

How & Why I Fell in Love with The Reverse Mortgage

By Martin Andelman



GREEN MONARCH
MORTGAGE



"Because nothing else does what a Reverse Mortgage can do!"

I have absolutely fallen in love with the reverse mortgage, at least the HECM reverse mortgage....the one regulated by HUD and insured by the FHA. After almost two years researching and writing about HECM reverse mortgages, I think it may just be the best financial product ever invented.

How did it happen?

I suppose the first thing that happened was that I got older. I'll be 54 in another couple of months, and that fact alone certainly contributed to my views about the reverse mortgage.

As a matter of fact, I think it's quite possible that 'age' might just be a prerequisite to 'full appreciation'... and maybe even 'fundamental understanding' of the total value that a reverse mortgage can provide. I think that those under 40 are going to struggle more than those in my age group to truly appreciate the HECM, let's put it that way. You see, as you get older you start getting a much clearer picture of what retirement is really all about... and for almost everyone today, it's not a pretty picture. In fact, it's pretty darn scary.

Understanding retirement

First of all, you have to realize that retirement today can last 20-30 years or more, and it's next to impossible to be prepared to maintain one's lifestyle for 20-30 years without income. For another thing, we've learned... or should have learned... that we cannot depend on the stock market to produce the steady returns we need to retire. And we all know that when it comes to home values, what goes up can also come down. The HECM reverse mortgage can be literally a Godsend in so many ways. It can make retirement possible when it wouldn't be possible otherwise.



Life is good

Here are a few examples of how a reverse mortgage can make a real difference in your retirement. If you ask me... it's an open and shut case.

1. Stop Paying Your Mortgage at 62

Let's say you're 62 and you have a \$300,000 mortgage balance and a \$3,000 monthly payment. And you refinanced your traditional mortgage into a HECM reverse mortgage, which would allow you to stop making your \$3,000 monthly payment on the \$300,000 mortgage balance. So, you stopped making that monthly payment to the bank and started paying it to yourself. You put the \$3,000 a month into an investment account, like the S&P 500 Index Fund, and by doing so you start making the benefits of compounding interest benefit you instead of the bank.

Ten years later, you could expect to have something like \$600,000 in that account... and your reverse mortgage balance will have increased to something like \$470,000, according to the FHA expected rates. So, at that point you could decide to pay off your mortgage balance of \$470,000 and you'd still have \$130,000 left over. Or, you could continue not making payments and retire with an extra \$600,000 in savings. Or, you could sell the home and use the equity to buy a smaller home in a retirement community. Or, you could do whatever else you wanted to do. I don't care how you slice it... if you're 62 or over and you're still making a mortgage payment, you should look at what a reverse mortgage can mean to your financial security during your retirement years.

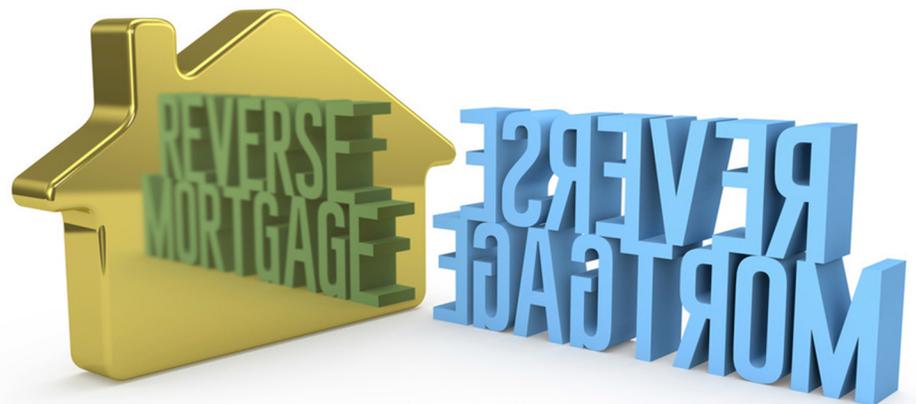
“Because Nothing Can Do What A Reverse Mortgage Can Do!”

2. Use a reverse mortgage to create income during retirement

I spoke to a couple in their late 60s. Their home was almost paid off and worth about \$650,000, but they had no retirement savings to speak of... and as a result, they were both still working. They told me they didn't think they'd ever be able to retire.

So, I described an alternative path using what's called a HECM for Purchase. If they sell the home, after sales commissions, the couple would end up with roughly \$600,000. Then they could take \$350,000 and buy a four-plex for something like \$700,000. They could fix up one of the units the way they like it... put in a Jacuzzi and an island kitchen... whatever they want. Then they live in that unit and rent out the other three... let's say for \$800 a month each. Now the couple would have \$2400 a month in rental income, plus their Social Security, which was about \$2800 a month. Add it all up and their income would then be \$5200 a month... and they'd have NO MORTGAGE PAYMENT. Plus they'd still have something like \$200,000 in the bank.

Now they could both stop working and start enjoying their retirement years, even though they had no retirement savings to begin with, now they'd have \$200,000 in savings... \$5200 in monthly income... no monthly mortgage payment... and roughly 50 percent equity in their property.



“Show me another way to accomplish that? You can't.”

3. Buy a motorhome or vacation home

Let's say you're over 62, your home's worth \$400,000, and you borrow \$100,000 using a reverse mortgage, so you decide to buy that motor home you've always thought of having during retirement. First of all, you'll have no monthly payment. And you'll have a beautiful motorhome to travel the country in, visiting friends and relatives and enjoying your retirement or semi-retirement. Now, let's consider the actual numbers involved... Your home was worth \$400,000 when you took out the reverse mortgage, and let's say that over ten years it goes up in value by something like three percent a year. So, in 15 years, the home is worth roughly \$580,000, and you sell it to move into a smaller home or whatever. You borrowed \$100,000 using the reverse mortgage, and ten years later your balance has gone up to let's say \$150,000. So, when you sell the home for \$580,000 and pay off the \$150,000 reverse mortgage, you end up with roughly \$400,000 after paying sales commissions.

That's how much the home was worth when you took out the reverse mortgage ten years ago. And don't forget... you've also still got a free and clear motorhome. In that scenario, your home's appreciation paid off your \$100,000 motorhome and the interest... you never had to make a monthly payment... and the memories of traveling the country during those ten years, I would say, are priceless.

“ Show me another way to make that happen? You can't.”

4. How will I personally be using a reverse mortgage?

I'm about to turn 54, but my wife is about to turn 58, so as soon as she's 62, we'll be taking out a reverse mortgage. After paying off the mortgage on our primary residence, I figure I'll be able to borrow about \$300,000, maybe a little less. We'll have no monthly payment, remember, so we'll be able to save a little more too. There are several things we're think of doing with that money. One is to buy a second home... maybe a condo in Cabo San Lucas for \$200,000. And with the balance we may buy an Airstream travel trailer (If we don't have one already by then.) Then when we completely retire, we'll have two or three places to go, and an Airstream we'll use to travel the country until we're too old to do so.

I'm sure our home in California will continue appreciating during our retirement years, and when we die, in monetary terms, we'll leave our daughter the equity in that home, the free and clear condo in Cabo San Lucas, the free and clear Airstream... plus, whatever other property and/or retirement savings we've accumulated and still have at the end. Of course, no one knows exactly what the future holds, but my point is that by using a reverse mortgage you can make retirement dreams come true that otherwise wouldn't be possible.



5. And there are many other ways to use a reverse mortgage to make life better.

You could use a reverse mortgage to simply have an open line of credit. You may not need to access the funds, but as you get older, you just never know. And if you do need the money, it'll always be there. The HECM line of credit can never be cancelled, and if you do need the money, you won't have to pay it back until you and your spouse pass away, or when you sell the home. Honestly, I don't know why EVERYONE doesn't do that.

Or, maybe you want to start a business... a second career, if you will... in order to create an income stream to support you during retirement. My wife has talked about opening a flower shop during retirement, and I've always thought about owning a small restaurant/bar. No matter what you're thinking about, the HECM reverse mortgage is a source of capital like no other because it doesn't have to be repaid on any certain schedule, or not until you sell the home or die.

“Show me another source of funds that allows that? You can't.”

So, why do I LOVE the HECM reverse mortgage? Do you even need to ask?

Nothing else does what a reverse mortgage does. There's no real alternative because any other type of home equity loan would require you to make monthly payments, and you can't retire with high monthly payments or you could end up losing the home to foreclosure or being forced to sell it... and then everyone loses. The interest rate on a HECM reverse mortgage today is low... around four percent, and rates are all but certain to remain low for some time. And there's no out-of-pocket cost to get a HECM reverse mortgage, except maybe a few hundred for the appraisal and \$50 for the HUD counseling session. How you use the proceeds of your reverse mortgage is nobody's business but yours, so you can let your mind wander, exploring the things you might use the money for, or how it would make your retirement years that much more secure... and enjoyable.

I'm not wrong about this. I've spent almost two years researching the HECM reverse mortgage and there aren't any hidden catches or downsides. Those who say there are such disadvantages are wrong... and probably too young or too rich to understand how the rest of the country lives and struggles to retire. And if you're reading this and disagree, then let's debate the topic publicly... or privately. Anytime and anywhere... I'm your huckleberry.

Mandelman Out...

