



A New Look at Retirement Cash Flow

How a Reverse Mortgage Loan Can Be A Smart Game Changer

Everyone could use more cash on hand, but not many people know how to access the wealth that's right at their fingertips. Read on to learn how you can:

- Maximize your retirement funds by increasing cash flow*
- Receive tax benefits that could remake your retirement*
- Learn one of the best kept secrets in real estate
- Dispel the myths and learn about the safety of your homeownership

**This whitepaper does not constitute tax or financial advice. Please consult a tax and/or financial advisor regarding your specific situation.*



What Would Retirement Be Like with More Cash?

The *specific* answer to that question may be different for everyone. More vacations, living closer to the grandkids or finally getting those home renovations you've always wanted.

But the most *important* answer to that question is practically universal—retirement would be much better with more cash on hand. It's an unfortunate irony that nearly all retirees would like to have more cash, but a great option for unlocking wealth they already own—the reverse mortgage loan—is not well known and is so often misrepresented.

Why Is the Reverse Mortgage a Game Changer?

Retirees in America believe that having a fully paid off house is the holy grail of financial security. In fact, many people hold off on retiring till their mortgage is done. But do we ever ask why? When

Having a paid off house is special because you don't have to make monthly mortgage payments. With a reverse mortgage loan, you don't have to make monthly mortgage payments, and you can also have a significant infusion of cash.

your mortgage is paid off, is your house worth more? Does your net worth suddenly take off? No, and this is the heart of the misunderstanding.

As we will explore in *Section One*, a reverse mortgage loan is simply a smarter angle on retirement finances. With building home equity over the years, you've really just taken money out of your pocket and locked it away where you can't do anything with it. A reverse mortgage is a straightforward way to liquify some of the equity you've been saving.

*Did you know that the IRS can't touch reverse mortgage loan proceeds?**

Going Beyond Cash In Hand

Having more cash is certainly welcomed, but in order to qualify as a game changer, there needs to be more than that. Reverse mortgage loans have a variety of additional benefits. In *Section Two*, we look at taxes, one of the biggest financial stressors for many retirees. Did you know that the IRS can't touch reverse mortgage loan proceeds?* We'll tell you why and some important ways you could leverage that fact to keep as much money in your hands as possible.*

What about retirees who'd like to move, but feel stuck because their preferred location is more expensive than where they currently live? Or maybe they would just like to spend their golden years in a much nicer house? In *Section Three*, we'll show you how you can actually buy a new home with a reverse mortgage loan. This can greatly increase your purchasing power and multiply your options for retirement living.

More Money Is Great, But Financial Security Is Essential

Cash flow, tax benefits, and new homes are all excellent, but your retirement requires security.* In fact, security is paramount, and without it, those other benefits are moot.

Reverse mortgage loans have changed drastically over the years, especially since 2014 when the federal government added a host of protections for homeowners.

We'll explain many of the factors that make reverse mortgage loans so desirable. So let's get started!



Why A Reverse Mortgage Loan Is Really Just Cashflow

If you ask people what they think about reverse mortgage loans, chances are you will get some pretty strong opinions. But these days, the most popular reverse mortgage loans are Home Equity Conversion Mortgages (HECMs). HECMs are federally insured and 100% reliable.

As long as the house is the primary residence, it's maintained, insured, and the property taxes are paid for, it can never be taken away. It's always yours and your spouse's, and you'll never owe more than the house is worth at the time it is sold.* That means the loan will always be paid for in advance, and you can do whatever you want with the proceeds (which are tax free!). All that is to say, a reverse mortgage loan is really just about cashflow—converting the equity in your home into liquid, tax-free cash.*

When the Gold Standard Is Just "Good"

Going back to the 1960s, having a fully paid off home was the gold standard for retirement. Even today, many people delay their retirement specifically until their mortgage is paid off. And having that equity is good, but is it really great? Can you fund investments with home equity, or bolster retirement savings, or buy a vacation home? No, you can't. The truth is, you can't even buy groceries or gas with home equity.

A reverse mortgage loan simply takes the equity in your home and turns it into tax-free money*, and you get to live in the house for as long as you want. Since there's no risk of foreclosure

from missing monthly mortgage payments, it's really just a way to turn wealth you own but can't touch into a new source of cash to secure and improve your retirement. Of course, you will still maintain the home and pay taxes and insurance.

Home Equity Is Good, But Cash Is Better

For many people, the typical paradigm during their earning years is to place the biggest portion of monthly income into their home (bucket 3). What's left after life expenses goes into their nest egg (bucket 2).

When we retire and income decreases to just Social Security and pension, we start drawing from bucket 2 to make up the difference. Despite being the most significant asset for many people,

their home does not offer monetary assistance in retirement. In fact, it often sucks money up for payments, taxes, maintenance, renovations, etc.

But with a reverse mortgage loan, the home not only takes care of its own expenses, it adds a tremendous amount of tax-free cash* to bolster either income or investments.

Making Your Retirement Funds Go Much Further

A common misconception is that you lose something with a reverse mortgage loan. But all you're doing is converting equity into tax-free cash* while you continue to live in your home. And if you were to choose a line of credit as payment, the amount that you don't spend actually continues to grow every year.





The Top Three Tax Benefits of Reverse Mortgage Loans*

A reverse mortgage loan converts your home equity into cash, and for many people, it's a life changing influx of money. So you may find it surprising that there are many tax benefits to these loans*—and here are the top three.

Reverse Mortgage Loan Proceeds Are Tax Free Money*

No matter how big, and no matter what you intend to use it for, every dollar of your payout is 100% tax free*. And there are many different ways you could choose to receive a payout, such as a line of credit, lump sum, monthly advance, or combination. Regardless of the type of payout you choose, that money is still tax free.* It may sound too good to be true, but these payouts are considered loans, not income, which makes them off limits to the IRS.

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Strategic Deferral of Taxable Retirement Income*

If you are on Social Security, and you are also drawing cash from other sources that qualify as income, you could be looking at paying federal taxes on up to 85% of the total amount. And if you

are in one of the 13 states that tax social security, it could make tax matters even worse for you. But a qualified tax professional could help you leverage a reverse mortgage loan to pay the lowest amount of taxes possible in your golden years.

2 Tax-Advantageous Ideas*



MEDICARE



IRA

1. If you're in the Medicare gap, a lower taxable income might get you lower insurance premiums through the ACA or even enable you to qualify for Medicaid.
2. Non-taxable reverse mortgage cash could enable you to only take out money from your IRA in the lowest tax bracket percentage.

*Pay the least amount of taxes possible by lowering your total income—all while having plenty of cash on hand.**

Protecting Your Legacy for Heirs*

Many people look forward to having a fully paid off home so they do not have to make monthly mortgage payments, and they have wealth in the form of home equity to bequeath to heirs. With a reverse mortgage, you also avoid monthly mortgage payments, but the cash provided by the loan may be a far more effective tool to transfer wealth than home equity. You must still pay taxes, insurance, and maintain the home.

In order to reap the financial benefits of an inherited home, your heirs would have to sell the home. That means they lose a significant portion of your hard-earned dollars to real estate agent fees, capital gains taxes, and potentially probate fees as well. But there are a number of financial vehicles for transferring wealth that are much more tax effective than real estate. They are simply not common knowledge because they are typically only used by people with an uncommonly large amount of wealth and excess cash.

A skilled financial advisor could help you create an estate plan that applies your reverse mortgage loan proceeds to these financial vehicles. This could minimize the amount of money that the government takes from your legacy. And rather than a traditional inheritance that's only given after you're gone, you may be able to give these types of gifts while you have plenty of time to offer wisdom and guidance for their best uses.



Yes, You Really Can Buy a Home Using a Reverse Mortgage Loan

This could be one of the best kept secrets in real estate. Reverse mortgage loans aren't just for the house you currently own, but they can be used to buy the home that you really want. The best part may be you still wouldn't have to make monthly mortgage payments, just like with any reverse mortgage loan. You must still pay taxes, insurance, and maintain the home.

How Does It Work?

With a reverse mortgage loan for purchase, you're taking out the reverse mortgage on the home that you are purchasing. As you will need to cover anywhere from 30% to 70% of the total cost of the home, the reverse mortgage isn't going to pay for the new home completely. You'll need to use other funds to cover the balance. Most people sell their existing home and combine those funds with the reverse mortgage loan proceeds, but you can use a variety of other liquid assets as well, like savings or retirement accounts.

Eligibility

- 1 One spouse must be 62 years or older to be eligible for a reverse mortgage. In Texas both spouses must be 62 years or older
- 2 Home must be a primary residence (live there 6+ months per year)
- 3 The property must be a single-family home, a 2 to a 4-unit dwelling or FHA-approved condo
- 4 Must meet minimal credit and property requirements
- 5 Must receive reverse mortgage counseling from a HUD approved counseling agency
- 6 Must not be delinquent on any federal debt

You'll Own the Home, Not the Lender

When you purchase with a reverse mortgage loan, it's the same conditions as taking out a reverse mortgage loan on an existing house. The protections you could receive are discussed more completely in the next section, but the big points are as follows.

- The home is yours, in your name, and no one can make you leave
- You never have to make monthly mortgage payments unless you want to
- Simply pay your homeowner's insurance, property taxes, and maintain the home

Does This Sound Like You?

Moving to the Perfect Neighborhood

James and Mary, who are 62 and 59, want to move to a newly constructed home in an area that's ideal for retirees. The problem is that home values are close to double in the new community compared to where they live currently. With a reverse mortgage for purchase, James and Mary can make their move and never have to make monthly mortgage payments again.



James and Mary could continue to live in this **\$391,400** home.



They could move to a \$600,000 home for \$391,400 down with no monthly mortgage payments. They will still have to pay for property-related taxes, insurance, and maintenance.

What If It Doesn't Sound Like You?

The previous scenario is really common for retirees, but let's say you actually want to move to a house of equal value as your current home. You could take advantage of the cash flow to invest or spend in any way you see fit.

NOTE: Story is for illustration purposes only. The persons depicted herein are fictional and any resemblance to actual persons is a coincidence.



Today's Reverse Mortgage Loans Are an Appealing Opportunity

"HECMs" Are Highly Regulated for Consumer Protections

Did you know that reverse mortgage loans now have extremely strong consumer protections, including federal insurance?

"HECM" stands for Home Equity Conversion Mortgage, and it's the most popular form of reverse mortgage—for good reason. It's so popular that many people use "HECM" interchangeably with the term "reverse mortgage."

Since 2013, the Federal Housing Administration (FHA) and the United States Department of Housing and Urban Development (HUD) have continually added consumer protection to HECMs.

Here's Why HECMs Are So Attractive

You Always Own Your Home

Even though you receive a payout for the equity in your home from a reverse mortgage loan, you are still the homeowner. And even if you spent every penny of the loan proceeds, no one—not the lender or the government—can make you leave your home as long as you pay taxes and insurance, and maintain the home. But if you do decide you want to sell your home and move somewhere else, you absolutely can.

You always own the home—even if all the loan proceeds are spent.

A Non-Qualifying Spouse Is Still Protected

Only one homeowner must be 62 or older to qualify for a reverse mortgage loan. But what happens if a spouse of the borrower is younger than 62 when the loan is taken, and the qualifying spouse passes away? As long as the surviving spouse is on the title, they retain full ownership of the home, just as if they had been the one to take out the loan originally.



Your Loan Can Never Exceed the Value of Your Home

If the homeowners sell the home or pass away, the value of the home is used to pay back the reverse mortgage loan balance. If the loan is less than the home is worth, the excess cash goes either to the homeowners or their heirs.

If the loan exceeds the proceeds of the home's sale, the Federal Housing Administration pays the balance—not you or your heirs!

But let's say the housing market is down when the loan needs to be paid off, and the loan amount far exceeds the market value of the home. Do the homeowners or the heirs have to pay the difference? No, they do not! HECMs are insured by the federal government, and if the loan exceeds the proceeds of the home's sale, the FHA pays the balance.

You Don't Have to Make Monthly Payments

The obligation of a monthly mortgage payment is a serious responsibility, and it keeps many people from retiring when they really want to. With a reverse mortgage loan, you are never obligated to make monthly mortgage payments. If you want to make payments for cash flow or tax purposes, you may do so, but there is no obligation, and it does not impact your ownership of the home. The only costs you need to take care of are property taxes, homeowner's insurance, and home maintenance.

Is This Surprising to You?

We suspect that it is. Most people with a negative view of reverse mortgage loans—even people who are considered financial experts—base their opinions on what reverse mortgage loans used to be like before 2014. Either that, or they confuse bespoke reverse mortgage loans with the federally insured HECM loans that we've covered in this article.



Conclusion

Has Your View of Cash Flow in Retirement Changed?

Most American retirees have a specific idea of what their finances will be like in retirement. They have Social Security, maybe a pension or a nest egg to live off of while they enjoy a home free of monthly mortgage payments.

But why necessarily settle for that, especially if you have things you'd like to do, or places you'd like to be, and you're missing out on some of them due to cash flow? You have smart options available to "change the game" of your retirement finances. If you think that a reverse mortgage loan could be right for you, reach out to a reverse mortgage loan planner.

Fairway Is Here for a Better Retirement

At Fairway Independent Mortgage Corporation, customer service is a way of life. If you're interested in learning more about reverse mortgages or any other types of loans, we should be your go-to choice. It's not just because we're nationwide, have served millions of customers, and can offer the best products, rates, and turnarounds. It's because our loan officers will meet with you, your family, financial planner, accountant, and any other advisor to find the absolute best solution for you.

**This white paper does not constitute tax advice. Please consult a tax advisor regarding your specific situation.*



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