PGI

PGI REVERSE MORTGAGE LOANS

What the Heck is a HECM???

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PGI Reverse Mortgage Loans

“Miranda” Warning…

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HOME
EQUITY
CONVERSION
MORTGAGE

aka

"Reverse" Mortgage

Reverse Mortgage History…An Ever Evolving Story…

- Began in the US with a bank in Maine in 1961 for a widow.
- Systemized as the Home Equity Conversion Mortgage (HECM) under the auspices of the U.S. Department of Housing and Urban Development (HUD) as part of the 1987 Housing and Community Development Act.
- New reverse mortgages issued peaked at about 110,000 per year in 2008 and 2009. Many borrowers at the peak were financially constrained and unable to keep up with ongoing payment obligations for property taxes, homeowner insurance and home maintenance. This resulted in a number of foreclosures – and lots of bad publicity for the program. In addition, falling home prices meant more loan balances were exceeding the value of the home as collateral when repayment was due, putting pressure on the FHA mortgage insurance fund.
- By September 2013, program changes were made to the calculation of Principal Limit Factors thereby lowering the available borrowing amounts. The program also sought to encourage the deliberate, conservative use of home equity. If more than 60% of the initial line of credit was drawn during the first year, the borrower was charged a higher upfront mortgage insurance premium.
- In 2014 and 2015, HUD implemented new protections for a non-borrowing spouse (NBS) who doesn't meet the minimum age requirement of 62 but is resident in the home when the borrower leaves the property (by death or living elsewhere due to health), allowing the NBS to remain in the property. Revised Principal Limit Factors now are based on the younger of the borrower and the NBS.
- In 2015, detailed Financial Assessment requirements were put in place as a safeguard to ensure the borrower(s) have sufficient means to pay property taxes, homeowner insurance, property maintenance and any other required homeowner dues or payments. Underwriting requirements, however, in terms of credit and capacity/income are far less than in the forward mortgage world.
- In October, 2017, additional changes were made to the HECM program.

Reverse Mortgage Uses…

→ **Pay off an existing mortgage…**

Instantly increase a retiree's monthly cash flow and reduce portfolio withdrawals using a reverse mortgage lump sum to pay off a traditional (forward) mortgage.

→ **Replace a Home Equity Line of Credit (HELOC)…**

Unlike a traditional bank HELOC, a reverse mortgage Line of Credit can never be reduced, frozen or cancelled as long as the terms of the loan are met. There are no monthly loan repayment requirements. AND, THE UNUSED LINE OF CREDIT GROWS OVER TIME.

→ **Protect your investment portfolio…**

Delay drawing down retirement assets, giving assets time to grow. Mitigate the negative impact of "Sequence of Returns" risk -- when a portfolio value declines significantly, make no withdrawal from the decreased portfolio. Borrow tax free from the Line of credit and then repay the Line of Credit borrowing when the portfolio recovers. Interest payments on the Line of Credit are tax-deductible when paid.

→ **Fund future long-term care of income needs…**

The unused portion of a Line of Credit grows over time, regardless of the value of the home. Tap the increased Line of Credit in 10, 15, 20 or more years to fund future long-term care costs or to serve as a deferred annuity for additional income.

→ **Create a Social Security bridge…**

Supplement income with monthly payments from a reverse mortgage either for a set number of years (term) or for as long as the borrower lives in the home (tenure). Term payments can provide an income bridge to allow a retiree to delay claiming Social Security benefits until the maximum amount at age 70.

Reverse Mortgage Uses Continued…

- **Manage income taxes…**
  Tap the tax-free proceeds from a reverse mortgage to decrease withdrawals from taxable retirement accounts, thereby reducing income taxes and the amount of Social Security benefits subject to income taxes. For higher-income retires, tax-free reverse mortgage payments can reduce their modified adjusted gross income that can trigger higher monthly Medicare payments.

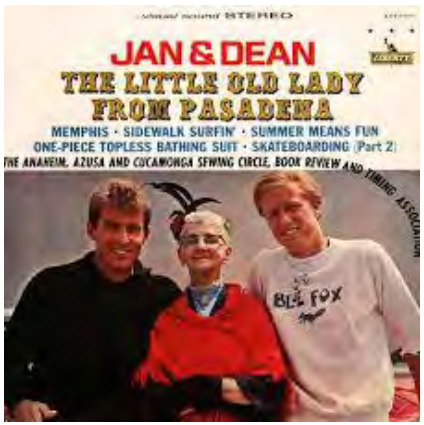
- **Pay Roth IRA conversion taxes…**
  Tax-free proceeds from a reverse mortgage can pay Roth conversion taxes all at once of over several years.

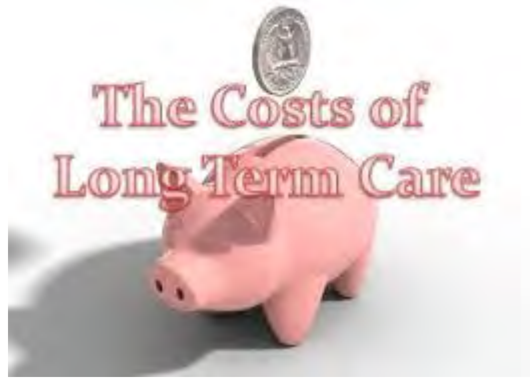
- **Buy a new home…**
  Rather than using all of the proceeds from a home sale, “rightsizers” can use only some of their previous home sale proceeds and take out a reverse mortgage to make up the balance. The sale proceeds cash not reinvested in a home purchase can be added to savings or to supplement current income.

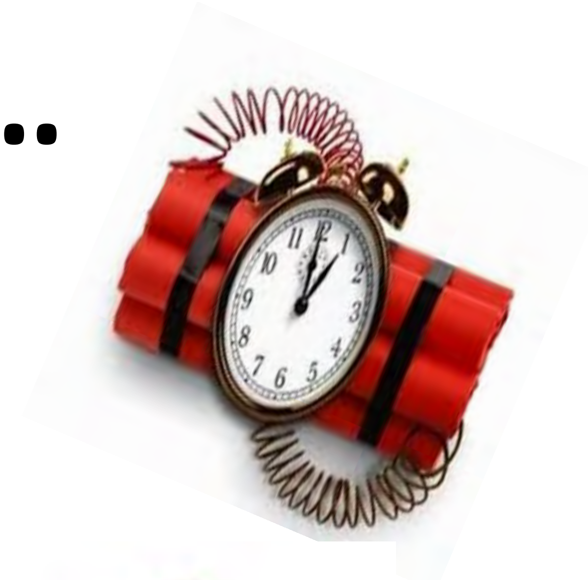
- **“Gray” divorce strategy…**
  Use a reverse mortgage to divide a marital housing asset in a divorce. For instance, the spouse remaining in the home can take a lump sum distribution to buy out the other spouse. Alternatively, the marital home can be sold and each ex-spouse can use some or all of their share of the home sale proceeds along with a reverse mortgage to buy their respective new home.

- **HECM to HECM Refinance…**
  If a borrower took out a reverse mortgage when real estate values were substantially lower, get an extra boost in available funds by doing a HECM to HECM refinance. In most cases, this can be done at no cost to the borrower. Also, if there was a non-borrowing spouse (NBS) previously – due to age or other circumstances – investigate adding the NBS to get the residency protection.

Practical Uses of a Reverse Mortgage…







Reverse Mortgage Basics…

- Convert **NON-LIQUID WEALTH ASSET** - primary residence equity -- into generally **TAX-FREE CASH**

- Types
  - HECM **INSURED** by the Federal Housing Administration (FHA) with a fixed or variable interest rate
  - Non-insured private lender jumbo reverse (fixed rate only)

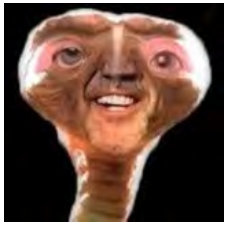
HECM	Private Jumbo
Lump sum cash/pay off debt/buy a home (fixed or variable)	Lump sum cash and/or pay off debt
Periodic payments (variable rate only)	
Line of Credit (variable rate only)	
Combination of all of the above (variable rate only)	

- **NO** requirement to make a periodic principal and/or interest payment -- withdrawals accumulate, and interest and mortgage insurance accrue on the balances until the loan is due. However, borrower may make payments if they wish and take advantage of the tax deductibility of paying accrued interest and mortgage insurance to offset otherwise fully taxable income.

- Non-recourse to the borrower(s) – **NEVER OWE MORE** than the value of the home – the value of FHA insurance

Eligibility Requirements

- Borrower(s)* must be at least 62 years old – special rules apply if one spouse is under age 62
- Sufficient equity in home – the older you are, the more you can borrow, i.e., the less equity needed. Generally, a 62 year old borrower needs about 60% equity
- "Financial assessment" -- sufficient financial resources to cover property taxes, homeowner insurance, HOA and home maintenance -- typically much easier to qualify for a reverse mortgage than a traditional "forward" mortgage
  - **FICO scores don't matter**
  - No debt to income (DTI) requirements – qualification based on a residual cash formula
  - No cash or asset reserve requirements if credit history is adequate
- Satisfactory counseling session with an independent, HUD-approved counselor
- Primary residence (SFR, HUD-approved condo, manufactured home) with a satisfactory FHA/HUD home appraisal
- Loan becomes due after the last remaining occupant dies or leaves the property for 12 months



* Not just a single person or a married couple – consider sisters and/or/brothers and/or cousins with or with out spouses; parent(s) and child/children; unmarried couples; friends – any combination and relationship you can think of…

Reverse Mortgage Process…

- ✓ Education
- ✓ Independent Counseling
- ✓ Application
- ✓ Processing Approval
- ✓ Closing

Reverse Mortgage Process…

Education

A responsible reverse mortgage consultant will:

- → carefully assess with a borrower their individual needs and financial situation. This includes talking about their particular circumstances and concerns; estimating how much of a loan they may qualify for; and, reviewing their income, assets and expenses.
- → thoroughly explain the eligibility factors, benefits, features, options, costs and borrower obligations associated with reverse mortgage products.
- → answer all questions and help determine if a reverse mortgage is the right solution for the borrower(s). If the answer is "yes", the reverse mortgage consultant will work with them to determine which type best fits their needs and goals.
- → Prepare the borrower(s) for a reverse mortgage counseling session.

Independent Counseling

All borrowers (and a non-borrowing spouse, if applicable) are required to have a counseling session with an independent counselor who is approved by the U.S. Department of Housing and Urban Development (HUD) to ensure an understanding of all aspects of a reverse mortgage. It usually takes about 60 to 90 minutes and can be done in-person or over the phone.

Reverse Mortgage Process (continued)…

Application

If the borrower decides to proceed with the loan, the reverse mortgage consultant will order a credit report, help the borrower complete the application and collect the required documentation. Some of the required documents are: the signed HUD counseling certificate, photo identification, verification of social security number, recent property tax bill and 24 month on-time payment history, proof of homeowner insurance, existing mortgage statement (if applicable), recent bank statements and income documentation. Title work will be ordered along with existing mortgage payoff amounts (if any).

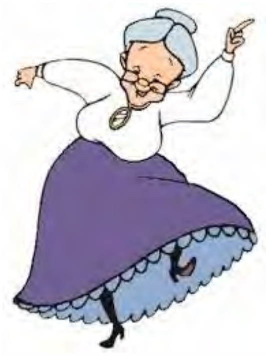
Processing Approval

Upon satisfactory review of the application and supporting documentation, a home appraisal will be ordered. This appraisal will determine the value of the home for lending purposes. An underwriter will then review the application for approval and determine if any other "condition" documentation is necessary.

Closing

When the final loan documents are ready for the borrower's signature, the loan signing will be scheduled. This can take place at the borrower's home, at the mortgage consultant's office, at the closing agent's office or wherever is convenient for the borrower(s). Any existing mortgage(s) will be paid off with a portion of the proceeds from the reverse mortgage. After the closing, any applicable rescission period and recording of the necessary loan documents, the loan will fund and the borrower will receive any money requested at closing.

STORY BREAK...



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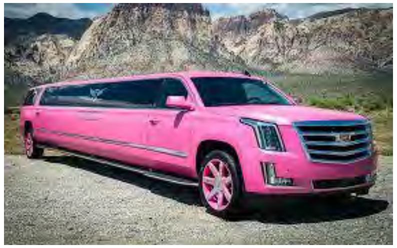

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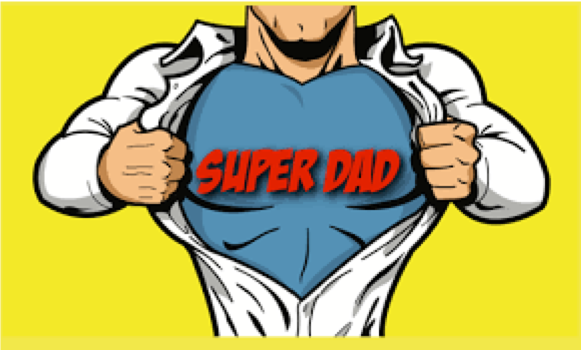

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SOME NUTS & BOLTS

Costs…

- Some costs are controlled by the loan broker
- A good loan broker will "shop" for the best priced vendors

Appraisal	$ 475
Escrow, mobile notary, title insurance	$1,200

- Comparison shop and negotiate

Impact of interest rate margins on "Principal Limit"…

- Then
- Now
- Example for a 70 year old borrower owning a home valued at $680,000 and borrowing with an annual LIBOR HECM*:

Interest Margin	Initial Principal Limit
2.00%	$320,795
2.25%	$311,280
2.50%	$302,444
2.75%	$294,288
3.00%	$285,453

* As of 03/09/18

Reverse Mortgage Line of Credit…

Everyone over the age of 62 who qualifies should have a reverse mortgage line of credit in place…

Reverse Mortgage…What Happens When the Borrower Leaves the Home…

Once the final borrower passes away (assuming there isn't a NBS where this would fall under the survivorship deferral) or leaves the property for 12 months, i.e., goes to assisted living, the following generally is what takes place:

- → The reverse mortgage loan servicer needs to be notified by the family or the estate.
- → The loan servicer will send out a demand letter stating the estate has 30 days to settle up. The letter is strongly worded. The 30 day language is a requirement of FHA and HUD. Once the estate gets the letter, it has a minimum of 6 months to settle and 90 day extensions are possible.

  The estate/heirs must decide what they plan to do with the property – sell it, take out a mortgage to pay off the accumulated balance of the reverse mortgage, etc. If the property is worth less than the loan balances owed, then the heirs/estate will owe nothing as the property is satisfaction in full for the debt. The estate should maintain constant communication with the servicer advising them status of their plans (i.e. listed, offers pending, applying for another mortgage to pay it off and status as they go through process).
- → The servicer orders an appraisal –The value of the home once a borrower leaves the home is as follows:

  > In instances when the property is being sold by the borrower or their estate, whether or not the mortgage is due and payable, the regulations are specific: borrowers, or their estates, may sell the property for the lesser of the mortgage balance or the current appraised value. If the mortgage is due and payable at the time the contract of sale is executed, the borrower may sell the property for the lesser of the full mortgage debt or 95% of the current appraised value. Reasonable and customary closing costs may be paid from the sales proceeds. Servicers must obtain documentation for closings costs that appear excessive or abnormal and retain in their file for use in any subsequent post claim audits.

  Following a foreclosure, the asset may not be sold for an amount less than the current appraised value unless written permission is obtained from the HUD Secretary. HUD's Claims Division will require either the short sale approval document, when the short sale is after foreclosure, or the signed HUD-1 to verify the closing costs are acceptable when the mortgagor or their estate was the seller.
- → Proceeds in excess of the amounts due to the loan servicer in settlement of the accumulated reverse mortgage debt will be sent to the estate.

THANK YOU!

All of my business comes from referrals from happy borrowers or professional advisors. If you know anyone who would be interested in learning more, please pass them my contact information!

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MOVING LIFE FORWARD WITH A REVERSE MORTGAGE!

JANICE RAMOCINSKI – Introduction

Janice was born and raised in an orange grove in Anaheim and grew up seeing the Disneyland fireworks from the front yard until the trees and buildings grew up. She graduated from Marywood High School in Orange. Despite being a sun and beach lover, she aberrantly decamped to Chicago, where her father was born, and received her BA and MBA from the University of Chicago.

Janice has been a financial, real estate and mortgage professional her entire career. There are few areas in the real estate and mortgage industries she hasn't touched, written articles about or spoken in public about.

As a CPA, Janice spent her formative years with Touche Ross, now Deloitte and Touche, where she specialized in the real estate, manufacturing and financial institution businesses. She left as a Senior Audit Manager to go to work for a real estate syndication client, where she reviewed all acquisitions and structured all offerings. These early careers account, no pun intended, to an analytical rather than sales approach to business.

Janice spent several years during the savings and loan crisis of the 1980s working with troubled assets and institutions. She was appointed, as President, to manage the liquidation of one of the most fraud-riddled savings and loan associations in the country, which was headquartered right here in Orange County.

Her spirit of entrepreneurship took over when she and a partner founded a wholesale mortgage banking company, which was eventually sold to a large southern California builder. That led to founding companies providing national mobile notary services, national mortgage quality control products and residential loan brokerage.

At the leading edge of the Great Recession mortgage meltdown, Janice co-founded a residential mortgage owner and servicer of billions of dollars of defaulted loans. The company pioneered the "Single Point of Contact" concept for servicing defaulted loans, which ultimately became the mandated standard for residential mortgage loan servicing in the US.

In the last few years, Janice found a "home" for her life-long career and found her passion working with senior homeowners and their finances.