

AN EDUCATIONAL SESSION FOR FINANCIAL PROFESSIONALS

The Reverse Mortgage, Reframed

What it is. When to say no. When it works.

Home equity is a planning tool, not a last resort.

Expertise Matters in This Product



John Thompson

CLA | CRMP | 36 years in lending

- Certified Reverse Mortgage Professional (CRMP)
- Educates financial advisors, estate planners, and real estate professionals on HECMs
- Generational lending team: ages 55+, young families, and their advisors



Dan Williams

Author, Mortgage Advisor
23 years in lending

- Certified Liability Advisor
- Certified Reverse Mortgage Professional (CRMP)
- Certified Divorce Lending Professional

600+ Real Estate Transaction since 2019



Todd Swanson

Author, Mortgage Advisor
US Marine Corp Veteran
24 years in lending

- Certified Mortgage Professional
- VA Loan Expert
- 400+ Real Estate Transaction since 2019

Neither Side Is Honest About This Product



What promoters say

Free money. No downside. Everyone qualifies. The costs get glossed over and the obligations get buried.



What critics say

A last resort. A scam for the desperate. The research, the federal insurance, and forty years of reform get ignored.



What your clients need

Both sides, in order: how it works, when to walk away, where it fits. And a client-ready guide that does the same.



What is a reverse mortgage?



When the answer is no



When it works

PART ONE

What Is a Reverse Mortgage?

The mechanics your clients will ask you about — in plain language.

A Reverse Mortgage in One Sentence

Homeowners 62 or older convert part of their home equity into tax-free funds — without selling the home, and without a required monthly mortgage payment.

	Traditional mortgage	Reverse mortgage
Monthly payment	Required	Optional — none required
Who receives funds	The bank, over time	The homeowner
When it's repaid	Monthly, over 15–30 years	When they leave the home — usually from the sale
Can you owe more than the home is worth?	Possible	Never — non-recourse, insured by FHA
Who owns the home	The borrower	The borrower — title never changes

What it isn't: not a benefit or a grant — a real loan with real costs.

Still required: property taxes, homeowners insurance, and upkeep.

Non-Recourse: The Rule That Makes It Insurable

The borrower — and the heirs — never owe more than the home is worth when the loan comes due. FHA insurance covers any shortfall. No other family assets are ever touched.

Worked example

Loan balance at maturity	\$350,000
Home value at sale	\$280,000
Shortfall covered by FHA insurance	\$70,000
Owed by the family	\$0

Also protected: an eligible non-borrowing spouse can remain in the home for life — when the loan is set up correctly at origination.

When the loan comes due, heirs choose one of three paths:



Sell and keep the upside

Sell the home, retire the loan, keep every dollar above the balance.



Refinance and keep the home

Pay off the balance — or 95% of appraised value, whichever is less.



Walk away clean

Sign the deed over. No debt follows the family.

The Four Golden Rules of Qualifying



Age 62 or older

The youngest borrower sets the math. A younger spouse can be protected as an eligible non-borrowing spouse.



Primary residence

The home they live in most of the year. No rentals, no second homes.



Sufficient equity

Enough equity to support the loan — most borrowers have 50% or more. An existing mortgage is fine; it gets paid off.



Financial assessment

Since 2015, lenders verify the borrower can keep up taxes, insurance, and upkeep. No FICO cutoff.

Plus three built-ins: independent HUD counseling (the counselor works for the client), an FHA appraisal, and the 2026 lending limit of **\$1,249,125** — jumbo products above.

HECM vs. Jumbo: Which One Fits?

	HECM	Jumbo / Proprietary
Insurance	FHA-insured, federally regulated	Privately offered; terms vary by lender
Home value used	Capped at \$1,249,125 (2026). Value above is not considered.	Values above the cap; loans up to ~\$4M
Minimum age	62	As low as 55 with some lenders
Payout options	Lump sum, monthly, line of credit, or a combination	Usually lump sum; some offer a credit line
Non-recourse	Guaranteed by FHA insurance	Varies — read the specific loan documents
Mortgage insurance	2% upfront + 0.5% annual MIP	None — priced into the rate instead

Rule of thumb: at or under the FHA cap, HECM is the standard answer — regulated fees, all payout options, guaranteed protections.

Three Factors Set How Much They Can Access



OLDER = MORE

Age

Older borrowers qualify for a higher share of the home's value. The youngest borrower — or eligible non-borrowing spouse — sets the factor.



HIGHER = MORE

Home value

Appraised value, up to the 2026 HECM limit of \$1,249,125. Value above the limit is not considered.



LOWER = MORE

Interest rates

Lower rates mean a higher principal limit. Rates change how much they can access — not a monthly cost, since there is none required.

Rule of thumb: a 72-year-old with a \$400,000 home might access roughly \$200,000–\$240,000, depending on rates. Let's run it live in Lendsight and watch the number move.

SCENARIO

Age ⓘ69

Home value ⓘ \$850,000

Liens ⓘ \$253,000

Cash draw ⓘ ⓘ \$0

Assumptions & costs

TOTAL AVAILABLE ⓘ

\$310,250

Principal limit over the life of the loan

CASH AVAILABLE NOW ⓘ

\$30,750

The most cash accessible in year one

MONTHLY FOR LIFE ⓘ

\$212

Max tenure payment, guaranteed for life

PLF ⓘ 36.500%

Expected rate ⓘ 7.000%

Initial rate ⓘ 6.375%

LOC start ⓘ \$30,750

Initial UPB ⓘ \$279,500

Initial MIP ⓘ \$17,000

Total costs ⓘ \$27,449

Target age ⓘ

—

Credit line growth

Available spending

Net worth

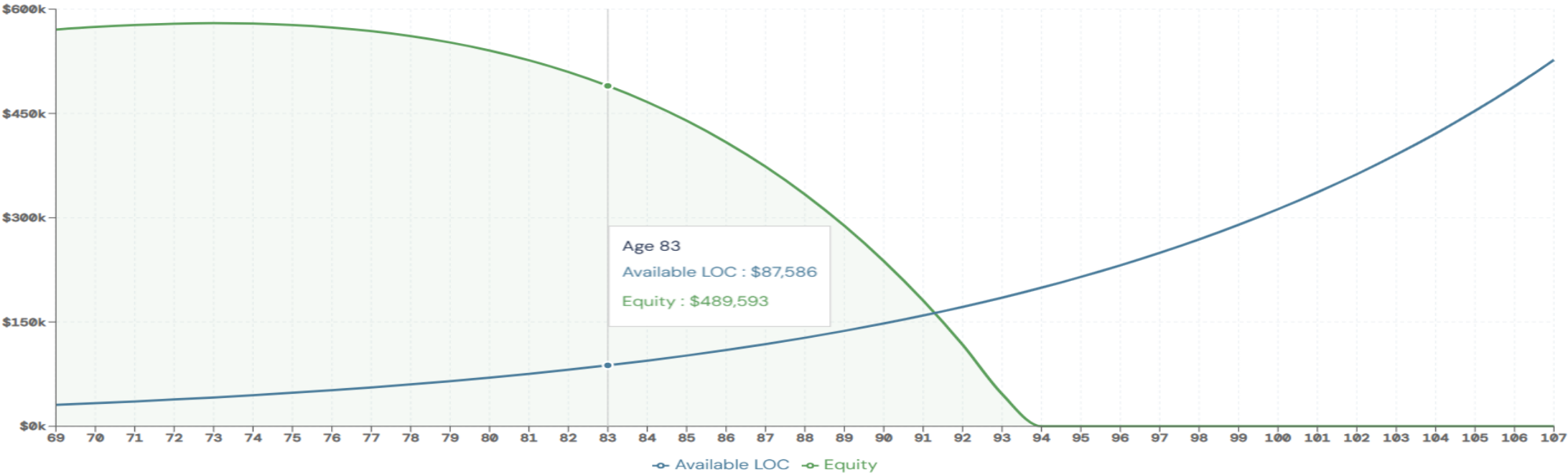
Equity vs balance

Invest comparison

Sequence risk

Year table

Available Line of Credit Growth



Unused credit grows from \$30,750 today to about \$101,713 by age 85 — even if the home's value never changes.

Four Ways to Receive the Funds



Lump sum

Everything at closing, fixed rate. Best for paying off an existing mortgage. Subject to the 60% first-year draw limit.



Monthly payments

Tenure: checks for life in the home. Term: larger checks over a set period. A pension drawn from the house.



Line of credit

Draw as needed — the unused portion grows, and the line can't be frozen or cancelled. The planner's favorite.

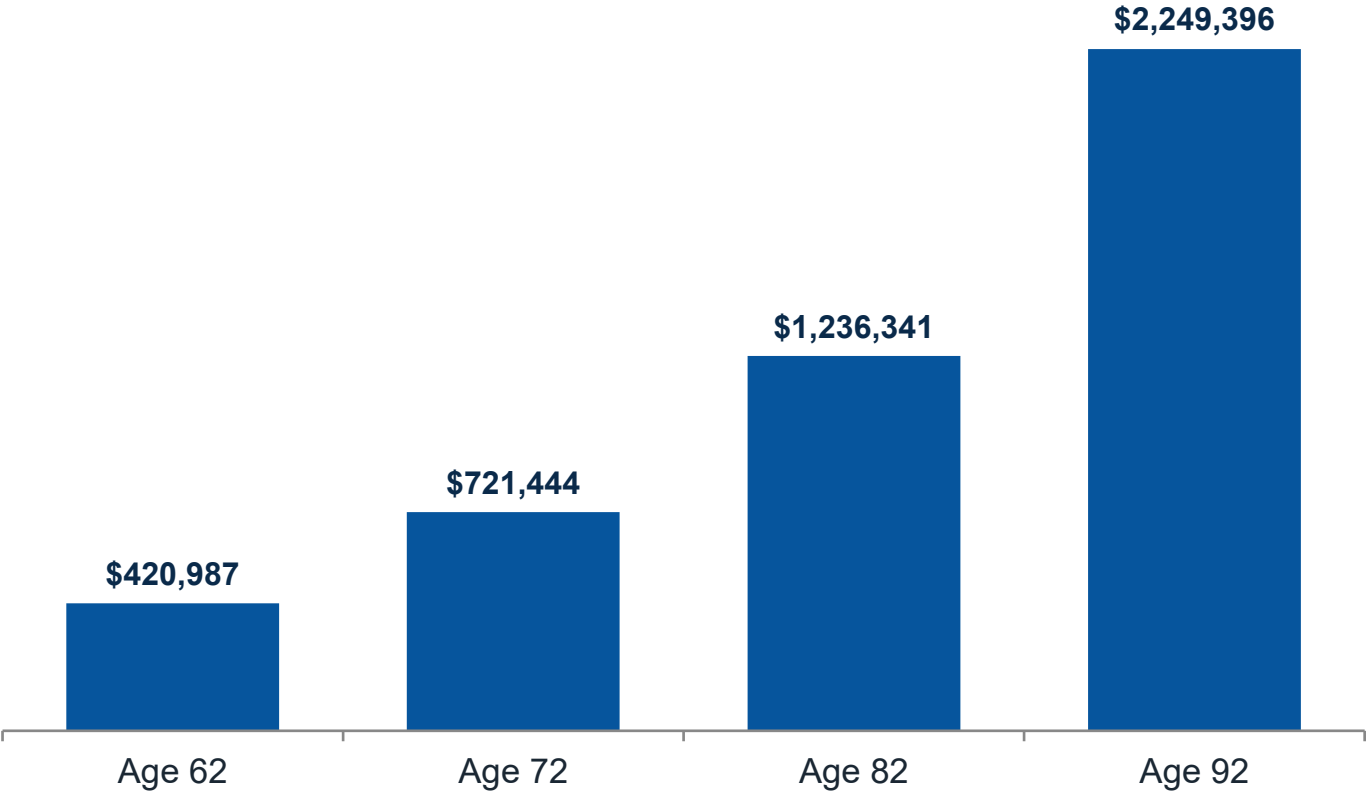


Combination

Mix any of the above. Common: a small lump sum at closing plus a line of credit reserved for the future.

The line of credit is what turns this from a loan into a planning tool. Next slide shows why.

The Credit Line Grows — Regardless of Home Value



62-year-old borrower, \$1,209,800 home, 5.875% growth rate. Illustrative — growth will vary with rates.

Three facts advisors should memorize

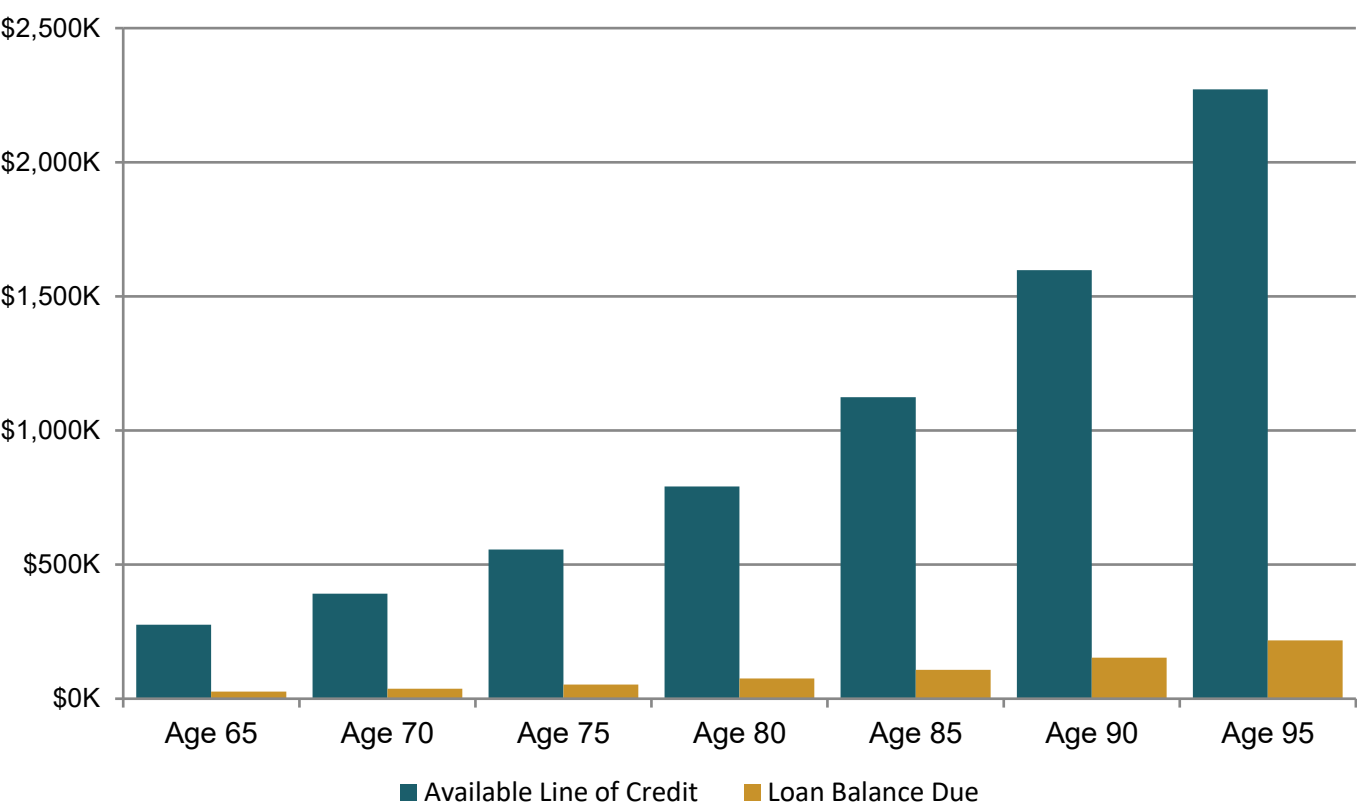
- 1 The line grows no matter what happens to the value of the home.
- 2 The line cannot be cancelled or frozen while terms are met.
- 3 No payments are required to keep it open.

The available line can exceed the home value it started against.

The Line That Waits – Grow Regardless of Home Value

An \$850,000 Home at Age 65 - 4% Appreciation

ANCHORS: *Property Value \$850,000 · Starting Age 65 · HECM Adjustable · 4% Home Appreciation · Zero draws, zero payments*



Age	Loan Balance	Available Line
Age 65	\$26,420	\$275,330
Age 70	\$37,556	\$391,383
Age 75	\$53,386	\$556,354
Age 80	\$75,889	\$790,861
Age 85	\$107,877	\$1,124,213
Age 90	\$153,348	\$1,598,076
Age 95	\$217,984	\$2,271,676

What It Costs — and What the Borrower Owes the Deal

The costs, itemized

Item	Amount
Upfront MIP (FHA insurance)	2% of home value
Origination fee	Up to \$6,000 — HUD-capped
FHA appraisal	\$400–\$700
Title & closing	\$1,500–\$3,500
HUD counseling	~\$125
Ongoing MIP	0.5%/yr, accrues to balance

Most costs are financed into the loan — \$0 out of pocket at closing. The MIP is what buys the non-recourse guarantee.

The three homeowner obligations



Stay current on property taxes

Falling behind can trigger default.



Keep homeowners insurance active

Adequate coverage at all times.



Maintain the home

Reasonable condition; fix issues early.

LESA safety net: if the assessment flags risk, a set-aside pays taxes and insurance automatically from loan proceeds.

PART TWO

When the Answer Is No

The section most reverse mortgage presentations skip.

Eight red flags that should end the conversation — before an application ever starts.

Eight Red Flags: When to Steer a Client Away



1

Moving within 3–5 years

Upfront costs need time to amortize.



2

Debt-free legacy is goal #1

Equity declines by design.



3

Can't sustain taxes & upkeep

The three chores are non-negotiable.



4

Small, short-term cash need

A HELOC is cheaper capital for that.



5

Spending problem, not liquidity

A lump sum accelerates the damage.



6

Unprotected under-62 spouse

Occupancy rules must be solved first.



7

Downsizing solves it cleaner

Sometimes selling is the whole answer.



8

Medicaid exposure, no spend plan

Unspent proceeds can count as assets.

Next two slides: what each flag looks like in practice.

Timeline, Legacy, Capacity, and Scale

1

Moving within 3–5 years

Upfront MIP and closing costs make this expensive money over a short horizon. If the home sells soon anyway, the costs are rarely justified.

Better path: bridge with savings or a HELOC, then sell.

2

Leaving the home debt-free is the top priority

The balance grows and equity shrinks by design. Heirs never owe more than the home is worth — but there will be less to inherit.

Better path: honor the goal. Model the trade-off and let the client choose.

3

Cannot sustain taxes, insurance, and maintenance

These are the conditions of the loan. Falling behind can call it due. A LESA can help — but it reduces available proceeds.

Better path: assistance programs, tax deferral, or a family solution.

4

A small, short-term cash need

A \$30k roof on a \$900k home does not need a reverse mortgage. Setup costs are too heavy for small, quickly repaid borrowing.

Better path: HELOC, cash-out refi, or savings.

Wrong Problem, Unfinished Homework, Better Answers

5

A spending problem, not a liquidity problem

If the budget leaks, a six-figure lump sum accelerates depletion — and removes the last reserve. Ask why the money is needed.

Better path: budget work first. Revisit the tool after the behavior.

6

An under-62 spouse without a protection plan

A non-borrowing spouse can stay after the borrower passes — but only if structured correctly at origination. Skipping this creates the horror stories.

Better path: solve occupancy in writing first, or wait until both qualify.

7

Downsizing solves it cleaner

Selling large, buying smaller, and banking the difference can fix income, upkeep, and liquidity in one move — sometimes with no loan at all.

Better path: sometimes the right answer is a listing, not a loan.

8

Medicaid exposure with no spend plan

Draws are not income, but unspent proceeds at month-end can count as resources for needs-based benefits.

Better path: elder-law input and a spend plan before anything closes.

Why Saying No Builds Your Practice

The 7% who regret it share one trait.

In federal follow-up research, dissatisfied borrowers cited costs they had not anticipated or terms they did not understand before signing. Not the product — the preparation.

Screening is the preparation. Every client you steer away for the right reason becomes a referral source who trusts your judgment. And the guide's "when to walk away" chapter lets clients screen themselves — before they ever call you.

< 2%

of all federal CFPB mortgage complaints involve reverse mortgages

CFPB complaint data

95%

of borrowers reported no pressure from their lender, years after closing

HUD Cityscape, 2017 · 1,761 households

91%

were satisfied with the required independent HUD counseling

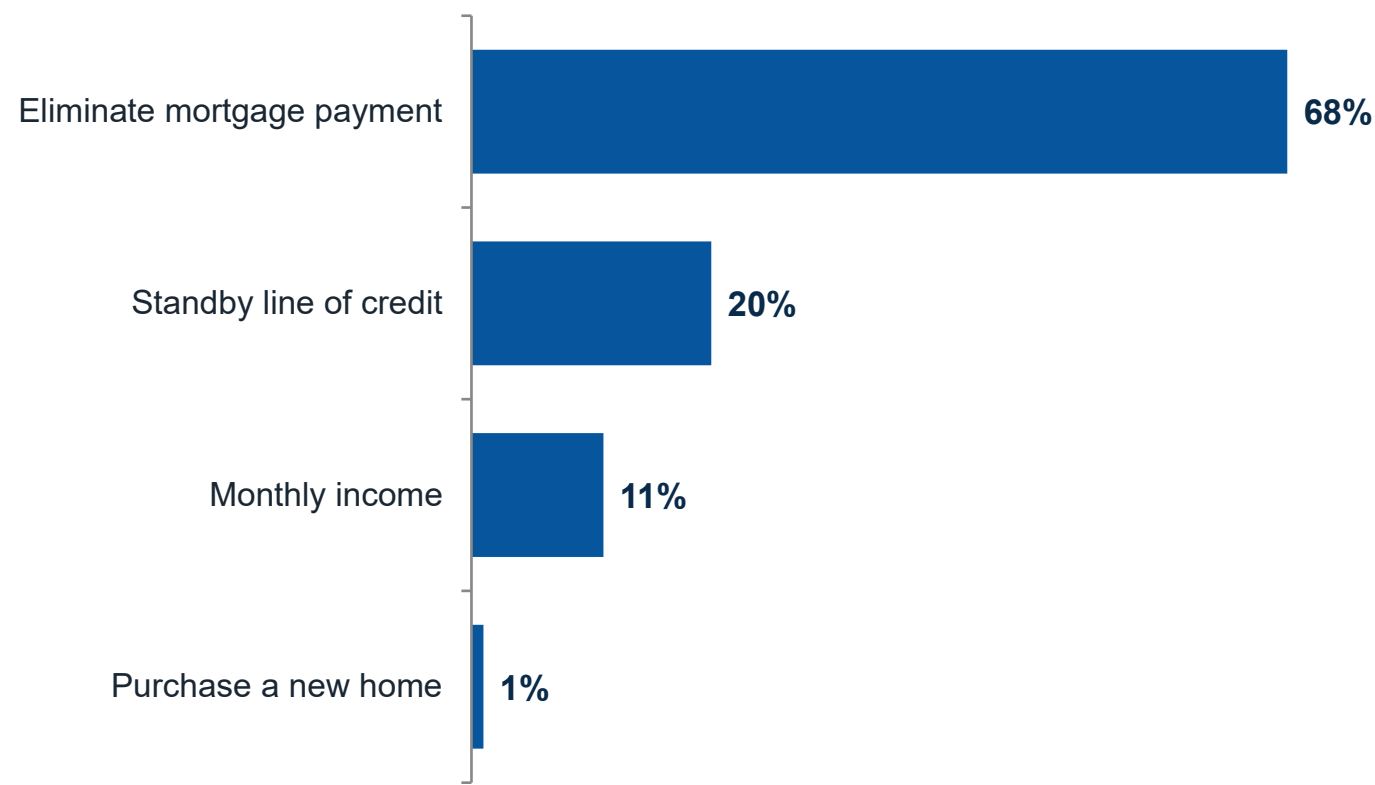
HUD Cityscape, 2017

PART THREE

When It Works

Four client needs. Peer-reviewed research.
Home equity as a planning tool — not a last resort.

What Planning Clients Actually Ask For



Translated into planning goals

- Eliminate payment**
Cash flow & peace of mind
- Standby credit line**
Liquidity, flexibility, sequence protection
- Monthly income**
Cash flow, safety, sustainability
- Purchase**
Lifestyle & legacy

Source: Tom Dickson’s Analysis of financial-planning client loans

The Payment Is the Problem. Retire It.

Why this is the #1 request



Fixed payment, variable income

The mortgage bill does not care what the market did this year. Retirement income does.



The withdrawal multiplier

Funding a \$2,000 after-tax payment can take \$30,000+ in pre-tax IRA withdrawals — every year.



Sequence pressure

Covering a payment in a down market means selling shares at exactly the wrong time.

The move



A HECM refinance pays off the existing mortgage at closing.



The required payment goes to zero. Taxes, insurance, and upkeep remain.



Freed cash flow redirects — lifestyle, a Social Security delay, or voluntary prepayments that grow the credit line.

Every dollar of payment eliminated is a dollar of portfolio withdrawal the plan no longer needs.

Reverse Mortgage Refinance Calculator

Estimate your potential HECM REFINANCE liquidity.

YOUNGEST BORROWER AGE ⓘ

72

Must be 62 or older

ENTER YOUR ESTIMATED HOME VALUE ⓘ

\$ \$850,000

Max Lending Limit 2026: \$1,249,125

📈 LIVE 10Y CMT TREASURY: 4.95%

TOTAL PRINCIPAL LIMIT (GROSS)

\$318,070

Before paying off existing liens

EXISTING MORTGAGE BALANCE ⓘ

\$ \$226,000

NET CASH / LINE OF CREDIT AVAILABLE

\$66,570

After paying off mortgage of \$226,000

Show Calculation Details ▾

The Standby Credit Line: Four Planning Jobs



Sequence-of-returns protection

Draw from the line in down markets. Let the portfolio recover before selling shares. Also bridges to a delayed Social Security claim.



Long-term care funding

A growing reserve for in-home care and the “if” in life — without carrying insurance premiums for decades.



Liquidity & asset preservation

Cash flow without forced sales, capital-gains events, or ordinary-income withdrawals.

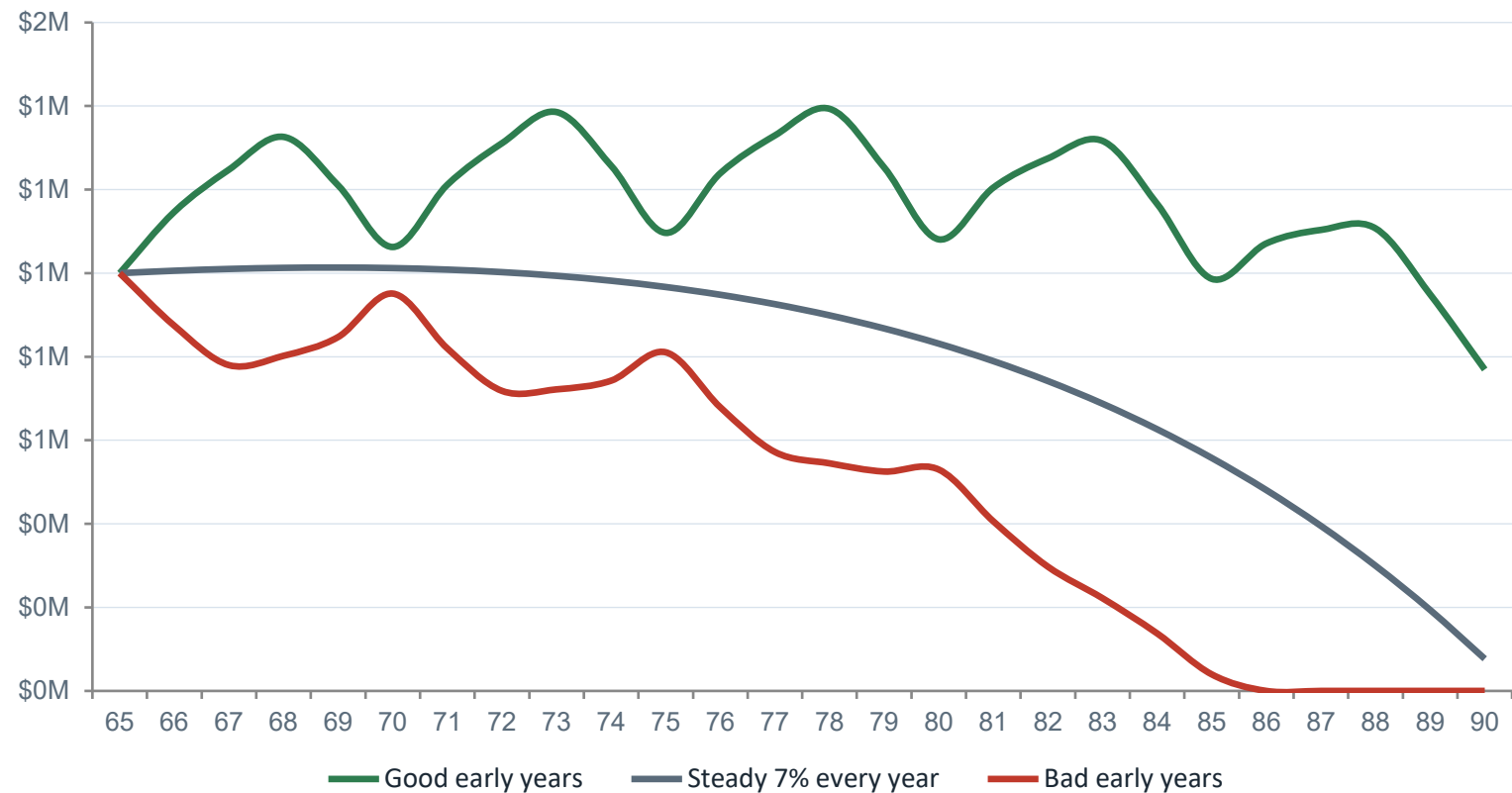


Legacy & gifting opportunities

Fund gifts while living, or a Roth conversion window, while leaving portfolio assets invested.

20% of planning clients arrive asking for this. It quietly serves the other 80% too.

Same Average Return. Wildly Different Outcomes.



Illustrative: \$1M portfolio, \$60k initial withdrawal +3%/yr. All three sequences average 7% — only the order differs.

The problem

Losses early in retirement, paired with withdrawals, can exhaust a portfolio the averages said was safe.

The buffer

In down years, spend from the reverse mortgage line instead of selling depressed shares. Resume portfolio draws after recovery.

This Strategy Came From Planners, Not Lenders



Salter, Pfeiffer & Evensky (2012)

Journal of Financial Planning 25(8): 40–48

Standby line draws in down markets materially raised 30-year portfolio survival rates.



Wade Pfau, Ph.D., CFA

The American College of Financial Services

Opening the line early supports both higher spending and a larger expected legacy than last-resort use.



Historical coordination test (1973–2002)

FAR illustration · 60/40 portfolio, for illustration only

A 1973 retiree following one simple draw rule ends 30 years with \$1,021,282 passing to heirs.

The common finding: earlier, coordinated use beats last-resort use.

Draws Are Not Income. That Changes the Tax Math.



Tax-free by definition

Reverse mortgage proceeds are loan advances, not income. They do not appear on a 1040 and are not taxed.



IRMAA protection

IRA and 401(k) withdrawals count toward Medicare surcharge thresholds. HECM draws do not. High-income retirees can keep premiums down.



The Social Security bridge

Spend from the line from 62 to 70 while the benefit grows. Delayed claiming raises the monthly check for life — and for a surviving spouse.

One caution carried over from Part 2: Social Security and Medicare are unaffected, but Medicaid is needs-based — unspent proceeds at month-end can count as resources. Coordinate with an elder-law attorney.

HECM for Purchase: Use the Equity Asset Twice

The client puts roughly 45–60% down. The reverse mortgage funds the rest. No monthly mortgage payment on the new home — and the retained cash stays invested or liquid.



Downsize without paying cash

Sell the big house, buy smaller with ~50% down, and bank the rest instead of keeping it in the home equity.



Upsize with no payment

The retirement dream home — closer to grandkids, single-level — without adding a mortgage payment.



One sale, two homes

\$1M in proceeds: buy a \$1M primary with 50% down and still fund a \$500k second home or family gift.



Multi-generational structures

Parents hold the home payment-free; the younger generation makes voluntary payments that build the growing credit line.

Down payment first — then protection, liquidity, and cash flow from the same asset for life.

Reverse Mortgage Purchase Calculator

Estimate your potential HECM PURCHASE liquidity.

YOUNGEST BORROWER AGE ⓘ

68

🏠 CASH FROM HOME SALE

\$ \$325,000

💰 OTHER CASH SOURCES

\$ \$250,000

EXPECTED PURCHASE PRICE ⓘ

\$ \$800,000

Max Limit: \$1,249,125

📈 LIVE 10Y CMT (DGS10): 4.95%

DOWN PAYMENT NEEDED

\$537,300

RM Loan Amount: \$262,700



Cash Surplus / Reserves

You have \$37,700 remaining in cash reserves after closing.

Show Calculation Details ▾

The One-Slide Suitability Screen

Worth exploring when the client...

- Plans to stay 5–10+ years
- Wants an existing mortgage payment gone
- Needs income without selling the home or triggering taxes
- Wants a growing standby reserve for markets, care, or the “if” in life
- Is managing brackets, IRMAA, or a Social Security delay

Steer away when the client...

- Is moving within 3–5 years
- Puts a debt-free inheritance above all else
- Cannot sustain taxes, insurance, and upkeep
- Has a small, short need — or a spending problem
- Has unresolved spouse, occupancy, or Medicaid issues

Client scenarios, start to finish.

The numbers behind the framework.

Home equity is a planning tool, not a last resort.

PART TWO · AN EDUCATIONAL SESSION FOR FINANCIAL PROFESSIONALS

Client Facts & Planning Context

Tom (79) and Mary (73)



Retirement Account Portfolio
\$1.8M



Net Equity in
Primary Residence
\$1.62M



Projected Portfolio
Value Gained
+\$895K
over 27 years vs. base case

Client Snapshot



Clients: Terry (79) and Elin (73)



Planning horizon: 27 years



Objective: strengthen retirement cash flow



Priority: reduce withdrawals
from invested assets

Big Picture Goals



Reduce tax burden



Reduce portfolio withdrawals



Eliminate primary mortgage
and HELOC payments



Access home equity liquidity with
less fear of running out of cash

Why the Strategy Was Considered



Rising HELOC rate resetting to 7.125%



Desire to improve retirement cash flow



Preserve the investment portfolio for
long-term growth and legacy planning



Terry feels emotional stress
about carrying debt

Key Planning Facts



Reverse mortgage
pays off both the
primary mortgage
and the HELOC



Monthly debt payments
are eliminated, improving
cash flow and
reducing stress



A tax-free line of credit
can help cover travel,
insurance premiums,
property taxes, and
other large expenses



Financial planning
indicates assets could
grow to approximately
\$4.0M by age 100
even with significant
spending



Surrendering long-term care
insurance to pay off debt
was considered but not
recommended; keeping
coverage provides peace of
mind and protection against
future care costs



For Terry and Elin, the reverse mortgage strategy is designed to improve cash flow, reduce tax-sensitive withdrawals, and preserve more portfolio value over time.

Why a Reverse Mortgage Fits Terry & Elin

The pressures they face and the outcomes they want



Current Challenges



Rising HELOC interest rate
resetting to 7.125%



Ongoing primary
mortgage payment



Ongoing HELOC
payment



Taxable IRA withdrawals can
increase the tax burden



Terry feels emotional stress
about carrying debt



Goals & Desired Outcomes



Improve retirement cash flow



Reduce tax burden



Create liquidity for
future large expenses



Preserve the investment portfolio
for long-term growth



Reduce fear of running out of cash
and support legacy planning

Core Decision Drivers



Rising
HELOC rate



Better cash flow
in retirement



Peace
of mind

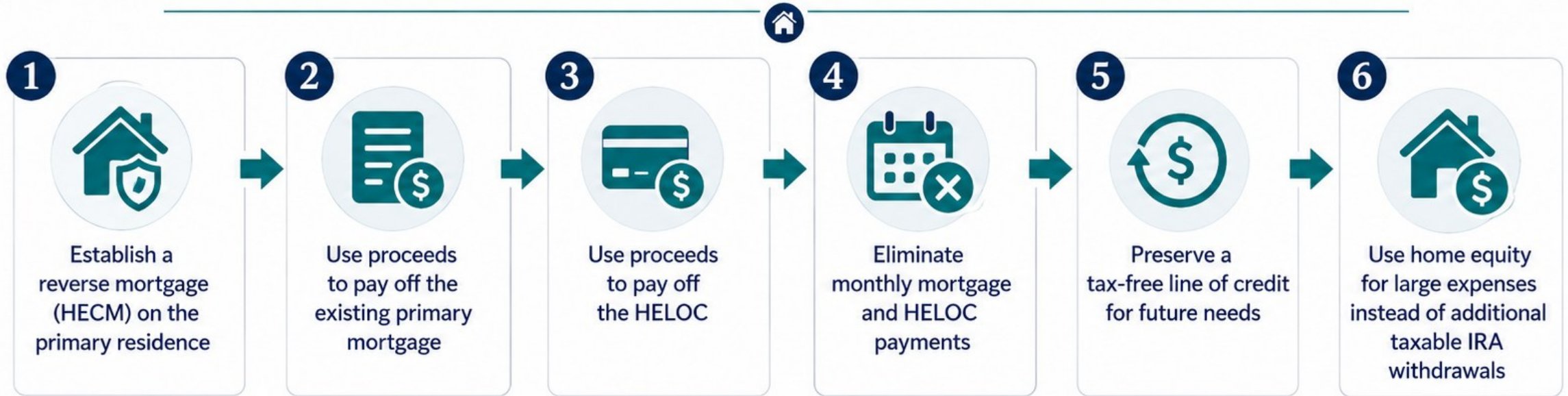


Portfolio
preservation

This example is provided for illustrative purposes only and is not intended to reflect an actual scenario.

How the Reverse Mortgage Strategy Works

Simple step-by-step view



How This Helps



Improves monthly cash flow



Reduces pressure on portfolio withdrawals



Can reduce the tax impact of withdrawals



Helps the portfolio stay invested for growth

Good to Remember



The line of credit can help cover travel, insurance premiums, and property taxes



Long-term care insurance was considered for surrender to pay off debt, but that approach was not recommended



Homeowners must continue paying property taxes, homeowners insurance, and maintain the home.

This material is intended for general informational purposes only, and should not be construed as legal, tax, investment, financial, or other advice.

Reverse Mortgage Strategy Overview

Tom (79) and Mary (73)



Retirement Portfolio
\$1.8M



Net Home Equity
\$1.62M



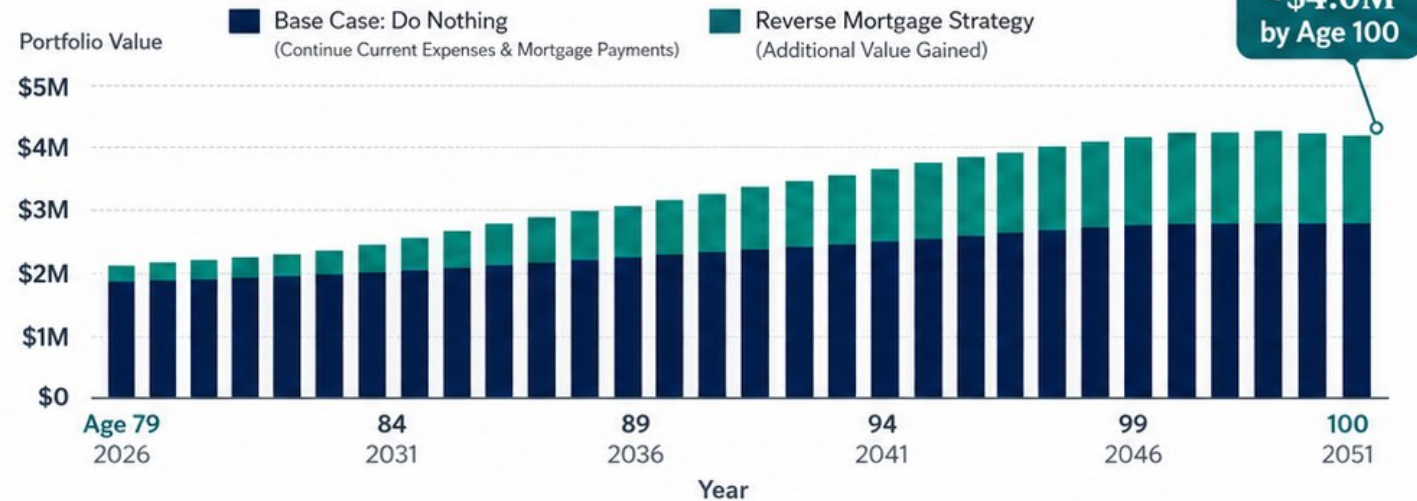
Projected Portfolio
Value Gained
+\$895,075



Planning Horizon
27 Years
• Through Age 100

Projected Lifetime Portfolio Value

With Reverse Mortgage Strategy vs. Base Case



Big Picture



Reduce tax burden



Reduce portfolio withdrawals



Eliminate primary mortgage and HELOC payments to improve cash flow



Access home equity liquidity with less fear of running out of cash

Why This Matters



Improves
retirement cash flow



Preserves portfolio assets
for long-term growth



Supports
legacy planning

This example is provided for illustrative purposes only and is not intended to reflect an actual scenario.

HOME EQUITY CONVERSION STRATEGIES

How a HECM Actually Works, Illustrated by Two Retirements



Sizing, distribution limits, and the growing line of credit — in context

Asset-Rich, Cash-Poor

A retired homeowner in her early eighties — comfortable on paper, constrained in practice

LIFE STAGE

Late retirement

Early eighties

TOTAL ASSETS

≈ \$14M

Across four holdings

HELD IN REAL ESTATE

≈ 95%

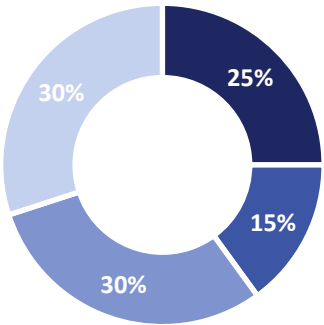
Primary, second home, rentals

LIQUID & AVAILABLE

under 5%

Mostly one concentrated position

WHERE THE INCOME COMES FROM



■ Retirement account withdrawals ■ Pension ■ Real estate & rental ■ Social Security

WHERE THE MONEY IS TRAPPED



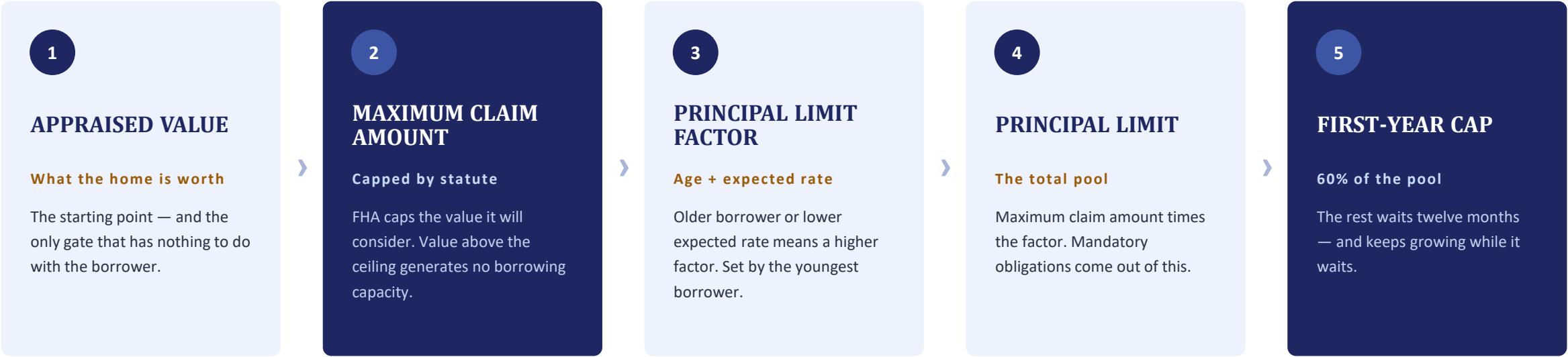
Three properties and a rental portfolio carry the balance sheet. The remainder sits in a retirement account concentrated almost entirely in a single equity position.

Property taxes and upkeep on the second home alone consume a meaningful share of annual income — and the only spigot available runs straight through the position she does not want to sell.

The constraint: Withdrawals from the retirement account come out as ordinary income, and selling into a down market turns a rebalancing decision into a realized loss.

How a HECM Is Sized — Five Gates

Every reverse mortgage runs this chain. Each gate can be the one that binds.



Two different interest rates do two different jobs. The EXPECTED rate sets the principal limit factor and is fixed at closing. The NOTE rate governs what accrues on the balance. They are not the same number, and conflating them is the most common error in this product.

EXPECTED RATE FLOOR 3.00% Below this, the factor stops improving	UPFRONT INSURANCE PREMIUM 2.0% Charged on the maximum claim amount	ANNUAL INSURANCE PREMIUM 0.5% Charged on the outstanding balance
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When the Statutory Ceiling Is the Constraint

Illustrative figures, rounded — the mechanic is the point, not the decimals

APPRAISED VALUE VS. WHAT FHA WILL CONSIDER

Home appraises at roughly \$1.6M

COUNTED	NOT COUNTED
---------	-------------

2021 statutory ceiling: \$822,375

Roughly half the home's appraised value falls outside the program. The cap applies to VALUE, not to equity — no amount of ownership gets a borrower past it.

This is the entire commercial rationale for proprietary, non-FHA reverse mortgages: they exist for homes priced above the ceiling.

THE CHAIN, RUN WITH ROUNDED FIGURES

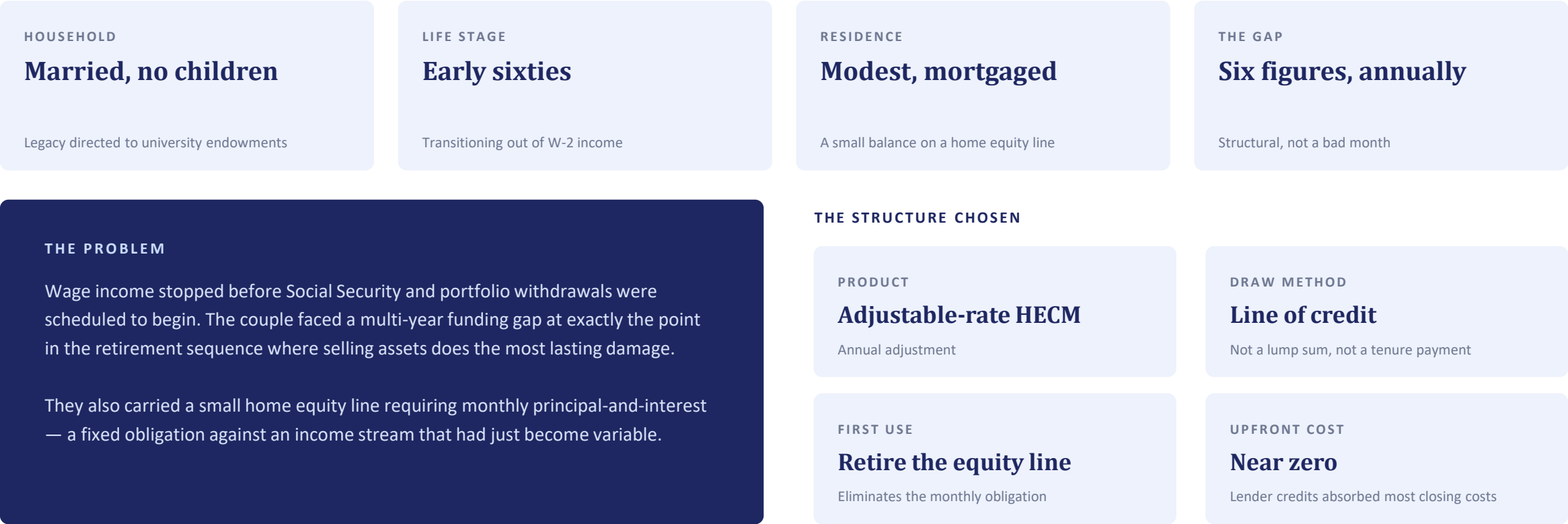
Appraised value	≈ \$1.6M
Maximum claim amount (2021 ceiling)	\$822,375
Principal limit factor — age 82, rate floor	≈ 0.66
Principal limit	≈ \$540,000
Available in year one (60% cap)	≈ \$325,000

Enough to retire principal-and-interest outflow on the residence entirely — which was the objective. When the goal is cash-flow relief rather than maximum proceeds, a binding ceiling may not matter at all.

What it accomplished: Debt service on the residence drops to zero, so the concentrated position is never force-sold to cover carrying costs. Taxes, insurance and maintenance remain the borrower's obligation — and remain the maturity trigger if unpaid.

A Structural Shortfall, Twenty Years Earlier

A married couple leaving wage income in their early sixties — no children, a charitable legacy



The First-Year Cap and the Growing Line

Illustrative only — round numbers chosen to show the mechanic, not any client's account

A \$180,000 PRINCIPAL LIMIT, SPLIT BY RULE

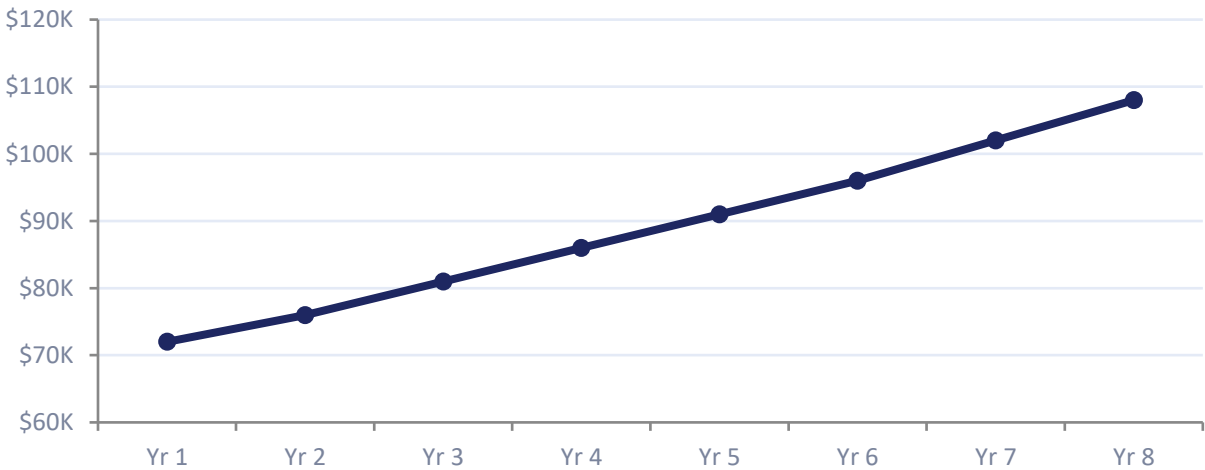


AVAILABLE IN YEAR ONE

WAITS TWELVE MONTHS

The deferred portion is not lost and not idle. It becomes available in year two — and it grows the entire time it waits, at the note rate plus the annual insurance premium.

GROWTH OF AN UNDRAWN LINE — ILLUSTRATIVE



Assumes no draws and a roughly 6% effective rate. Not a projection of any client account — actual growth tracks the note rate, which adjusts.

UNLIKE A HELOC

Cannot be frozen

No market-driven reduction while in good standing

UNLIKE HOME EQUITY

Independent of value

The line grows even if the home does not

UNLIKE A LUMP SUM

Interest only on draws

Undrawn funds accrue nothing

Eight Years of Optionality, Then a Clean Exit



WHY THE EXIT MATTERS MORE THAN THE ENTRY

A HECM carries no prepayment penalty. The couple repaid the loan when it suited them, not when the loan demanded it — and the option to do so existed from day one. That is the feature most clients do not know they are buying: not the money, the reversibility.

KEY TAKEAWAYS

No-Heir Maximization

Equity depletion was never the binding constraint here.

Sequence-of>Returns Mitigation

Drawing the line in down years kept the portfolio from selling low.

Perfect Optionality

Unwound voluntarily, on schedule, with no penalty for doing so.

Two Paths to the Same Strategic Goal

	Case Study I — Late Retirement	Case Study II — Married Couple
Life Stage	Late retirement	Pre- to active retirement
Primary Goal	Eliminate debt service, preserve portfolio	Bridge cash flow, defer taxable withdrawals
Structure	Draw against the principal limit	Growing line of credit
Which Gate Bound	Gate 2 — the statutory ceiling	Gate 5 — the first-year cap
Outcome	Concentrated position never force-sold	Repaid voluntarily; ownership restored

BOTTOM LINE

A reverse mortgage is not a one-size solution. It is a flexible planning instrument that can protect a concentrated portfolio late in retirement, or fund an entire active retirement while preserving the option to unwind on the client's own terms. In both files, the option was purchased before it was needed.

A Retired Couple With 18 Years of Payments Left



The Irvings, ages 66 and 67

Home value \$1,250,000

Mortgage balance \$230,000

Monthly payment \$2,127 (18 years left)

Monthly cash flow **Neutral**

Retirement savings \$500,000

Goals: travel \$12k/yr, home projects \$6k/yr — and no mortgage payment. Downsizing was discussed – they plan to stay

1

HECM refinance pays off the \$230,000 mortgage at closing.

2

The \$2,127 payment disappears — \$25,500 a year back in cash flow.

3

A \$181,555 line of credit opens – starts growing.

1

Mortgage Payoff

2

Cash Flow

3

Credit Line

	Inception(66)	Age 68	Age 73	Age 90
Cumulative cash drawn (tax-free)	\$0	\$18,000	\$90,000	\$90,000
Available credit line	\$181,155	\$209,273	\$298,519	\$998,748
Loan balance	\$264,383	\$304,745	\$434,707	\$1,454,388
Home value (3%)	\$1,250,000	\$1,326,125	\$1,537,342	\$2,540,993
Net home equity	\$985,618	\$1,003,653	\$1,102,635	\$1,086,605
Spending increase (\$2,127 Monthly Mortgage)	\$0	\$25,500 Annually	\$153,000	\$612,000

THE DRAWS

Age 68
\$18,000

+

Age 69
\$18,000

+

Age 70
\$18,000

+

Age 71
\$18,000

+

Age 72
\$18,000

=

\$90,000

tax-free cash flow — travel and projects, no 1099s. Line still recovers to \$998k by age 90.

The inception balance is \$264,383 — the \$230,000 payoff plus \$34,383 of financed costs. Nothing out of pocket; the fees buy the non-recourse guarantee and the growing line.

CASE · SCENARIO B: KEEP PAYING, VOLUNTARILY

1

Continue Payments

2

Cash Flow

3

Credit Line

Same couple. Same HECM payoff. One change: they voluntarily keep paying **\$2,127** a month for 10 years — every dollar now optional, growing the credit line.

	Inception (66)	Age 70	Age 76	Age 90
Cumulative cash drawn (tax-free)	\$0	\$0	\$0 — draws not yet started	\$725,000
Available credit line	\$181,555	\$363,403	\$754,221	\$585,478
Loan balance	\$264,383	\$229,062	\$153,169	\$1,867,658
Net home equity	\$985,618	\$1,177,824	\$1,526,727	\$673,335
Spending	NA	NA	NA	\$331,500

10 YEARS
starting age 77

×

\$72,500
per year

=

\$725,000

in tax-free draws — funded by a credit line optional payments built. Prepayments create borrowing power

Three Takeaways From the Irvings



A payment eliminated is cash flow created

Removing \$25,500 a year of required payments becomes \$25,500 of spending power.



Prepayments become borrowing power

In Scenario B the same \$2,127 payment built a \$754,221 line by 76. Voluntary payments are stored, not spent.



Equity grew in both scenarios

Home Equity was still substantial — at 3% appreciation. At flat prices, equity would decline: this case is about cash flow and sustainable spending.

Are any of your clients the Irvings?

A Retired Couple – Managing IRA Sustainability Risk



The Coordinated Couple, ages 70 and 71

Home value \$1,300,000

Existing mortgage \$0 — free and clear

IRA assets \$862,000

Annual spending need \$25,000/yr over pension + SS

Liquid assets Nearly gone — ~13 years of runway left

Goal: stop the IRA drawdown above RMD's— keep spending steady without exhausting retirement assets or triggering unnecessary taxable withdrawals.

1

A HECM standby line opens: \$333,589 available, \$100,000 taken as initial cash.

2

\$25,000/year drawn for 10 years, starting at 75 — funded from the line, not the IRA.

3

Each year, the advisor picks the source — IRA or HECM — based on that year's tax picture.

4

The unused portion of the line keeps growing the whole time, for whatever comes next.

IRA Stretch: Line of Credit Funding for Sustainability

	Inception (70)	Age 75	Age 85	Age 95
Cumulative cash drawn (tax-free)	\$100,000	\$100,000	\$350,000	\$350,000
Available credit line	\$333,589	\$457,640	\$626,473	\$1,311,370
Loan balance	\$134,833	\$220,077	\$792,163	\$1,658,202
Home value (4%)	\$1,300,000	\$1,507,056	\$2,025,358	\$2,721,911
Net home equity	\$1,165,168	\$1,286,979	\$1,233,195	\$1,063,709

10 YEARS
starting age 75

×

PER YEAR
\$25,000

= \$250,000

in tax-free draws — funded by the standby line,
coordinated with IRA assets.

Inception balance of \$134,833 includes the \$100,000 initial cash draw plus financed closing costs.

The Advisor Stays in the Driver's Seat



A decision, not a product

The annual IRA-vs-HECM draw choice is a planning conversation — made with the advisor, every year, based on markets and tax brackets.



Two problems, one solution

The same standby line that funds spending also became the long-term-care contingency fund they never had.

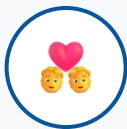


Not taxable income

\$250,000 of spending arrived with no taxable event — no bracket creep, no IRMAA cliff — while IRA assets stayed invested longer.

Are any of your client's IRA's going to run out before they do?

Martha: The Best Cash Flow Wasn't the Right Answer



Couple (79/81) — Daughter Care Plan

Home (free and clear) **\$950,000**

Status **Both in a care facility — temporary**

Care cost **~\$20,000/month**

Liquid savings **Nearly depleted**

The home **Vacant — return uncertain**

Family goal: \$300,000 — a care-cost reserve, plus renovation capital to rent the home if the parents remain in care.

On paper, the reverse mortgage led

\$0 required monthly payment · ~\$403,780 of access · ≈ 20 months of care runway
— **the longest runway of any option on the table.**

And two guidelines present risk



The occupancy rule

A HECM must stay the borrowers' primary residence. Renting the home is not permitted, which could be the outcome



The timeline

Return home is uncertain and possibly short. ~\$28,470 of upfront costs can't be justified on a short-term need

Cash Flow Options

	Reverse Mortgage	HELOC	Cash-Out Refi
Required monthly payment	\$0 (interest deferred)	Interest-only on draws, 7.500%	\$2,886 fixed, 30 years
Access to the \$300,000	\$125,000 cash + \$278,780 line	Revolving line to \$300,000	\$300,000 lump sum at close
Occupancy requirement	Must stay primary residence	None — rental OK	None — rental OK
Runway at \$20k/month	≈ 20 months	≈ 15 months	≈ 15 months
Verdict	Eliminated — occupancy + timeline	Chosen — pay-as-drawn fits the plan	Viable, but rigid

A Room of His Own

A Standby Line Erases a Payment — and Builds a Family's Legacy



Grandmother, age 80 — Los Angeles

Home value **\$1,300,000**

Mortgage paid off **\$318,715**

Monthly payment eliminated **\$1,927/mo**

Available line of credit **\$204,620.70**

Goal: standby liquidity for whatever life brings — she has used to fund a backyard office for her son-in-law and a playroom for her grandchildren.

1

HECM refinance pays off her \$318,715 mortgage at closing — the \$1,927 payment disappears.

2

A \$204,620.70 line of credit opens, built purely as standby liquidity.

3

She draws on it for family needs — a home office, a grandchild’s playroom — creating an immediate legacy while the rest keeps growing.

The Bridge – Short term Cash Flow needed

A Fixed-Rate Lump Sum Carries Linda to an \$8–10M Liquidity Event



Linda, 84 — widowed

Property value	\$5,380,000
Max Financing Amount	\$3,000,000
Fixed rate	8.990%
Cash to client at close	\$1,153,847.16
Monthly spending need	\$30,000/mo

Goal: bridge to an \$8–10M liquidity event in 18–24 months — without selling the family home or leveraging the farmland.

1

Most of Linda's wealth is real estate, her unique home and out-of-state real estate — but none of it is liquid today.

2

A fixed-rate jumbo reverse mortgage delivers \$1,153,847.16 in cash — no required monthly payment

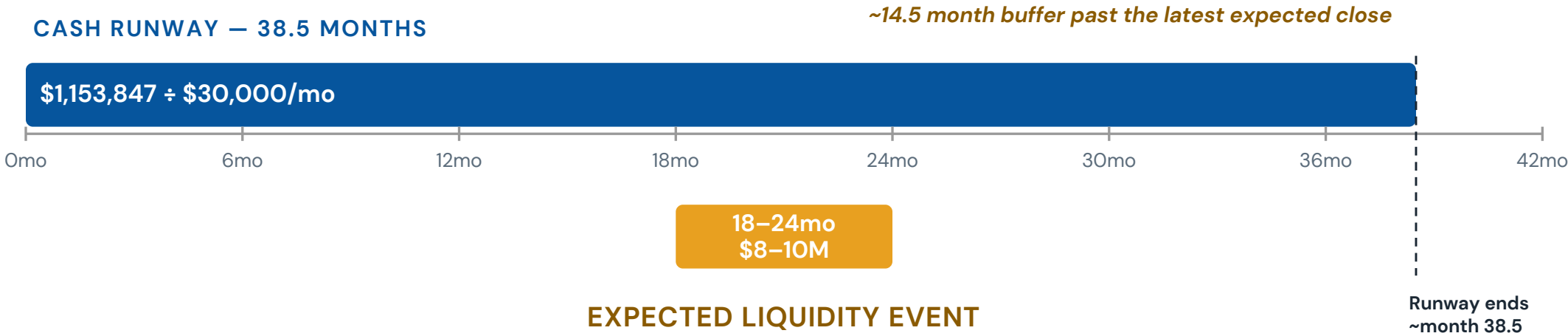
3

Cash runway: 38.5 months — a wide cushion against an 18–24 month bridge.

4

When the liquidity event lands, Linda and her advisors will decide together — pay off, invest, or split the difference.

Cash Runway vs. the Expected Liquidity Event Window



Year	Loan Balance	Property Value	Remaining Equity
Year 1 (2027)	\$3,281,095	\$5,595,200	\$2,314,105
Year 2 (2028)	\$3,588,528	\$5,819,008	\$2,230,480
Year 3 (2029)	\$3,924,767	\$6,051,768	\$2,127,001

Why a Fixed-Rate Jumbo Reverse Mortgage Was the Structure That Fit

1

HELOC — Ruled Out

No conventional income to qualify against, and the existing first mortgage already uses up most of the home's usable equity.

2

Conventional Cash-Out Refinance — Ruled Out

Same barrier as the HELOC: conventional refinancing requires provable, ongoing income a reverse mortgage doesn't.

3

Leverage the Farmland Directly — Ruled Out

The land behind the pending liquidity event is held in a multi-investor pool — it isn't hers alone to pledge.

4

Sell the Family Home — Ruled Out by Choice

Financially simplest, but this is a long-held family home. Client Linda wants to keep it for her adult children.

Fixed-Rate Jumbo Reverse Mortgage

No income qualification. No monthly payment. Non-recourse. Keeps all assets fully intact.

Funding 7/9/2026

PostClosing

Borrowers

Property

Loan Details

Fees

Comparison

Context

Miscellaneous

Processing

Title

Signers / Trust

Fin. Assessment

Assets / Incomes

Liabilities / Expenses

Schedule of Real Estate

Compliance

Underwriting

Broker Lock

Settlement

HUD-1 Page1

Cash Flow Ledger

Settlement Details

Shipping

Index	(Fixed)
Margin/Rate	Rate: 8.990%
Expected/Initial Rate	8.990%
Interest Rate Cap	
MIP Rate	
Monthly Servicing Fee	
Initial LOC Growth Rate	
Property Value	5,380,000.00
Max Claim Amount	5,380,000.00
Principal Limit	3,000,000.00
- Mortgage Insurance	
- Origination Fee	30,000.00
- Other Fees	8,164.20
+ Broker Credit (Hud1 Page1)	
+ Lender Credit (Hud1 Page1)	500.00
- Liens Payoff	1,808,488.64
Available Funds	1,153,847.16
Available Tenure	
DISBURSEMENT	Cash 1,153,847.16

Simulation

Reset Years Analyzed 5 Export Table (excel) Export Graph 1 Regular Ex

	Year	Interest Rate	Disbursement for Year	Interest	Balance	Property Growth Rate	Property Value	Equity
0	2026	8.99	2,962,336	0	3,000,000	4.00	5,380,000	2,380,000
1	2027	8.99	0	281,095	3,281,095	4.00	5,595,200	2,314,105
2	2028	8.99	0	307,433	3,588,528	4.00	5,819,008	2,230,480
3	2029	8.99	0	336,239	3,924,767	4.00	6,051,768	2,127,001
4	2030	8.99	0	367,744	4,292,511	4.00	6,293,839	2,001,328
5	2031	8.99	0	402,201	4,694,713	4.00	6,545,593	1,850,880
Total:		8.99	2,962,336	1,694,712		4.00		

Legacy, Liquidity & A Divided Estate



Advisor-referred widow, age 88

Sold prior home	\$1,800,000
Purchased (property value)	\$1,300,000
Borrowing Capacity (Reverse for Purchase)	\$735,528
Cash to client (inheritance advance)	\$402,627.19
LOC retained (reserve)	\$294,211.20

Goal: advance an inheritance to her own children now — before a trust provision splits whatever's left with her stepchildren.

1

Her late husband's estate is governed by a trust: home proceeds split 50/50 with his children from a prior marriage.

2

She sold the \$1.8M home and netted \$1,675,000. Her half funded a \$574,000 down payment; \$263,500 advanced to her own children.

3

The same 50/50 split applies to equity left in the new home at her death — creating real motivation to draw the line down, not let it sit.

4

The \$402,627.19 HECM cash disbursement went straight to her own children's estate, same as the sale proceeds did.

Legacy, Liquidity & A Divided Estate (The Outcome)

Net Sale Proceeds — Prior Home	\$1,675,000
→ To Stepchildren (Trust, 50%)	\$837,500
→ To Client (50%)	\$837,500
Down Payment — New \$1.3M Home	\$574,000
Advanced to Her Children (via Advisor)	\$263,500
HECM Cash Disbursement at Closing	\$402,627.19
→ Advanced to Her Children (via Advisor)	\$402,627.19
TOTAL MOVED TO HER OWN CHILDREN	\$666,127.19

THE MOTIVATION

The trust's 50/50 provision doesn't stop at the sale Equity/Assets she leaves behind at her death is split with her stepchildren.

Every dollar drawn out and gifted now goes to her own children in full. Equity in the home is worth half as much to her bloodline later.

The untouched \$294,211.20 line — allows her flexibility around her legacy goals, as well as providing protection and liquidity during her lifetime.

What the Cases Prove Together



Every dollar drawn was tax-free

No 1099s, no bracket creep, no IRMAA surprises — in every plan that closed.



The line grew while it waited

Unused credit compounded in every case, turning patience into capacity.



Equity still grew (but not a guarantee)

Net home equity grew in every closed scenario shown today (with 3% appreciation)



The advisor stayed central

Each plan created an annual decision that belongs to the planning relationship, not the lender.

Family/Advisor Use Cases

- Eliminate the existing mortgage payment
- Sequence-of-returns buffer in down markets
- Long-term care reserve, no insurance premiums
- Emergency reserve, untouched until needed
- Liquidity without forced asset sales
- Avoid capital-gains events from selling assets
- Bridge cash flow to a pending liquidity event
- Fund a home renovation or in-law suite / ADU
- Consolidate higher-cost debt
- Delay Social Security from 62 to 70
- Manage IRMAA / Medicare surcharge brackets
- Fund a Roth conversion/Create a tax Deduction
- Advance-fund grandkids' college
- Advance an inheritance while living
- Purchase a second home or vacation property
- Downsize without paying cash out of pocket
- Upsize near family with no new payment
- Structure a multi-generational home purchase

FOR YOUR CLIENT DATABASE

The Simple Guide to Reverse Mortgages

A client-ready interactive book covering everything from today — built to send to your entire database, not just one client at a time.



SCAN FOR THE GUIDE



Three reader modes

Written for the senior, the adult child, and the caregiver — same material, adjusted voice.



Interactive calculators

Eligibility screener, payout explorer, cost estimator, and a growing-line simulator with their numbers.



The same 3-part logic

What it is, when to walk away, when it fits — ending with the suitability screen you just saw.



Lender question checklist

A printable list of the questions a good lender should welcome.

Send your clients to: **thereversemortgagebook.vercel.app** — no signup, no cost

Let's run your client's numbers.

Bring a scenario. We'll model it live in Lendsight together — and if the answer is no, you'll hear it from us first.



Lendsight AI — live client illustrations (sample via QR at right)



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SAMPLE LENDSIGHT
ILLUSTRATION



THE CLIENT GUIDE

APPENDIX

For Q&A and Follow-Up

Credit line mechanics · Borrower satisfaction research

Credit Line Growth: How the Math Works

The growth rate = note rate + annual MIP

Index (e.g., 1-Yr CMT)	4.09%
------------------------	-------

Lender margin	2.00%
---------------	-------

Annual MIP	0.50%
------------	-------

Effective growth rate	6.59%
-----------------------	-------

Year one on a \$420,987 line

Starting available line	\$420,987
-------------------------	-----------

Growth at 6.59%	+ \$27,743
-----------------	------------

Available line, year two	\$448,730
--------------------------	-----------

It compounds every year the line goes unused. Tax and insurance payments stay the borrower's responsibility.

What Borrowers Report — Years After Closing

93%

of borrowers said the loan had a positive effect on their lives

AARP national survey · ~1,500 households

4.1/5.0

borrower satisfaction score years after closing — vs. 3.6 for comparable non-borrowers

Journals of Gerontology: Series B, 2020 (peer-reviewed)

95%

reported no pressure from their lender in federal follow-up research

HUD Cityscape, 2017 · 1,761 households

< 2%

of CFPB mortgage complaints involve reverse mortgages

CFPB complaint data

Independent researchers, years after closing, with nothing left to sell. The dissatisfied minority shares one trait: they didn't understand the terms going in.