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**PARTNERS IN EDUCATION**

## **Selling to Senior Homebuyers**

**#67972**

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- ✓ sign in with the course facilitator before the course begins
- ✓ be present in the course during all instruction periods
- ✓ return a completed evaluation to facilitator at the end of course
- ✓ not have taken this course for continuing education credit within the past 366 days.

There is no make-up session for this course.

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## The Reverse Mortgage: Defined

Home Equity Conversion Mortgages (HECMs) are commonly called "reverse mortgages."

HECMs are mortgages that allow homeowners age 62 and older to access some of the equity in their property.

A HECM loan is similar to a traditional Home Equity Loan, except that the HECM loan does NOT have to be repaid to the lender until the borrower sells the home, or if at least one borrower does not occupy the home as the primary residence. The loan also becomes due if the borrower fails to maintain the property or keep his or her property taxes and insurance current.

The amount the borrower receives is based on a number of factors, including age, the value of the property, the product, and the interest rate.

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## The Reverse Mortgage: History

Reverse Mortgages have been around a long time. They were first insured by the Federal Government in 1988. Many big banks and insurance companies have offered the HECM, including Wells Fargo, Bank of America and MetLife.

The ability to purchase a home using the reverse mortgage was first allowed in 2008. The idea has not taken hold because of the economy's situation when the program to purchase was released.

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## The HECM

The Home Equity Conversion Mortgage (HECM) is a loan option that allows homeowners age 62 and older to convert some of their home equity into tax-free cash. Borrowers can use a HECM to refinance an existing mortgage, borrow against a home that is "free and clear," or finance a home purchase.

HECM loans have the following features:

- Homeowners continue to live in and OWN their homes.
  - There are no required monthly mortgage payments.
- Note:** The loan must be repaid if the borrower does not meet loan obligations, which include keeping property taxes and insurance current, as well as paying homeowners association dues and maintenance fees, if applicable.
- Most Reverse Mortgages are government-insured.
  - All HECM loans are non-recourse loans, meaning that the borrower can never owe more than the home is worth.

**IMPORTANT:** This is NOT tax advice. Consult a tax professional.

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### Qualifications

Qualifications for borrowers include the following:

- At least one of the borrowers must be 62 years of age.
- If using for a refinance, must qualify for enough to pay off all mortgages or liens.
- If using for a purchase, must have monies to bring to closing to complete the buy.
- Must prove willingness, based on past credit report and other obligations.
- Must prove capacity, based on residual income
- Without extenuating circumstances or compensating factors, a Life Expectancy Set-Aside will be put in place.
- Must get required HUD approved counseling

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### What You Should Know

Important details about the HECM program

- **No FICO Score**, but satisfactory credit will be assessed.
- **No Debt-to-Income ratios**, though residual income is calculated.
- **No employment requirements**, though residual income is calculated.
- **No required monthly mortgage payments**, but must pay all property charges
- **No personal liability**, this is a non-recourse loan
- Borrowers continue to own and occupy the home
- Loan to value (LTV) up to 74%, based on age
- Lending limits up to \$470,000, based on age
- Fixed and variable products are available
- Line of credit, tenure and term payments and lump sum distributions available
- **No longer a loan of last resort, but a strategic financial plan to help fund retirement**

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### HECM Basics

HECM loans have the following basics:

- All borrowers must be US citizens or legal residents.
- Borrowers pay 2% mortgage insurance premium (MIP) to HUD at closing, and accrue .5% annually.
- Only primary residences qualify.
- The property must be owner-occupied.
- The maximum loan amount is subject to the county limit (203b). Nationally, the maximum loan amount is currently \$726,525.
- All borrowers must receive HECM counseling from an independent counselor. The loan officer provides a list of 12 counseling agencies to the borrower.

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### Refinance: Current Mortgage

**Example:** A 70-year-old couple wants to pay off the current home's mortgage. They decide to refinance the home with a reverse mortgage. The home is valued at \$500,000 and they currently owe a \$200,000 mortgage.

**With a HECM Refinance**

Appraised value	\$500,000
HECM refinance proceeds	\$211,000
Satisfy mortgage	\$200,000
<b>Funds remaining in LOC</b>	<b>\$ 11,000</b>

This illustration is for educational purposes only, and assumes the borrower is age 70 and residing in Georgia with an adjustable interest rate of 4.532%, and financed fees in the amount of \$21,004.75.  
**Note:** Rates can increase on adjustable rate loans. This rate quote was generated on 10/5/17. Rates are subject to change. Contact a Reverse Mortgage Professional to obtain a proposal specific to your scenario.

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### Refinance: Free and Clear

Mr. and Mrs. Jones, a 70 year old couple, want to convert their home equity into supplemental monthly income. Their home is valued at \$500,000 and the borrowers own it free and clear.

**With a HECM Refinance**

Appraised value	\$500,000
HECM refinance proceeds	\$211,000
<b>HECM tenure payment</b>	<b>\$1,194.00</b>

This illustration is for educational purposes only, and assumes the borrower is age 70 and residing in Georgia with an adjustable initial interest rate of 4.532%, and financed fees in the amount of \$21,004.75.  
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### HECM for Purchase

Borrowers use the HECM for Purchase to BUY a home. This can make the purchase of a home easier and more affordable for your clients who are age 62 or older, and it can help you tap into a currently under-served market.

Current Home



New Home



PHOTO CREDITS (LEFT TO RIGHT): IMAGE COURTESY OF JULIA A. WENSKOSKI / FREE DIGITAL PHOTOS.NET © TRAVIS HOUSTON / GETTY IMAGES.COM

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## Market Opportunity

“Baby Boomers” are those born between the years 1946 to 1964, and number from 72 to 92 million.

The Baby Boomers started turning 62 in 2008, and now 10,000 people turn 65 every day in the United States. They will continue to do so for the next for 20 years.

By 2030, almost one out of every five Americans – some 72 million people – will be 65 years or older.



SOURCE: ALLIANCE FOR AGING RESEARCH  
PREPARING FOR THE SILVER TSUNAMI, 2006

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## Perfect Storm

**Numbers.** 10,000 people turn 62 every day and will for the next 20 years.

**Lack of Savings.** Many Baby Boomers didn't save enough to fund their retirement. Those who did save, saw their portfolio value plummet in the down turn of the economy.

**Longevity.** People are living longer lives. One MetLife study said those surveyed said their greatest fear when approaching retirement is running out of money before they run out of life.

**Liquidity.** Financial Planners are realizing housing wealth must be a part of their clients' plan. According to a January 2018 Black Knight Financial Services report Americans have 6.9 trillion in untapped equity.

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## Perfect Storm

**Long Term Care.** According to LTC Consumer, 70% of Americans will need long term care, but only 7% of us have long term care insurance.

**Loneliness.** Social Interaction and connections is a greater predictor of thriving while aging than is exercise or diet. Aging in place becomes a bigger issue as older adults overwhelmingly prefer to age in place according to AARP Public Policy Institute.

**Location.** National Association of REALTORS (NAR) reported that over a million homes were sold to people aged 62+ in 2017. Older adults do buy homes to downsize, move to 55+ Active Adult communities and be in more appropriate housing as they age.

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## How the Program Works

Instead of paying by cash or taking out a traditional mortgage, buyers use a HECM for Purchase to finance part of the purchase price. This significantly reduces the out-of-pocket funds buyers must bring to the table. HECM Purchases have the following advantages:

- Buyers can save and invest more of their proceeds from the sales of their current homes.
- At closing they only bring the difference between the reverse mortgage proceeds and the sale price.
- There are no required monthly mortgage payments, and the loan does not need to be repaid unless:
  - The borrower sells the home.
  - The home is no longer the primary residence of at least one of the borrowers.
  - The borrower does not meet loan obligations, such as taxes, insurance or property maintenance.

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## What this Means

Buyers can:

- Downsize
- Move closer to family and amenities
- Enjoy a condo with less maintenance
- Move to a safer neighborhood
- Move to a more energy efficient home
- Buy a home where they want to be
- Live the life they've always wanted
- Upgrade amenities
- Live in a neighborhood that is more social

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## How Much to Bring to Closing

AGE	62	72	80
PRICE	CASH	CASH	CASH
\$250,000	\$ 161,000	\$ 147,000	\$ 130,000
\$300,000	\$ 192,000	\$ 175,000	\$ 155,000
\$350,000	\$ 224,000	\$ 204,000	\$ 181,000
\$400,000	\$ 255,000	\$ 233,000	\$ 206,000
\$450,000	\$ 286,000	\$ 260,000	\$ 231,000
\$500,000	\$ 317,000	\$ 289,000	\$ 255,000
\$550,000	\$ 348,000	\$ 317,000	\$ 280,000

\*Estimate only! Interest rates and funds available can change daily without notice.

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### Example #1: Downsizing

Mr. and Mrs. Smith, a 70-year-old couple, sell their home for \$500,000 to purchase a new home for \$350,000 and do not want any monthly mortgage payments.

**Without a HECM for Purchase**

Sale price (old home)	\$500,000
Minus 6% commission	\$30,000
Net Proceeds	\$470,000
New Home Price	\$350,000
<b>Funds remaining</b>	<b>\$120,000</b>

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### Downsizing with Liquidity

Mr. and Mrs. Johnson, a 70-year-old couple, sell their home for \$500,000 to purchase a new home for \$350,000 and do not want any monthly mortgage payments.

**With a HECM for Purchase**

Sale price (old home)	\$500,000
Minus 6% commission	\$ 30,000
Net Proceeds	\$470,000
New Home Price	\$350,000
HECM for purchase	\$125,000
Down payment from proceeds	\$225,000
<b>Funds remaining</b>	<b>\$245,000</b>

This illustration is for educational purposes only, and assumes the borrower is age 70 and residing in Georgia with an adjustable initial interest rate of 4.532%, and financed fees in the amount of \$14,764.75.  
**Note:** Rates can increase on adjustable rate loans. This rate quote was generated on 10/5/17. Rates are subject to change. Contact a Reverse Mortgage Professional to obtain a proposal.

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### Example # 2: Upsizing

Mr. and Mrs. West, a 70-year-old couple sell their home for \$500,000 to purchase a new home for \$700,000 and do not want any monthly mortgage payments.

**Without a HECM for Purchase**

Sale price (old home)	\$500,000
Minus 6% commission	\$30,000
Net Proceeds	\$470,000
New Home Price	\$700,000
<b>Funds required</b>	<b>\$230,000</b>

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## Upsizing with Liquidity

Mr. and Mrs. Toran, a 70-year-old couple, sell their home for \$500,000 to purchase a new home for \$700,000 and do not want any monthly mortgage payments.

### With a HECM for Purchase

Sale price (old home)	\$500,000
Minus 6% commission	\$ 30,000
Net Proceeds	\$470,000
New Home Price	\$700,000
HECM for purchase	\$271,000
Down payment from proceeds	\$429,000
<b>Funds remaining</b>	<b>\$ 41,000</b>

This illustration is for educational purposes only, and assumes the borrower is age 70 and residing in Georgia with an adjustable initial interest rate of 4.532%, and financed fees in the amount of \$24,573.00.  
Note: Rates can increase on adjustable rate loans. This rate quote was generated on 10/5/17. Rates are subject to change. Contact a Reverse Mortgage Professional to obtain a proposal.

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## Program Advantages

The advantages of a HECM for purchase loan include:

- Borrowers pay NO monthly mortgage payments for as long as they live in the home.
- Borrowers spend less money out-of-pocket, and can more comfortably afford an upgrade.
- Borrowers have the option to include a growing HECM line of credit as part of the loan, which they can access as needed.
- Borrowers can leave asset accounts invested longer and still move into the home of their dreams.
- This program is not just for the house rich, cash poor. It allows leverage of assets.

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## Agents can Benefit!

A HECM for purchase can give you:

- The potential for more listings and more sales.
- The ability to have a tool that many Agents don't.
- The ability to help your customers purchase homes that better suit their needs and wants.
- The ability to take advantage of the growing Baby Boomer population.
- The ability to sell homes that your clients otherwise would not or could not buy.
- Borrowers can afford more house and more upgrades.



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### Property Eligibility

The property being purchased must:

- Meet Federal Housing Administration (FHA) property standards and flood requirements.
- Be one of the following property types:
  - New or existing single-family properties
  - New or existing 2-4 unit properties
  - FHA approved condominiums
  - New construction (NOTE: no longer need a certificate of occupancy to apply)



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### Ineligible Properties

Ineligible properties include:

- Cooperative units (Co-ops)
- Boarding houses
- Bed-and-breakfast properties
- Manufactured homes
- Condominium units that are not FHA approved

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### Important Details

HECM for Purchase other important details:

- The money the borrower brings to the table must come from an asset account.
- The money must be verified.
- The borrower cannot use borrowed funds.
- The borrower can use gift funds.
- Some seller concessions are allowed: fees that are required by law or customarily paid, including a home warranty.



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### Repayment

Usually the last surviving borrower or their estate sells the home to repay the loan.

The loan can also be repaid in cash from any source, such as other assets, proceeds from a life insurance policy, or a loan refinance.

No debt is passed along to heirs, since this is a non-recourse loan.

Once the loan is repaid, any remaining equity belongs to the homeowners or their heirs.

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### Top Uses

- Pay off mortgage \*Still responsible for taxes, insurance and maintenance
- Enhance quality of life and retirement
- Standby portfolio protection with a Line of Credit
- Purchase a retirement home, investment property, upsize or downsize
- Protect home equity from nursing home expenses
- Grow and increase cash availability with a reverse mortgage LOC
- Silver Divorce
- Bridge the Medicare gap from age 62 to 65

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### Top Uses

- Delay Social Security payments until later in retirement to increase monthly cash flow
- Use as a wealth multiplier when insurance products are used to pass a larger nest egg to the next generation
- Tax management tool to receive deductions when needed
- Withdraw less from IRAs and other taxable sources
- Avoid foreclosure
- Use for a stream of income as tenure or term payments

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## It's About Lifestyle

Today's buyers want the whole package:

- Work and volunteering
- Family and friends
- Appropriate maintenance-free housing
- Green, energy-efficient property

Remember that buyers buy emotionally and justify logically. Most will not move unless they're shown how.




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## Who is a good prospect?

It's important for you to know who might be eligible for the HECM program.

- Anyone who is 62 years of age or older.
- If they are still making a monthly mortgage payment.
- If they have at 50-60% equity in their home.
- If they want to move to a new home.
- If they can prove both willingness or capacity to keep up their monthly property expenses.




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## Next Steps

<b>Education</b>	You and your client should meet with a reverse mortgage professional to get more information and obtain a pre-qualification letter.
<b>Counseling</b>	Clients must participate in an information session with an independent, HUD-approved counselor, in person or by phone, BEFORE processing an application.
<b>Property</b>	Locate the property the borrower is interested in purchasing and write a sales contract. Amendatory/Escape clause is executed same day as contract.
<b>Application</b>	Schedule a time for a reverse mortgage professional to come and take your client's HECM application.

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### Next Steps, cont.

<b>Processing</b>	Property appraisal, title report, processing, and approval are similar to traditional mortgage process.
<b>Closing</b>	Closing is typically 30 to 45 days after application, though we can close in 17 days. Loan funds same day of closing.
<b>Occupancy</b>	Borrower must occupy the home within 60 days of closing.

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**Genie McGee**  
Reverse Mortgage Planner  
Master Trainer  
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404-388-1885

THANK YOU!!

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# Georgia Association REALTORS® - Partners in Education

## Student Course / Instructor Evaluation

Course Name \_\_\_\_\_

Instructor \_\_\_\_\_

Date \_\_\_\_\_

**PLEASE FILL IN THE BUBBLES COMPLETELY SO ANSWERS ARE SCANABLE.**

**Please do NOT use check marks, x's or any other type of mark.**

**The instructor encouraged my participation through questions and answers or exercises.**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

**The instructor presented ideas clearly and made the subject matter interesting.**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

**The use of the outline / handouts for study and / or reference was helpful.**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

**The topic is relevant / helpful to my real estate activities.**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

**I would want this instructor back.**

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

**Additional Comments:**

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Thank you for your input. (Revised 5-2017)