Reverse Mortgages: Opportunities and Challenges

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Understanding Home Equity Conversion Mortgages

Discover how to Unlock the Equity in your Home

NMLS ID # 400039

NORTH AMERICAN SAVINGS BANK

EQUAL HOUSING LENDER
What Are Your Financial Goals?

Are you on track to meet your retirement needs and satisfy your wants, now and in the future?

A Home Equity Conversion Mortgage (HECM) may help give you the cash you need to meet your goals. Funding Longevity!

“We’re also seeing an increased prevalence of folks aging in place, so a preference for that demographic to, rather than move into smaller accommodations or retirement living arrangements, actually stay in the place they’ve been in. [In that case] maybe tapping the equity in their home is something they’d be more interested in,” Stan Humphries-Chief Economist Zillow 2015
Explore Your Options

<table>
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<tr>
<th>Retirement Funding Options</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Delay retirement or return to work</td>
<td>Continue earning income to pay your financial obligations.</td>
<td>You may be unable or unwilling to continue working because of poor health or other reasons.</td>
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<tr>
<td>Sell your house and downsize</td>
<td>You eliminate or reduce your current mortgage payment and maintenance.</td>
<td>You may want to stay in your current home. You may still have a mortgage. Closing costs add to the financial burden.</td>
</tr>
<tr>
<td>Obtain a home equity loan or refinance your existing mortgage</td>
<td>You remain in your home. You may be able to lower your monthly mortgage payments and even pay off other debts.</td>
<td>You must still pay your monthly mortgage, plus closing costs for the equity loan.</td>
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<td>Decrease expenses and modify your lifestyle</td>
<td>You eliminate unnecessary expenses and reduce your monthly cash outflow.</td>
<td>It may be difficult to cut back if you are already living frugally, or you may not want to sacrifice some comforts.</td>
</tr>
<tr>
<td>Obtain a Home Equity Conversion Mortgage (HECM)</td>
<td>You access tax-free cash to pay off your mortgage and may have additional funds for expenses or financial goals.</td>
<td>The loan balance grows over time and the value of your estate may decrease over time.</td>
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1 Consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.
A HECM Loan Defined?

A Home Equity Conversion Mortgage (HECM), commonly known as a reverse mortgage, is a Federal Housing Administration (FHA) insured loan which enables you to access a portion of your home’s equity to obtain tax-free\(^1\) funds without having to make monthly mortgage payments.\(^2\)

If you are 62 years of age (If married - one has to be 62) or older and have sufficient home equity, you may be able to get the cash you need to:

- Pay off your existing mortgage
- Continue to live in your home and maintain the title
- Pay off medical bills, vehicle loans or other debts
- Improve your monthly cash flow
- Fund necessary home repairs or renovations
- Build a “safety net” for unplanned expenses
- Purchase a new HOME!. Right Size

\(^1\) Consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.

\(^2\) You must still live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements.
A Few of the Loan Benefits

• Eliminates your existing monthly mortgage payments¹
• You can stay in your home and maintain the title
• Loan proceeds are tax-free and can be used any way you choose²
• Heirs inherit any remaining equity after paying off the HECM loan
• The HECM loan is FHA insured
• Loan is Non-Recourse

¹ You must still live in the home as your primary residence, continue to pay required property taxes, homeowners insurance, and maintain the home according to FHA requirements.
² Consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.
Eligibility

To be eligible for a HECM loan, some key requirements are:
• At least one of the borrowers must be 62 years of age
• You must live in your home as your primary residence and have sufficient equity
• Be able to pay off your existing mortgage using the HECM loan proceeds
• Live in a single family, two to four unit owner-occupied home, townhouse, approved condominium or manufactured home

Requirements

In addition to eligibility, you must meet the following conditions to obtain a HECM loan:
• Complete a HUD approved counseling session
• Maintain your home according to FHA requirements
• Continue to pay property taxes and homeowners insurance
Loan Costs

No hidden fees – all costs disclosed to you up front!

- Most fees can be financed into the loan = no out-of-pocket lender costs¹
- Loan origination fees – capped by HUD
- Appraisal, credit report, title and escrow fees
- FHA mortgage insurance premium (MIP)

¹ Except for HUD Counseling
Safeguards

Federal Housing Administration (FHA) Insured
HECM loans are FHA insured. You are always protected against lender insolvency and can expect to receive your proceeds.

Mandatory Mortgage Insurance
HECM loans are required by U.S. Department of Housing and Urban Development (HUD) to charge a mandatory mortgage insurance. This insurance protects the borrower and their heirs in the event the loan balance is higher than the home’s value at the time of sale.

Independent Counseling
Independent counselors which are approved by HUD provide you with objective information, and help you understand the process.

Capped Interest Rates
If your loan has an adjustable interest rate, there is a limit on how much some interest rates can change during a specific period of time.

Full Disclosure of Costs
Lenders are required to disclose your estimated loan costs and fees upfront through a Good Faith Estimate (GFE).
Types of Loans

- **Home Equity Conversion Mortgage - HECM (The New Reverse Mortgage)** FHA since 1989

- **Private Reverse Mortgage**
  Since the 60s
Disbursement Options

With a fixed rate HECM loan, you can receive the cash in a lump sum. With an adjustable rate HECM loan, you can select:

- Tenure
- Term
- Line of Credit
- Lump Sum
- Modified Tenure
- Modified Term
- Combination of All
Question & Answers
Thank You!

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