

# Reverse Mortgage “101”

Presented By

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## 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
    - 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.
  - Community Reinvestment Act “CRA” Credits (Depository Institutions)
  - Make a difference in the lives of senior homeowners

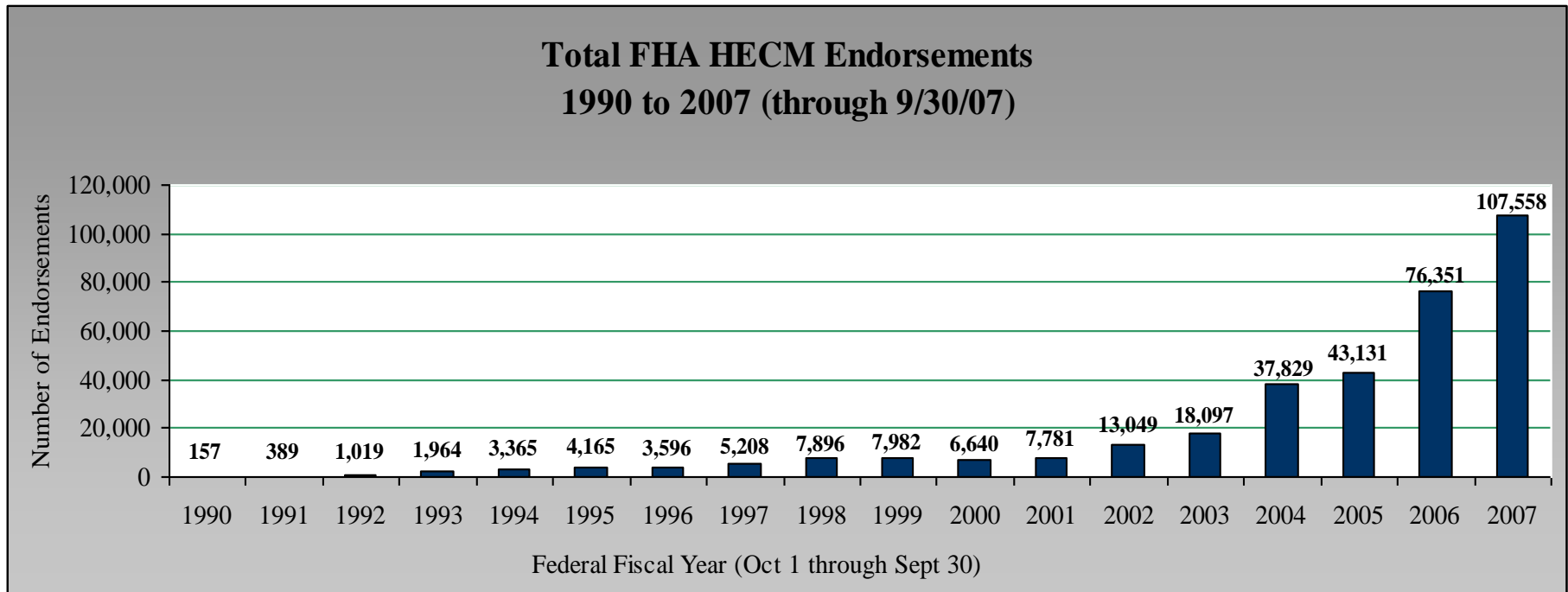
# Reverse Mortgage Basic Facts

- 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 (**to be discontinued end of year**)
  - FannieMae sponsored product
- Shared Equity -Appreciation Products

- 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

## Monthly

- ❑ Life cap: 10% Above Initial Interest Rate
- ❑ Margin: 150 to 250 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

## Monthly

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

## Disbursement Options

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

- 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

- 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

- The maximum dollar amount that HUD will pay on a claim
- FHA county loan limit specific
- The current maximum county limit 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

- Origination
- 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

- 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

- 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>

- ❑ 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.

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

## 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

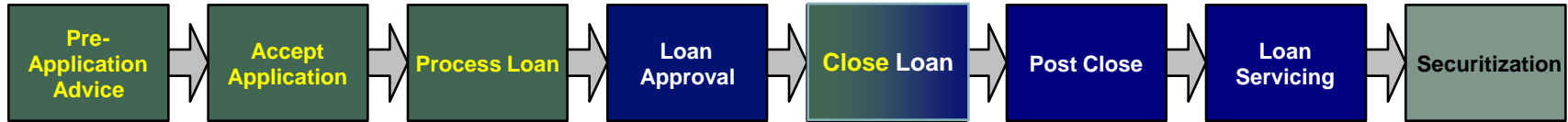
- FHA Loan Broker /Correspondent Model
  - Requires a sponsorship with an approved HUD lender.
  - Broker markets, originates and in most cases if experienced, processes the loan
  - Sponsors provides initial training and ongoing support
  - Utilization of sponsor's origination technology (if available)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

# Mortgage Banking Model

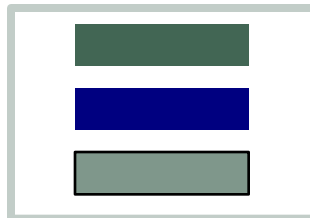
- FHA Principal Agent – Correspondent Model
  - Authorized Principal Agent relationship
  - Requires special HECM Direct Endorsement (DE) from HUD
  - Correspondent handles all functions from origination through to insuring the loan with HUD
  - Authorized Agent will typically provide transitional training
  - 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

- 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: