

The Reverse Mortgage **AN ESTATE PLANNING TOOL**

Helping Improve Quality of Life

Professional planners design retirement plans for their customers, and the reverse mortgage should be considered an integral part of the estate plan. Designed to help homeowners 62 years and older remain in their homes and enhance their quality of life in retirement, the reverse mortgage is a non-recourse loan that releases home equity and converts it into tax-free income. There are no restrictions on the use of proceeds, the borrower continues to own the home, and no monthly mortgage payment is required for as long as the borrower resides in the home.

Whether the goal is to augment income, pay for long-term care insurance or specialized medical treatment, or enjoy the freedom and choices that help make the retirement years memorable, unleashing home equity can be the key to a secure and well-planned retirement.

A Reverse Mortgage, as an Estate-Planning Tool, Offers Features That:

- Provide funding for healthcare or medical treatment or long-term care insurance
- Provide funding for estate taxes
- Maximize legacy asset transfer

Funding for Healthcare or Medical Treatment

With costs for healthcare increasing, even a short-term illness can significantly impact any savings or assets saved for those golden years.

The statistics tell us that 40% of the population over 65 will require some form of long-term healthcare services. An average stay in a care facility is about three years and can easily exceed \$70,000 a year. A similar illness treated in the home, supported with in-home healthcare providers, will average approximately \$30,000 per year.

Most Americans recognize the need for a long-term care insurance program to both protect their assets and relieve any potential burden on their family. Many seniors, when faced with this situation, are forced to use their savings or impact their monthly income for long-term care coverage.

A reverse mortgage allows seniors to stay in their homes, be self-sufficient, and not deplete existing savings or income. This senior-based product provides a borrower easy access to their home equity built up over the years. Whether they use the funds to purchase long-term care insurance or pay medical costs directly, the tax-free equity release helps to protect the other assets in their retirement plan.

Provide Funding for Estate Taxes

When the tax-free equity release is used to fund life insurance products, a reverse mortgage is a creative and effective way to secure the future for heirs. It gives

homeowners, particularly those with substantial wealth built up in their homes, the comfort of having more control over their estate and assuring the legacy they leave retains its value by:

- Lowering the total estate value subject to taxes
- Providing life insurance proceeds for the homeowner's heirs to pay estate taxes

How does it work?

The full value of a home owned outright is subject to estate tax, but a reverse mortgage against the property reduces its value-thus lowering any applicable estate tax. We recommend you consult your tax estate specialist.

A reverse mortgage is a lien against the property that must be repaid when the borrower permanently leaves the property. At death, the full value of the property would not be included in estate valuation for tax purposes. The accumulated debt of the reverse mortgage would effectively reduce the property value and may lower any applicable estate taxation.

In addition, accrued interest in the reverse mortgage may be available as a tax reduction upon repayment of the loan. Consult your tax advisor.

If the senior chooses to purchase insurance without using the equity release of a reverse mortgage, the buyer is most likely using post-tax dollars or income to pay these premiums.

However, if the senior uses a reverse mortgage to fund the life insurance product purchase, tax-free dollars are put to work and the income stream is unaffected.

Maximize Legacy Asset Transfer

A reverse mortgage can provide the senior the comfort of having more control over their estate and assuring they leave a higher legacy asset for their heirs.

While a home may hold a great deal of emotional value for a family, the reality is that in most cases, the property is sold after the owner's death, and the assets are liquidated. The heirs are often forced to sell the property in a volatile real estate market with no guarantee of market or value stability. After the sale, which may drag on due to market conditions, heirs may be faced with inheritance and/or capital gain taxes on the proceeds. The net proceeds are often far less than the actual or perceived value of the home.

Using a reverse mortgage to purchase life insurance, this same scenario plays out much differently...

First, the reverse mortgage on the property may lower any amount of estate tax on the property. Some of the life insurance proceeds could be used to satisfy estate taxes, and upon sale of the home, the heirs will realize a higher net return.

Second, if the borrower used the proceeds of the reverse mortgage to buy additional life insurance for their heirs, that purchase would have been made with tax-free dollars.

Regardless of age, the premium paid for life insurance coverage would translate into a larger death benefit.

When the policy pays the benefit to heirs, they receive tax-free dollars. Upon the sale of the property, any equity over the loan amount would be subject to taxes, but still revert to the heirs. With the unknown nature of future real estate markets, this scenario provides for greater control of the legacy assets by the borrower.

Trends in the Use of Reverse Mortgages

Reverse mortgages are growing in popularity-and so are the many ways they can be used to raise the standard of living for seniors and their families. Most borrowers see this innovative loan as a mechanism for living in place for as long as possible, and at the same time accessing extra income to improve their lifestyle.

For the elderly couple whose children have taken jobs across the country, cash advances from a reverse mortgage can allow them to travel and stay close to family. For the person who has trouble climbing the stairs of their three-story home, a reverse mortgage may be a way to pay for renovations that accommodate their needs-instead of being forced to move.

Leaving the home as a legacy for heirs is becoming increasingly important-many people are discovering that a reverse mortgage is a powerful tool in this process.

Business Week Online reported in their April 5, 2011 issue that reverse mortgages could be considered as a vehicle for additional retirement income and exemplify the rising interest in reverse mortgages:

“If your home is paid up or nearly so, and you’re 62 years of age or older, you can turn your residence into a steady income stream. If the market decline has sent you or your elderly parents scurrying to find more retirement income for now or the near future, consider taking out a reverse mortgage. This ingenious product allows you to convert your home equity into cold cash, so you can live virtually mortgage-free for as long as you remain in your house.”

A Reverse Mortgage Is Much Different Than a Traditional Mortgage

In fact, think of a reverse mortgage as the opposite of a traditional mortgage. With a traditional mortgage, the homeowner borrows a large sum of money and makes monthly payments. As payments are made, the loan balance gets smaller and the equity grows.

In contrast, during the life of a reverse mortgage, the loan balance gets larger while the equity gets smaller. So, instead of using income to gain equity, the reverse mortgage borrower is using equity to increase income.

Various Programs Mean Versatility and Options

We offer seniors a menu of distinct options for customizing a reverse mortgage that meets their unique needs. Our reverse mortgage products give senior homeowners access to the best plan to help them meet their goals:

All reverse mortgage products share similar characteristics and offer similar benefits to the borrower, including:

- The ability to access equity built in the home since its purchase
- Cash advances are based on the borrower's age and the home value
- No income qualification
- The loan is repaid upon a maturity event or permanent move out and repayment never exceeds the value of the home.

HUD/FHA Home Equity Conversion Mortgage (HECM):

Government Insured Program provides lump sum cash or monthly income through a line of credit subject to HUD/FHA lending limits for a fixed term as long as you live in your home. There is also a purchase product designed for those downsizing or upgrading to their final retirement home which allows them to maintain a significant portion of any equity from a previous home sale.

Jumbo product for Higher Valued Properties:

Underwritten by Urban Mortgage, this product offers 3 distinct solutions for homeowners of higher valued properties and are not limited by the HUD and Fannie Mae lending limits. Contact your mortgage advisor for all the details.

Features and Benefits

- Designed for borrowers age 62 years or older
- Virtually no maximum home value or loan limit
- Proceeds/advances are not taxable
- No prepayment penalty
- Loan is non-recourse
- Servicing fee is automatically financed on the account monthly
- Eligible home types: single family detached, manufactured, condo, PUD, 1-4 rental unit if one is owner occupied
- Counseling by an independent counselor

For more information, contact Melinda Hipp (NMLS#219085)
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