



Reverse Mortgage “101”

Presented By

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Reverse Mortgage Basics

What is a Reverse Mortgage?

- A financial tool that taps into the available **Home Equity** as a source of **Cash**.
 - It is a loan against your home that you do not have to pay back for as long as you live there.
 - The cash you get from a reverse mortgage can be paid to you in several ways:
 - All at once, in a Lump Sum; as a regular Monthly Cash Advance; as a Credit Line Account; or as a combination of these payment methods.

The Business Opportunity

- Why consider reverse mortgages?
 - Expansive market – less than 2% penetration
 - Cross Marketing- Expand your product menu and retain your client base
 - Additional Revenue Stream
 - Broker advisor compensation to non FHA-Approved brokers for services rendered
 - Up to 2% origination fee
 - Servicing Release Premiums
 - Potential fee income with potential premium pricing
 - Community Reinvestment Act “CRA” Credits (Depository Institutions)
 - Make a difference in the lives of senior homeowners



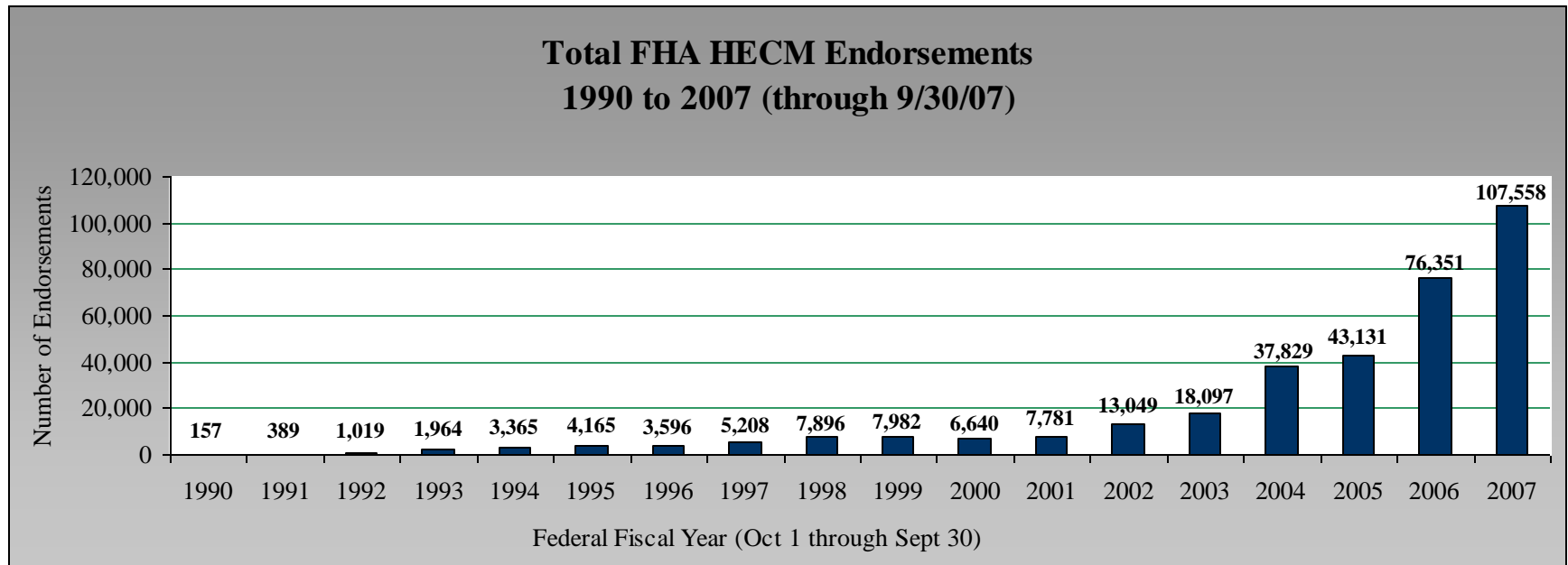
Reverse Mortgage Basic Facts

- 78 Million Baby Boomers will begin turning 62 in 2008 (U.S. Census as of July 1, 2005)
- \$4.3 Trillion in home equity held by homeowners 62 and older (NRMLA 2007)
- Over 50% of the net worth of seniors is currently tied up in their homes and other real estate*
- 15 Million senior homeowners would likely meet FHA Reverse Mortgage eligibility requirements
- Reverse mortgages are no longer just an option of last resort for seniors. They are a **strategic tool** for retirement income planning, long-term healthcare, and estate planning.

*Study findings from Use Your Home to Stay at Home 2005 National Council of Aging

Actual Market Growth

- With more and more seniors becoming educated on reverse mortgages, the market has grown exponentially from its inception. Below you will see, since 2005 the market has more than doubled.





Reverse Mortgage Basics

- All borrowers on title – 62 years or older at insuring with sufficient equity
- No credit score requirement
- No income verification or requirement
- No monthly mortgage payments
- Repayment only at maturity event: death, property sale or relocation
- Non-recourse: cannot owe more than the home's appraised value at the time of repayment



Reverse Mortgage Misconceptions

- Heirs may be against homeowner (s) getting a reverse mortgage
 - We recommend that homeowners attend counseling and discuss the loan with their family, friends, and other trusted advisors to decide if this is the best choice for them. Many times they want the family members to be supportive even if it is their decision.

- The lender or the government will own the home or take over title
 - Homeowners maintain full ownership of the property. A reverse mortgage is simply a lien against the property like any other mortgage.

- The Homeowner can owe more than the home is worth at the time of repayment
 - No. Reverse mortgages are “non-recourse” loans which means that the homeowner, their heirs or their estate can never owe more than the appraised market value of the home at loan maturity.

Reverse Mortgage Benefits

- ❑ Loan proceeds are tax-free*
- ❑ Funds can be used for any purpose
- ❑ Maintain or Improve quality of life
- ❑ Purchase long-term care insurance
- ❑ Pay off loans or bills
- ❑ Help to financially support family members
- ❑ Make home repairs and improvements
- ❑ Cover medical expenses
- ❑ Pay for everyday expenses
- ❑ Buy a new car or take a vacation
- ❑ Fund grandchildren's college tuition

*borrower should consult a tax advisor for more information



Reverse Mortgage Products and Components



Reverse Mortgage Products

- Home Equity Conversion Mortgage (HECM)
Variations
 - HUD / FHA-sponsored product
 - Monthly ARM
 - Annual ARM
 - Fixed Rate
- HomeKeeper Mortgage
 - FannieMae sponsored product
- Shared Equity -Appreciation Products
- Proprietary Reverse Products



HECM Adjustable Characteristics

- Government (FHA) regulated & insured
- Monthly or annually-adjusting interest rates
- Interest rate based on 1-year Treasury (CMT) or 1-month Libor (LBR)
- Un-used Credit Line growth rate = interest rate + 50 bps
- HUD/AARP counseling required

HECM CMT Monthly and Annual Options

Monthly

- ❑ Life cap: 10% Above Initial Interest Rate
- ❑ Margin: 100 to 200 bps
- ❑ No periodic cap

Annual

- ❑ Life cap: 5% Above Initial Interest Rate
- ❑ Margin: 3.1%
- ❑ Annual cap: 2%

Disbursement Options

- ❑ Lump Sum at Closing
- ❑ Line of Credit
- ❑ Term Payments
- ❑ Tenure

HECM LIBOR Monthly

Monthly

- ❑ Life cap: 10% Above Initial Interest Rate
- ❑ Margin: 50 to 200 bps
- ❑ No periodic cap

Disbursement Options

- ❑ Lump Sum at Closing
- ❑ Line of Credit
- ❑ Term Payments
- ❑ Tenure

Fixed HECM Characteristics

- ❑ Government (FHA) regulated & insured
- ❑ Rates Change Daily
- ❑ Rate is set at time of Drawing Docs
- ❑ Full drawn principal receives lower rate
- ❑ HUD/AARP counseling required

Fully Drawn Principal

Fixed for the life of the loan

Disbursement
Options

❑ **Lump Sum**

Proprietary Reverse Mortgage Programs

Each Lender has distinct Guidelines regarding their own Jumbo Programs. Please Contact your Wholesale Lender of Choice for Specifics.

- Jumbo loans based upon appraised home value.

□ LIBOR based index	□ No periodic cap
□ Margin: Varies by Lender	□ No MIP Required
□ Life cap: 6% over start rate	□ 5% Growth Rate

Disbursement Options

- Lump Sum at Closing
- Line of Credit
- Term Payments



HECM Costs

- ❑ 100% of all costs can be financed; **no out of pocket expenses**
- ❑ 2% HUD Mortgage Insurance up front and 0.5% annually
- ❑ Origination fee is greater of \$2,000 or 2% of the maximum claim amount
- ❑ Standard closing costs
- ❑ Servicing fee \$25 to \$35 per month



HECM Maximum Claim Amount

- The maximum dollar amount that HUD will pay on a claim
- FHA county loan limit specific
- The limit for most counties in California is ***\$362,790***



HECM Principle Limits

- Used to determine the maximum payment to the borrower
- Based on three factors:
 - Age of youngest borrower
 - Maximum mortgage limit as set by HUD or appraisal, whichever is less
 - Expected interest rate



Retail / Wholesale Flows

- Origination
- HECM Advisor
- Broker Relationship
- Correspondent Relationship



Selling a Reverse Mortgage

- Get to know your Borrower
- Focus on Need based Selling
- Educate yourself with the Borrower's Personal Needs
- Realize your Borrower's financial needs
- Once you have determined your Borrower's needs, show how a reverse mortgage may be the solution
- Listen to your Borrowers
- Pre-qualify your Borrower



HECM Selling Tips

- In today's real estate market, double check the home value
 - This is one of the main factors in determining qualification
- Reverse mortgage calculators are available to help determine their principle limit (the amount of money the Borrower can borrow)
- Review the different types of reverse mortgage loans with your Borrower
- Walk through the entire application and disclosure package with your Borrower (Do not just mail them the documents)
- Keep communication throughout the loan processing stage with your Borrower
- Before ordering final loan documents, review the payment methods your Borrowers would like to receive their funds



Retail Origination (Process)

1. Get lead
2. Pre-qualify and take application (1009)
3. Order borrower counseling and obtain certificate
4. Pull FHA case number and LDP, CAIVRS, EPLS lists
5. Order Appraisal, Title, Flood, Credit
6. Send file to Underwriting
 1. Conditions are resolved
 2. Docs are drawn
 3. Loan funds after 3-day rescission period

Counseling

- HUD approved HECM counseling agency
 - <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof18.cfm>
 - <http://www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm>

Case Number

- ❑ Go FHA Connection at <https://entp.hud.gov/clas/index.cfm>
- ❑ Type: Purchase
- ❑ Your FHA ID or Wholesalers ID: 0000000000
- ❑ Product Type: HECM/Proprietary
- ❑ ADP Code: Property specific
- ❑ Program ID: 00



Selecting a Wholesale Lender

- Choosing a Wholesale Lender
 - Identify the reverse mortgage products they offer and support
 - Determine if the relationship is a good fit for your organization
 - Accessibility / Responsiveness
 - Experience in the reverse industry
 - Training and support programs
 - Ability to support throughout stages of growth

- Choose your partners wisely, the reputation of your lender is also a reflection of your organization.

Broker Advisor Model

- Broker Advisor Program
 - Requires a relationship with an FHA-Approved mortgagee
 - No financial interest between the broker advisor and FHA-Approved originating partner
 - All parties will need to be properly licensed in all states where loans are being originated and closed.

- Broker Advisor Highlights
 - Permits non-FHA Approved, licensed brokers to offer the reverse mortgage products to their client base
 - Performs advisory services and assists applicants in obtaining a reverse mortgage for a fee
 - Requires minimal investment with marketing and backend operational expenses, while gaining experience and product knowledge
 - Some lenders offer sponsorship programs to assist brokers in obtaining their FHA-Approval



Different Wholesale Relationships

There are two wholesale models available

- Traditional Wholesale – Sponsorship Model
 - FHA Loan Broker
 - FHA Loan Correspondent
 - FHA Principal Agent - Lender as authorized agent

- Mortgage Banking Model
 - FHA Principal Agent – True Correspondent Lender

Transition from an Advisor to FHA- Approved Loan Broker / Correspondent

- FHA Approval- Sponsorship Program
 - Need Sponsor and HUD 1701 Application Form
 - HUD Fee - \$1,000
 - Resumes of senior corporate officials – Must show at least three years experience in loan origination
 - Certified Audited Financial Statements (\$63,000 net worth- 20% of Assets must be liquid)
 - Facilities Evidence
 - Credit Reports for all persons having 25% or more ownership interest
 - Funding Program- Letter from initial sponsor on funding arrangement
 - Sanctions Letter- Certification that lender has not been sanctioned



Traditional Wholesale Model

- FHA Loan Broker /Correspondent Model
 - Requires a sponsorship with an approved HUD lender.
 - Broker markets, originates and in most cases if experienced, processes the loan
 - Sponsors provides initial training and ongoing support
 - Utilization of sponsor's origination technology (if available)
 - Sponsoring lender underwrites, funds and insures the loan
 - Wholesale lender relationship is servicing-released

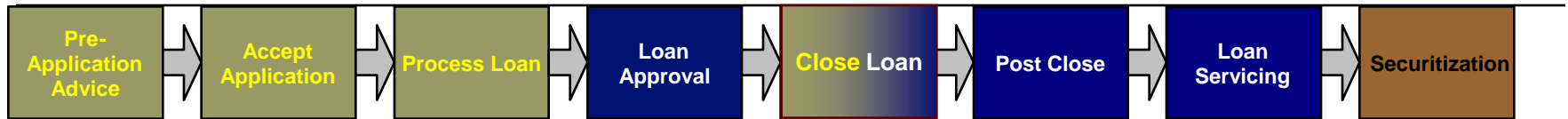
Mortgage Banking Model

- FHA Principal Agent – Correspondent Model
 - Authorized Principal Agent relationship
 - Requires special HECM Direct Endorsement (DE) from HUD
 - Correspondent handles all functions from origination through to insuring the loan with HUD
 - Authorized Agent will typically provide transitional training
 - Utilization of Authorized Agent origination software or licensed independent technology
 - Adequate warehouse lines to handle production
 - Assumes all liability
 - Authorized Agent relationship may be servicing-released or retained

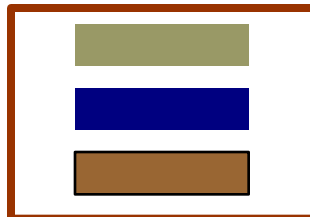
Mortgage Banking Model (cont)

- Flow / Bulk Purchase Arrangements
- Compliance and Licensing
- Monthly / Quarterly Bulk Purchase
 - Flexibility to sell to multiple lenders
 - Have technology solution that is not single investor dependent
 - Servicing Execution- may require interim servicing and sub-servicing capability depending on if servicing is retained or released
 - Best execution model for premium pricing

Broker / Correspondent Approach



Performed By





Questions:
