



A Better Way To Buy A Home in Retirement

For most of those over 62, housing costs is the single biggest expense throughout retirement. It's an expense that requires careful planning and if left unchecked, it can derail your client's financial security. In 2014, the National Association of Realtors estimated that over 700,000 homes were sold to seniors over the age of 62. About 60% of those were financed with a traditional mortgage with required monthly payments. Only a few thousand of the homes sold were financed with a Home Equity Conversion Mortgage (HECM) for purchase. Most people are not aware that someone over 62 can purchase a home with the FHA approved Reverse mortgage product commonly referred to as the "H4P".

H4P works this way. At age 62 the HECM requires roughly 50% equity. Of course when buying a home there is no equity until a down payment is made. To purchase a house with the H4P, the borrower will have a down payment of approximately 50% of the purchase price. For example, to purchase a \$400,000 home, a borrower could bring in \$200,000 plus any closing costs (perhaps in equity from a home just sold). Then the reverse mortgage balance will start at about \$200,000 with no required ongoing payments other than taxes and insurance. Not having to make monthly mortgage payments can result in material savings in cash flow for the next 15-20-30 years on a \$400,000 home.

If not utilizing a H4P, a borrower typically has only two other options when purchasing a home. The second option is to pay cash in full which eliminates the ability to use any of the \$400,000 for investments or spending to improve a retirement. It would be stuck in your home until you moved or passed away. Heirs may get use out of it but the borrower never will. The third option is to use a conventional mortgage. Assuming borrowers are able to qualify; they will typically pay \$80,000 for a down payment and finance the remainder over 30 years in order to get the most affordable payment. Assuming current interest rates of 4.25%, this would result in monthly mortgage payments of about \$1600. Over 30 years the borrower will pay nearly \$575,000 PLUS the original \$80,000 down payment for total expenditures of \$656,000.

So the three options are to finance with a traditional forward mortgage and pay about \$656,000 over the retirement years, or pay \$400,000 cash, or pay down \$200,000 and not be required to make a payment except taxes and insurance or make optional payments. Some people say reverse mortgages are expensive because of higher closing costs but in reality it is the most financially lucrative over time! Of course there are many things to consider. If the borrower doesn't make payments, the children will inherit less from the house but the borrower will likely have more in other accounts because they weren't required to pull hundreds-of-thousands of dollars from their retirement accounts to pay the required mortgage. There are interest rates, tax planning and estate planning issues to consider but the bottom line is that to increase cash flow and decrease housing expenses, the best way to do it is use a HECM for purchase.

Many people end up settling for the house they think they can afford instead of the house they really want. Shouldn't a retiree get the house they really want during retirement instead of settling? The house a retiree worked their whole life for doesn't have to be the one that is downsized— maybe they want a house with room for entertaining, having family gatherings, grandchildren sleepovers, and just plain enjoying themselves!



Oh, one more thing! Clients can still make payments to a HECM and get the tax deductions if needed. The advantage of a reverse mortgage is the flexible payment options. A client can make payments — but only on their schedule and by their choice!

The reverse mortgage deserves a 2nd look. Despite having a bad reputation, this FHA government insured product has a lot more advantages than disadvantages and could just be a very important part of your client's overall retirement plan!

The Rueth Team is dedicated to client success. It is this driving mission that keeps our team constantly learning and pushing beyond our boundaries. With 124 years of combined industry experience, we find the solutions other lenders simply can't (or won't). We make a commitment to each borrower, fulfilling it with hard work, constant communication and creative problem solving. When a referral partner gives our name, they are confident knowing they are giving their clients the best chance of a smooth and successful experience. It is this dedication to client success that propels Nicole and her team to being the #1 Producing Branch Manager at Fairway Mortgage and in the Top 1% of all originators Nationwide.

Please connect with us today. We would love an opportunity to sit down and share how we can work together to make our clients successful.



Peter Rueth
Reverse Mortgage Planner
NMLS ID 1585936

750 W Hampden Ave, Ste 500
Englewood, CO 80112
Cell 303-547-2983
Fax 866-397-5890
Office 303-214-6393

peter.rueth@fairwaymc.com
www.TheRuethTeam.com