

Reverse Mortgages: The Ugly Duckling

Scan for my contact info:



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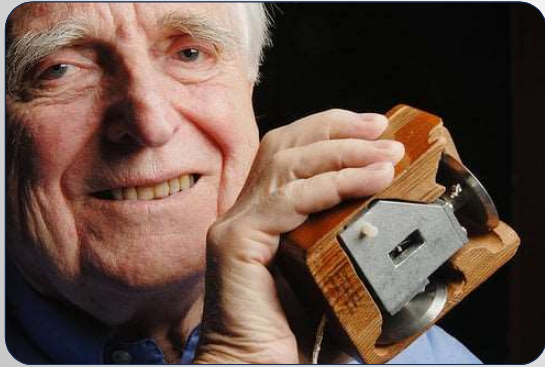
Personal NMLS# 2307504

2 Objectives

- 1) To integrate home equity into **retirement planning**.
- 2) To help you and your clients feel **confident** in making decisions about it.



X-Y Position Indicator



Douglas Englebart

1964 – Douglas Englebart invented the “X-Y Position Indicator”

1969 – He demonstrated it to IBM and Hewlett Packard, who both declined it. It was eventually purchased but quickly ignored by Xerox.

1979 – It was discovered on a tour of Xerox’s research center by a 24-year-old entrepreneur, Steve Jobs.

1984 – The redesigned device was released with the first Macintosh Apple computer, and is now known as...

X-Y Position Indicator

The Mouse



Home Equity Conversion Mortgage

- FHA has a loan for senior citizens (62+) called the Home Equity Conversion Mortgage (HECM)
- This loan was signed into law in 1988 (36 years ago)
- It is more commonly known as a...

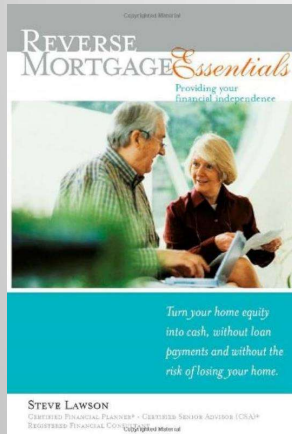


Home Equity Conversion Mortgage

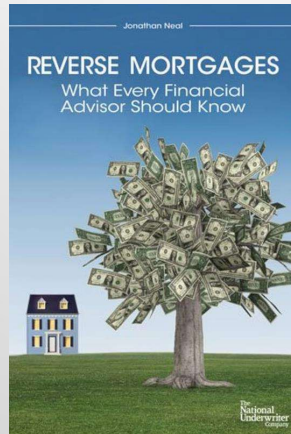
Reverse
Mortgage



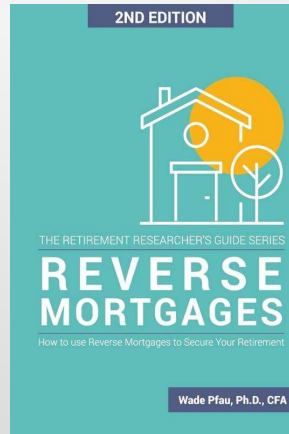
20 Years Later...



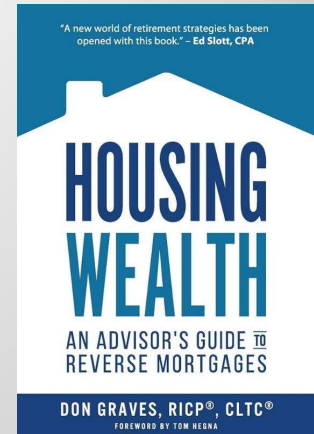
2006
(18 Yrs Later)



2009
(21 Yrs Later)



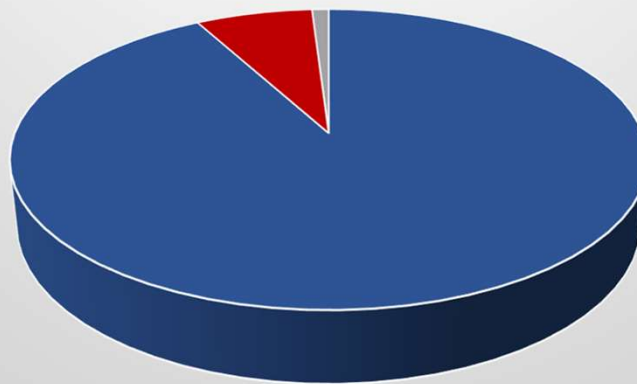
2015
(27 Yrs Later)



2018
(30 Yrs Later)

Important Note!

Reverse Mortgages



■ Variable HECM ■ Fixed HECM ■ Other

Variable HECM Features

An **open** line of credit (LOC) for those **62 and older**

1. Payments are **optional** (minimum payment is \$0)
2. Balance due when last borrower **leaves the home**
3. **Non-recourse**
4. Principal Limit (credit limit) **grows** for the life of the HECM
5. Access is **guaranteed for the life of the loan** (must follow guidelines)
6. Available credit can be turned into **guaranteed distributions for life**

Federally Regulated and Insured

Housing & Urban Development (HUD)

Federal department that administers the Home Equity Conversion Mortgage (HECM)



Federal Housing Administration (FHA)

Govt. agency that insures the HECM



Consumer Financial Protection Bureau (CFPB)

Govt. agency that makes sure banks, lenders, and other financial companies treat consumers fairly



HECM Adoption

Why has it taken so long to catch on?

Emotions



Focus on **NET WEALTH**

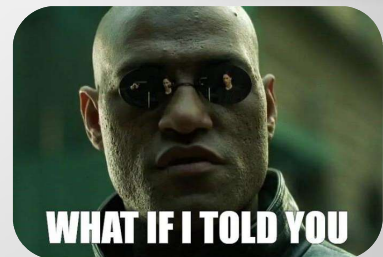
Using Assets

\$1M
Asset

1 Year
7%

\$963k
Asset

Net Wealth = \$963,000



Using a LOC

\$1M
Asset

1 Year
7%

\$1.07M
Asset

Net Wealth = \$963,000

\$100k
LOC

1 Year
7%

\$107k
LOC

Focus on **NET WEALTH**

Using Assets

\$100k
Asset

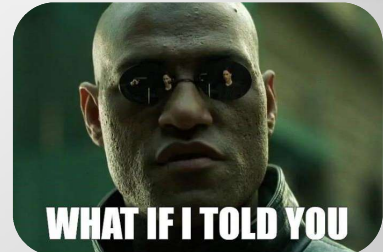
1 Year
7%

\$963k
Asset

Net Wealth = \$963,000

- taxes

Net Wealth = \$933,000



Using a LOC

\$1M
Asset

1 Year
7%

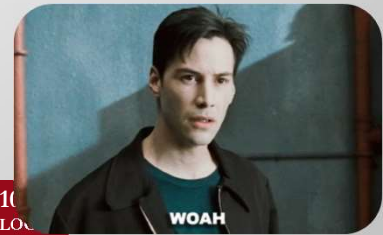
\$107k
LOC
\$1.07M
Asset

Net Wealth = \$963,000

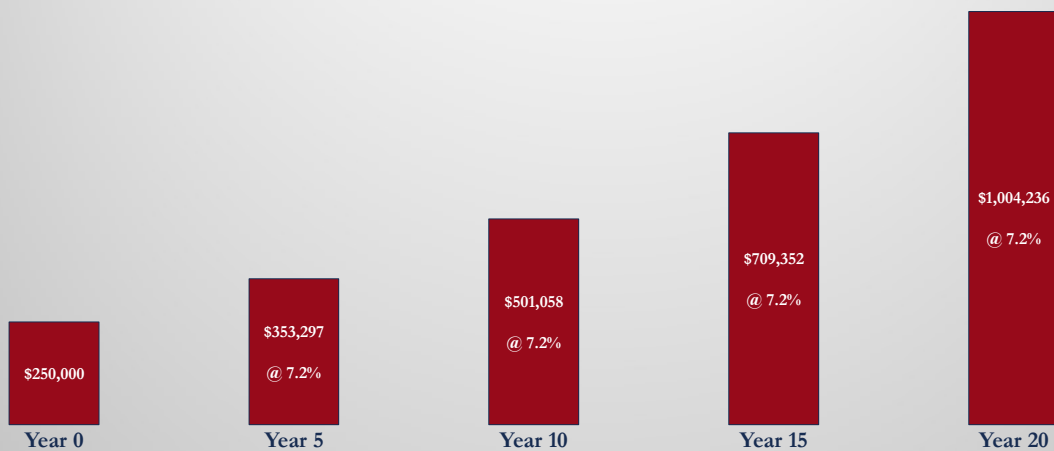
\$100k
LOC

1 Year
7%

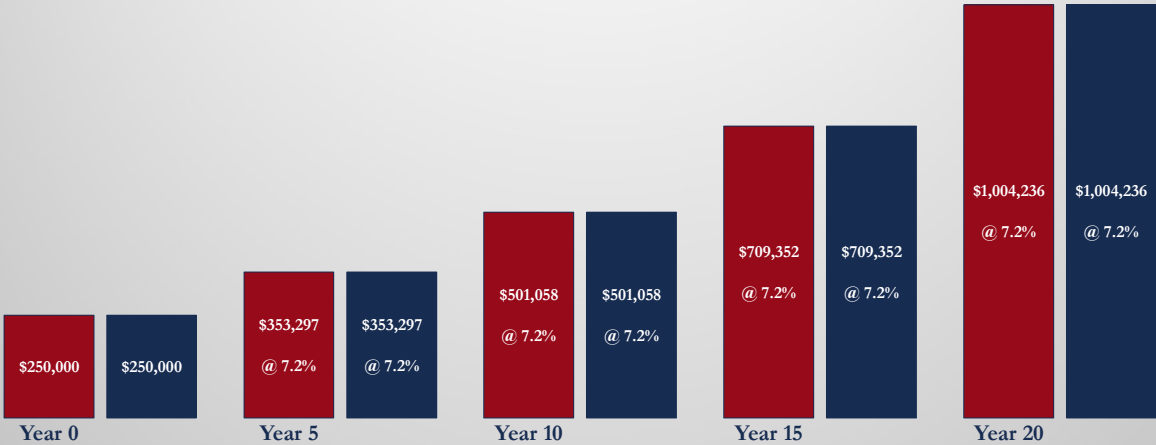
\$107k
LOC



HECM Balance with No Payment



Net Wealth Comparison (7.2%)



Variable HECM

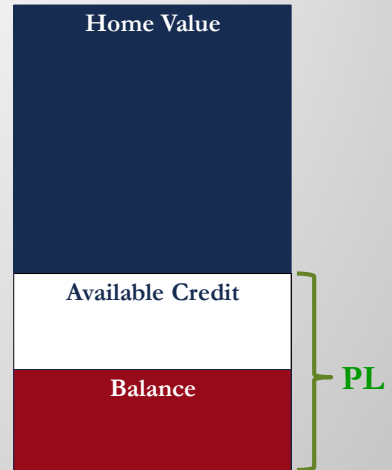


Home Value
Available Credit
Balance

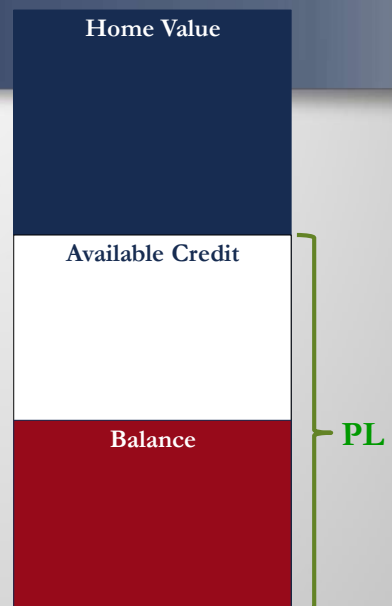
Variable HECM



Principal Limit is
Guaranteed to Grow



Variable HECM



Variable HECM



Equity

LOC Balance

Home Value

Available Credit

Balance

Variable HECM



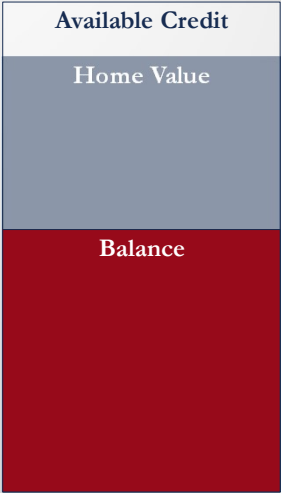
Home Value

Available Credit

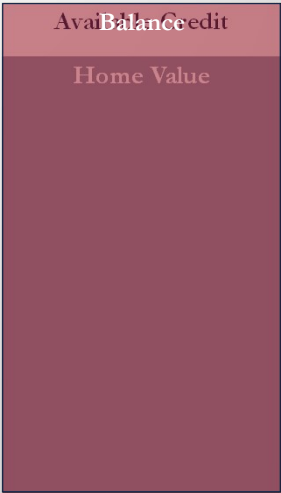
Credit Limit Growth
is *not* dependent on
home appreciation!

Balance

Variable HECM

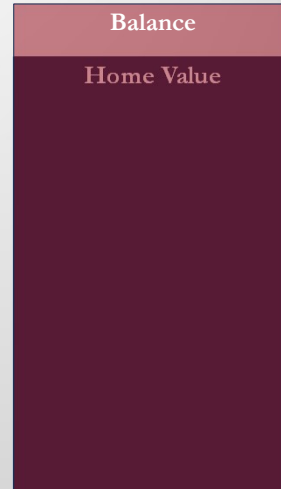


Variable HECM



Variable HECM

1. Balance is not due until the last borrower leaves the home.
2. Reverse mortgages are non-recourse loans.



Most Common Uses of a HECM



1. Replacement of the existing mortgage – eliminates required mortgage payments
2. Guaranteed monthly draws – these last until the borrowers permanently leave the home
3. Line of Credit – used as needed/desired
4. Purchase a Home

1) Replace an Existing Mortgage



Home Value

Mortgage Balance
(\$2,200/mo P&I)

1) Replace an Existing Mortgage



Home Value

Available Credit

HECM Balance
(No Payment Req'd)

1) Replace an Existing Mortgage



Home Value

Available Credit

HECM Balance
(No Payment Req'd)

1) Replace an Existing Mortgage



Home Value

Equity

Available Credit

HECM Balance
(No Payment Req'd)

LOC Balance

2) Monthly Distributions



Home Value

2) Monthly Distributions



Home Value

Available Credit

HECM Balance

2) Monthly Distributions



Home Value

Available Credit

HECM Balance

2) Monthly Distributions



Equity

Home Value

Available Credit

HECM Balance

LOC Balance

2) Monthly Distributions



Home Value

Available Credit

HECM Balance

2) Monthly Distributions



Available Credit

HECM Balance

Home Value

2) Monthly Distributions



HECM Balance

Home Value

3) Line of Credit



Home Value

3) Line of Credit



Home Value

Available Credit

HECM Balance

3) Line of Credit



Home Value

Available Credit

\$1,470,901
(20 years)

HECM Balance

3) Line of Credit



Available Credit
Home Value
<i>\$1,824,360</i> (23 years)
HECM Balance

4) HECM for Purchase (H4P)



Advantages to REALTORS®:

1. Increased listings/purchases
2. Increased value to clients
3. Increased purchasing power

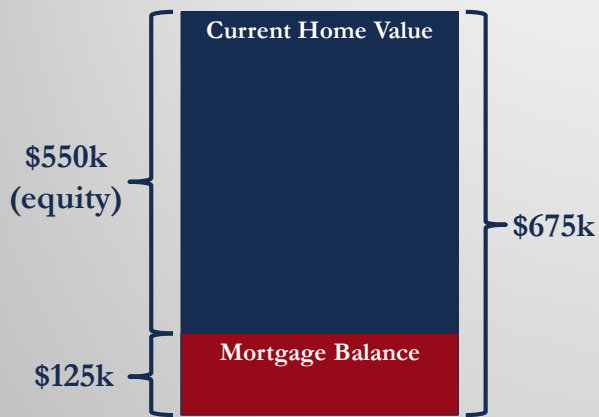
4) HECM for Purchase (H4P)

Retirees want 4 things when “right-sizing”:

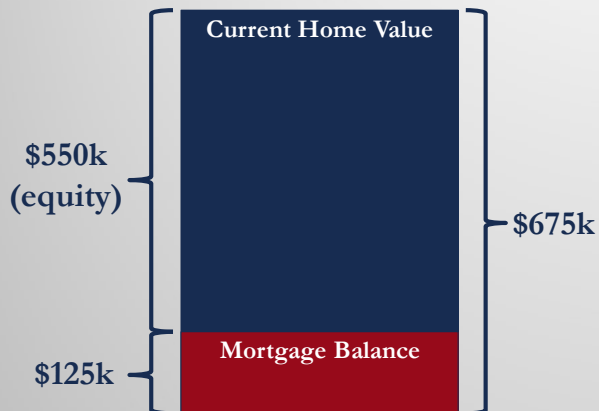
1. A better home (higher price)
2. Upgraded features
3. To *not* touch their savings
4. To *not* make a P&I payment



4) HECM for Purchase (H4P)



4) HECM for Purchase (H4P)

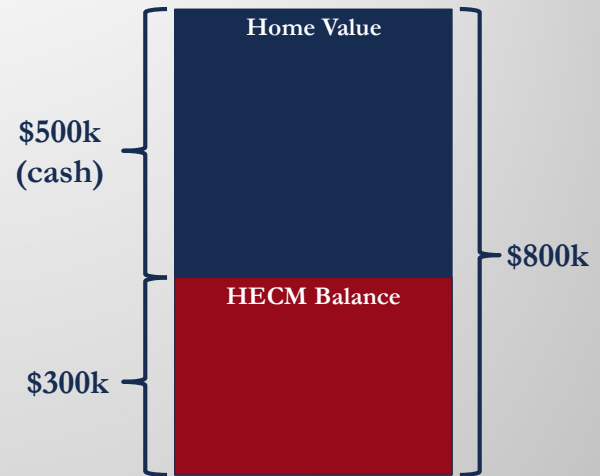


4) HECM for Purchase (H4P)

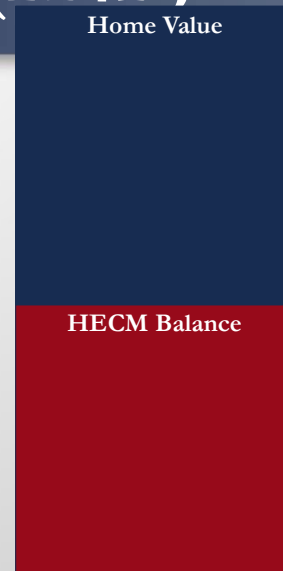
Equity:	\$550,000
Transaction Costs:	(\$50,000)
Proceeds:	\$500,000



4) HECM for Purchase (H4P)



4) HECM for Purchase (H4P)



Most Common Uses of a HECM



1. Replacement of the existing mortgage – eliminates required mortgage payments
2. Guaranteed monthly draws – these last until the borrowers permanently leave the home
3. Line of Credit – used as needed/desired
4. Purchase a Home

What's the Catch? Limitations



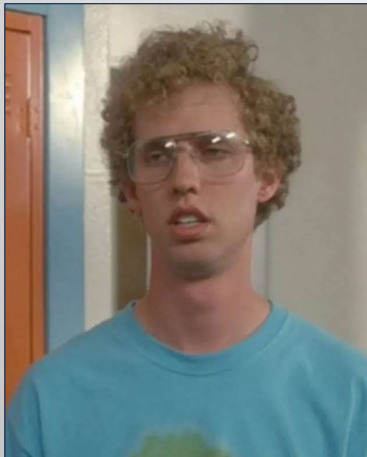
- Must be age 62+ to qualify
- Low Principal Limit Factor (like LTV)
- Available on primary residence only
- Upfront MIP of 2% (rolled into balance)
- Home value calculation max of \$1,209,750

A Reverse Mortgage *not* Good For...

- Those with a timeline less than 3-4 years.
- Those with poor financial discipline.



Reverse Mortgage **Myths**



1. The bank owns the home.
2. Reverse mortgages are expensive.
3. Heirs won't inherit the home.
4. Reverse mortgages are a last-resort option.
5. A home with a reverse mortgage cannot be sold.
6. Reverse mortgages cause foreclosure.

HECM Principal Limit Factors

Principal Limit Factors for HECM - The Home Equity Conversion Mortgage (FHA's Reverse Mortgage)

Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available
50	24.9%	60	31.1%	70	39.2%	80	46.6%	90	60.2%
51	25.5%	61	31.8%	71	39.2%	81	47.8%	91	61.8%
52	26.1%	62	33.4%	72	39.3%	82	49.1%	92	63.5%
53	26.7%	63	34.1%	73	40.2%	83	50.3%	93	65.3%
54	27.3%	64	34.8%	74	41.1%	84	51.6%	94	67.1%
55	27.9%	65	35.5%	75	42.1%	85	53.0%	95	68.8%
56	28.5%	66	36.3%	76	42.7%	86	54.4%	96	69.8%
57	29.1%	67	37.0%	77	43.8%	87	55.8%	97	70.4%
58	29.8%	68	37.9%	78	44.9%	88	57.1%	98	70.4%
59	30.5%	69	38.7%	79	45.5%	89	58.6%	99	70.4%

2025 Lending Limit* \$1,209,750

Effective Date: December 3, 2024

*This down payment range assumes closing costs will be financed into the loan. The information being displayed is for illustrative purposes only. Actual cash required may vary and is based on age of youngest borrower, interest rate, home value, and other factors.

(FHA's Reverse Mortgage)

Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available	Age of Youngest Borrower	% of Value Available
60	31.1%	70	39.2%	80	46.6%
61	31.8%	71	39.2%	81	47.8%
62	33.4%	72	39.3%	82	49.1%
63	34.1%	73	40.2%	83	50.3%
64	34.8%	74	41.1%	84	51.6%
65	35.5%	75	42.1%	85	53.0%
66	36.3%	76	42.7%	86	54.4%
67	37.0%	77	43.8%	87	55.8%
68	37.9%	78	44.9%	88	57.1%
69	38.7%	79	45.5%	89	58.6%

HECM Principal Limit Factors

Principal Limit Factors for HECM - The Home Equity Conversion Mortgage (FHA's Reverse Mortgage)

Age of Youngest Borrower	% of Value Available
50	24.9%
51	25.5%
52	26.1%
53	26.7%
54	27.3%
55	27.9%
56	28.5%
57	29.1%
58	29.8%
59	30.5%

Age of Youngest Borrower	% of Value Available
60	31.1%
61	31.8%
62	33.4%
63	34.1%
64	34.8%
65	35.5%
66	36.3%
67	37.0%
68	37.9%
69	38.7%

Age of Youngest Borrower	% of Value Available
70	39.2%
71	39.2%
72	39.3%
73	40.2%
74	41.1%
75	42.1%
76	42.7%
77	43.8%
78	44.9%
79	45.5%

Age of Youngest Borrower	% of Value Available
80	46.6%
81	47.8%
82	49.1%
83	50.3%
84	51.6%
85	53.0%
86	54.4%
87	55.8%
88	57.1%
89	58.6%

Age of Youngest Borrower	% of Value Available
90	60.2%
91	61.8%
92	63.5%
93	65.3%
94	67.1%
95	68.8%
96	69.8%
97	70.4%
98	70.4%
99	70.4%

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Effective Date: December 3, 2024

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Ineligible Properties

Investment properties



Vacation/2nd homes



Mixed-use properties > 49%
commercial use



Cooperatives



Bed & Breakfasts



Eligible Properties



New or existing single-family homes



New or existing 2-4 units



FHA-approved condos or single unit approval



Manufactured homes that meet FHA standards

Bonus Ideas



Please Sir, may I have some more?

Purchase a Vacation Home



15 Years Later...



Purchase a Vacation Home

Home Value
\$1,000,000

Equity = \$1,000,000

Available Credit
\$420,000

HECM Balance
\$250,000

Purchase a Vacation Home

Home Value
\$1,000,000

Equity = \$750,000

Available Credit
\$170,000

HECM Balance
\$250,000

Purchase a Vacation Home

Home Value
\$1,000,000

Equity = \$750,000

HECM Balance
\$250,000

Home Value
\$715,000

Equity = \$250,000

Mortgage Balance
\$465,000

Purchase a Vacation Home

Home Value
\$1,000,000

Equity = \$750,000

HECM Balance
\$250,000

Home Value
\$715,000

Equity = \$250,000

Mortgage Balance
\$465,000

Purchase a Vacation Home

Home Value
\$1,000,000

Equity = \$1,000,000

\$1,000,000

Home Value
\$1,000,000

Equity = \$750,000

HECM Balance
\$250,000
No Payment Req'd

\$750,000

100% Financed

Home Value
\$715,000
Equity = \$250,000

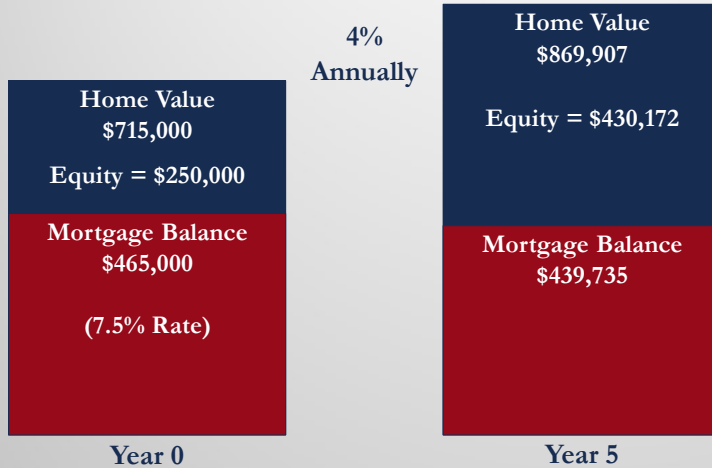
35%

Mortgage Balance
\$465,000

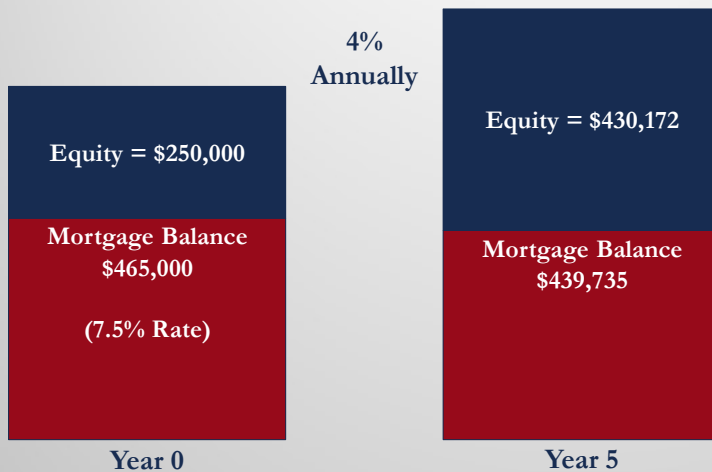
Payment Covered
w/ Cash Flow
(DSCR Loan?)

\$250,000

Purchase a Vacation Home



Purchase a Vacation Home



Purchase a Vacation Home

Key Points:

- 4% Home Appreciation
- Showing No Net Cash Flow!
- Showing No Tax Benefits!

HECM Balance?

- 7.2% Accumulation
- \$30,000 added at year 0 for HECM costs
- \$20,000 added at year 0 for furnishings

Equity = \$250,000

Year 0

Equity = \$430,172

Year 5

HECM Balance
\$425,067

Purchase a Vacation Home

4%
Annually

Home Value
\$715,000

Equity = \$250,000

Mortgage Balance
\$465,000

(7.5% Rate)

Year 0

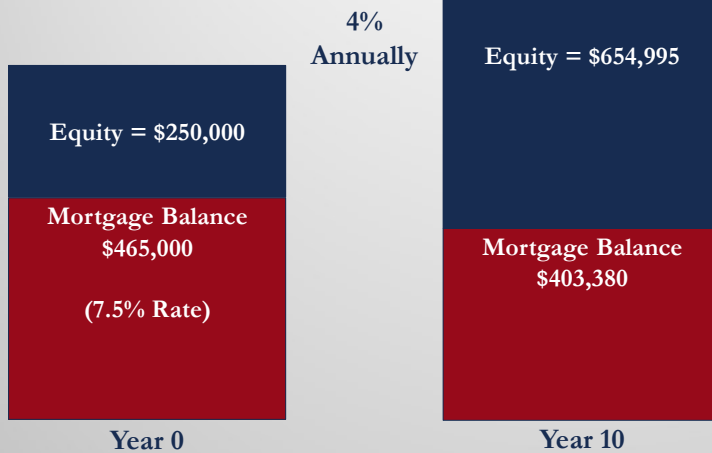
Home Value
\$1,058,375

Equity = \$654,995

Mortgage Balance
\$403,380

Year 10

Purchase a Vacation Home



Purchase a Vacation Home

Key Points:

- 4% Home Appreciation
- Showing No Net Cash Flow!
- Showing No Tax Benefits!

HECM Balance?

- 7.2% Accumulation
- \$30,000 added at year 0 for HECM costs
- \$20,000 added at year 0 for furnishings



STR



\$715,000

Eagle River, WI

Transaction Details		Revenue & Expenses			
		High		Low	
Down Payment (35%)	\$ 250,250	Gross Rent	\$ 85,000	Gross Rent	\$ 80,000
Estimated Closing Costs	\$ -	NOI	\$ 46,127	NOI	\$ 42,627
Reserves (0 Months)	\$ -	Net Cash Flow	\$ 7,132	Net Cash Flow	\$ 3,632
Preparation & Furnishings	\$ 50,000	Cap Rate	6.45%	Cap Rate	5.96%
Initial Investment	\$ 300,250				

Projections (based on average NOI):								
Year	Prop Value (4% App.)	Equity	Liquid Inv. Balance	Total Value	Annual Cash Flow	Total Return	Annualized Return	C/O Refi Availability
1	\$ 743,600	\$ 283,134	\$ 5,382	\$ 288,516	\$ 5,382	-4%	-3.91%	\$ 28,256
2	\$ 773,344	\$ 317,495	\$ 13,721	\$ 331,216	\$ 7,801	10%	5.03%	\$ 60,546

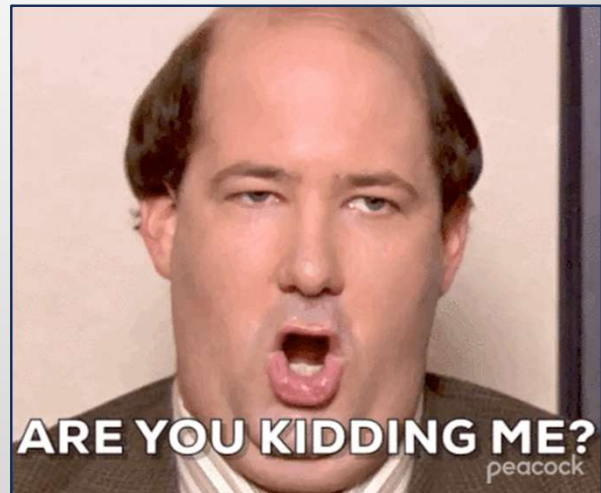
Timing



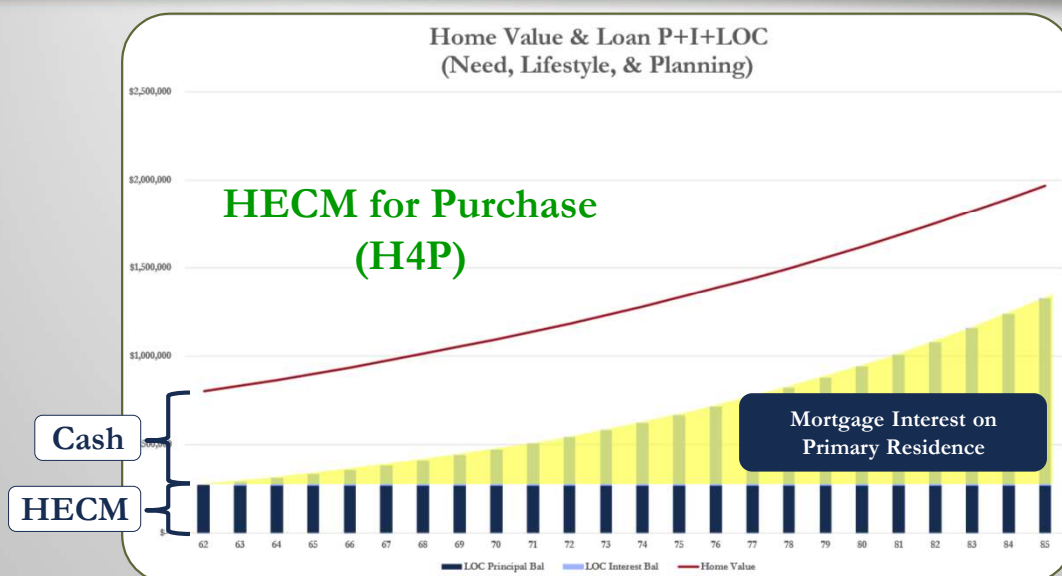
Someday...
is NOW!

6) Tax-free IRA Distribution

- Must have a HECM with accrued interest
- LOC interest must be deductible
- Can save taxes on a “distribution” or a “Roth conversion”



6) Tax-free IRA Distribution



6) Tax-free IRA Distribution



\$100,000

Traditional
IRA

1099-R
Tax Bill - \$27,000

(27% Marginal Tax Rate)

Bank
Account

~~\$73,000~~

6) Tax-free IRA Distribution



\$100,000

Traditional
IRA

1099-R
Tax Bill - \$27,000

(27% Marginal Tax Rate)

Bank
Account

HECM

* With \$100,000
Accrued Interest

1098
Savings - \$27,000

6) Tax-free IRA Distribution

Traditional
IRA

HECM

* With \$100,000
Accrued Interest

1099-R
Tax Bill - \$27,000

(27% Marginal Tax Rate)



\$100,000

Bank
Account

1098
Savings - \$27,000

Important:

Consult with your financial planner and/or
tax accountant about your specific
situation.

6) Tax-free IRA Distribution

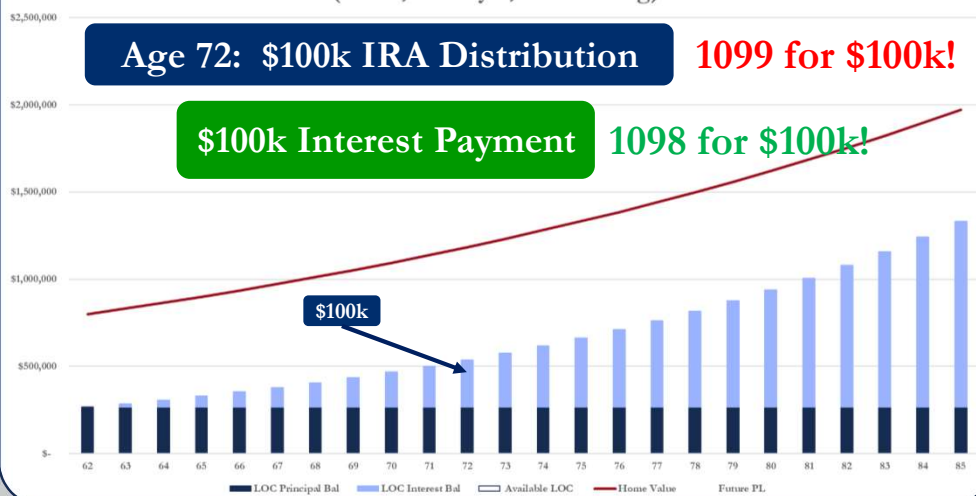
Home Value & Loan P+I+LOC
(Need, Lifestyle, & Planning)

Age 72: \$100k IRA Distribution

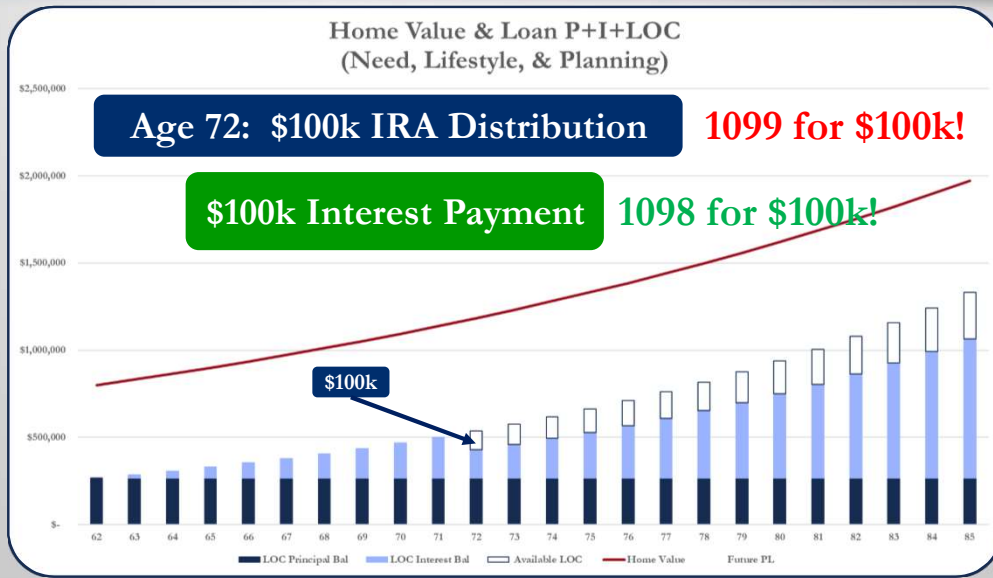
1099 for \$100k!

\$100k Interest Payment

1098 for \$100k!



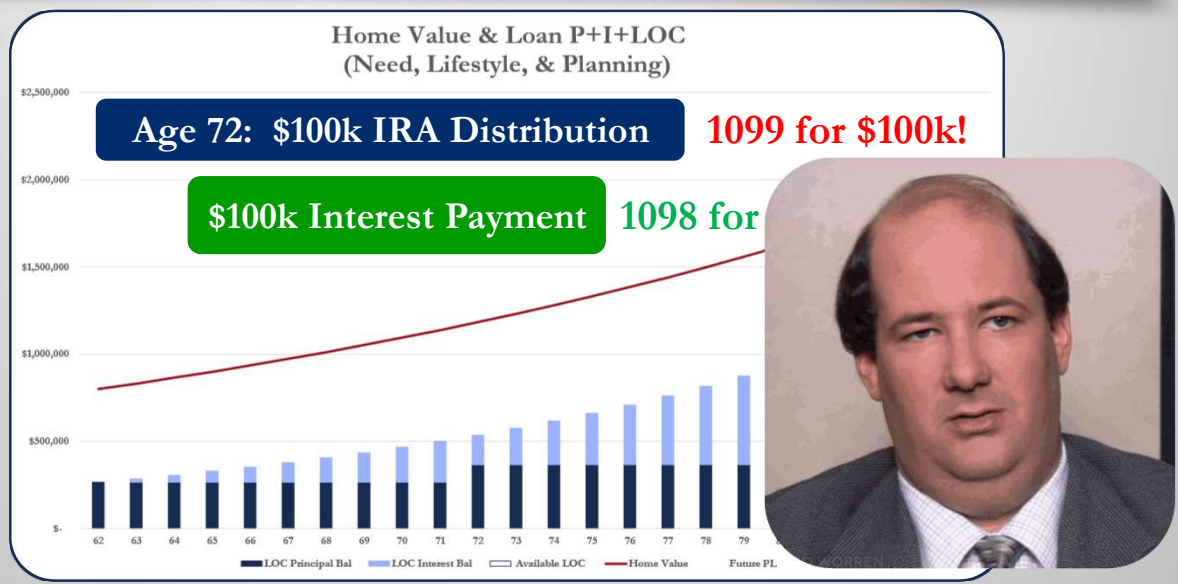
6) Tax-free IRA Distribution



6) Tax-free IRA Distribution



6) Tax-free IRA Distribution



What to Listen For...

- “I want to move closer to my kids, but I can’t afford a house there.”
- “I want to retire but I have still have bills to pay.”
- “I want to move but interest rates/prices/market...”

