse Mortgages

Steve Cox
Retirement Mortgage Planner
Fairway Independent Mortgage Corporation
MLS#11381

What are the common misconceptions?

- The bank gets your home
- It is a last resort option
- Heirs get stuck with a bill
- I might outlive the reverse mortgage
- Reverse Mortgages are expensive

FALSE

What are the misconceptions?

- Not free to sell my home
- Many people default or get foreclosed upon
- My spouse gets kicked out of the home
- Nothing to leave the kids
- Not eligible for since I still owe on my home

FALSE

The bank gets your home *Debunk #1*

- You or your estate continue to retain control of homes title
- Simply a lien against the property just like any mortgage obligation
- Free to sell the home at any time
  - NO pre-payment penalty

It is a last resort option
Debunk #2

“NEED” Borrowers (pre-2013)	**“PLAN” Borrowers (post-2015)**
Typically, older	Often younger, closer to 62
House-rich, cash poor, and need cash	May be working but planning for future
Need money now	Money needs might be future not immediate
“Crisis management”	Flexible tool for retirement planning

Heirs get stuck with a bill
Debunk #3

- That depends on answers to 2 questions:

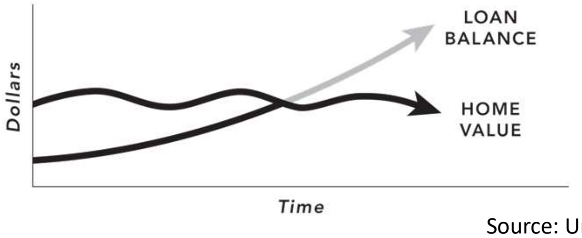
Is there equity left?

Do you want the home?	**NO**	**YES**
YES	(1.) 95% (Non-Recourse)	(2.) Payoff or Refinance
NO	(3.) Deed-in-Lieu (Non-Recourse)	(4.) Sell the Home (Inheritance)

Source: Understanding Reverse

I might outlive the HECM
Debunk #4

- Like all loans, there must be end date. HUD has stated that lenders use the youngest borrower's 150th birthday.
- FHA guarantees that the borrower will not owe more than the home is worth at the time it is sold.



Source: Understanding Reverse

HECMs are expensive
Debunk #5
HECM's have premium features

- As compared to what?
- Consumers pay more for value, even perceived value. Why not pay more for a mortgage product to get more value?

Value	Traditional Mortgage	HECM
Requires NO monthly P&I payments		✓
Never owe more than the house is worth		✓
Government insured		✓
Unused LOC grows		✓

Not free to sell my home *Debunk #6*

- Reverse Mortgage is not unlike any other mortgage
- When you sell your home, you simply pay of the mortgage
- Free to sell the home at any time – no prepayment penalty
- All remaining net sale proceeds belong to you

Many people are foreclosed upon - *Debunk #7*

- Today lenders must complete financial assessment to make sure obligations can be met
- Set Aside account can be established for future payment of property taxes and home insurance
- Recent changes to reverse loan has reduced serious defaults

Surviving spouse kicked out of home Debunk #8

- HUD has put additional protections in place to protect spouse
- Eligible Non-Borrowing spouse can remain in home
- Spouse must just continue to meet the terms of the loan

Nothing to leave others! Debunk #9

- Home values increase over lifetime
- Often there is retained equity to be given to kids, church, designated charities, etc.
- Often a greater legacy can be left behind
- Leave cash instead of home equity

I am not eligible as I owe on my home! Debunk #10

- You may have enough equity and stop a payment
- Reverse mortgage must just pay off any home lien
- Option to make a payment then becomes optional
- Line of credit that can grow over your lifetime