

**WELLS  
FARGO**

**HOME  
MORTGAGE**

The Next Stage<sup>®</sup>

# Introduction to Reverse Mortgages

A Niche **with Opportunity!**

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**Presented By: Jeffrey Moulton, AMP**

- **VP, Reverse Mortgage Sales Manager, Strategic Markets**
- **Involved in the industry for over 16 years**

## Today's Agenda



- **Reverse Mortgage Industry Today**
- **Reverse Mortgage Basics**
- **Broker Responsibilities**
- **Marketing Options**
- **Resources**

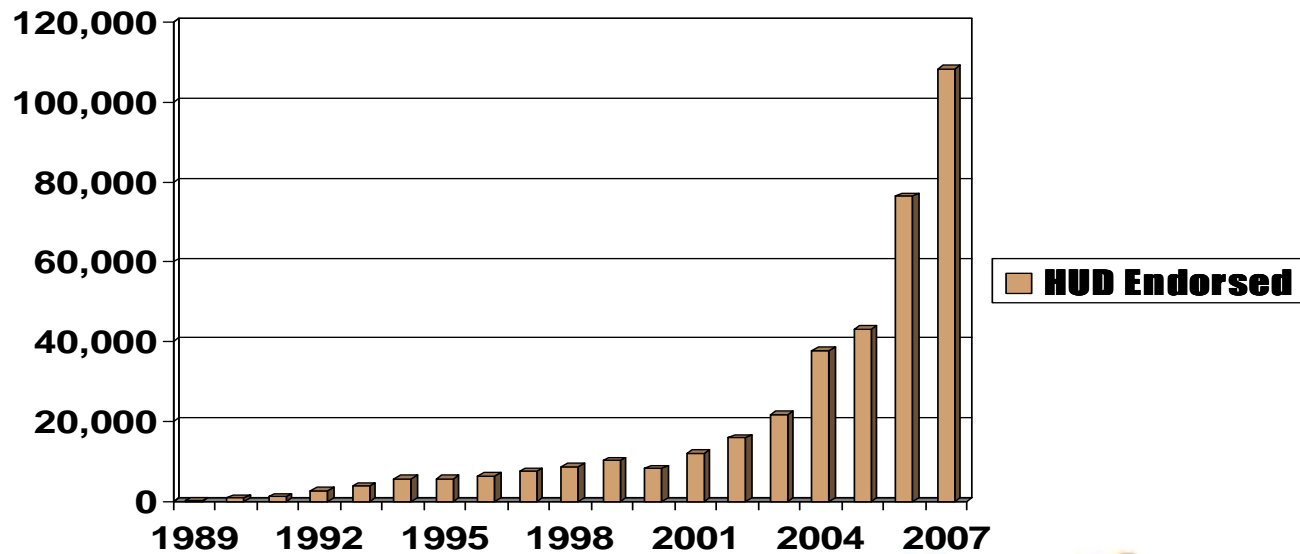
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# Reverse Mortgage Industry Today



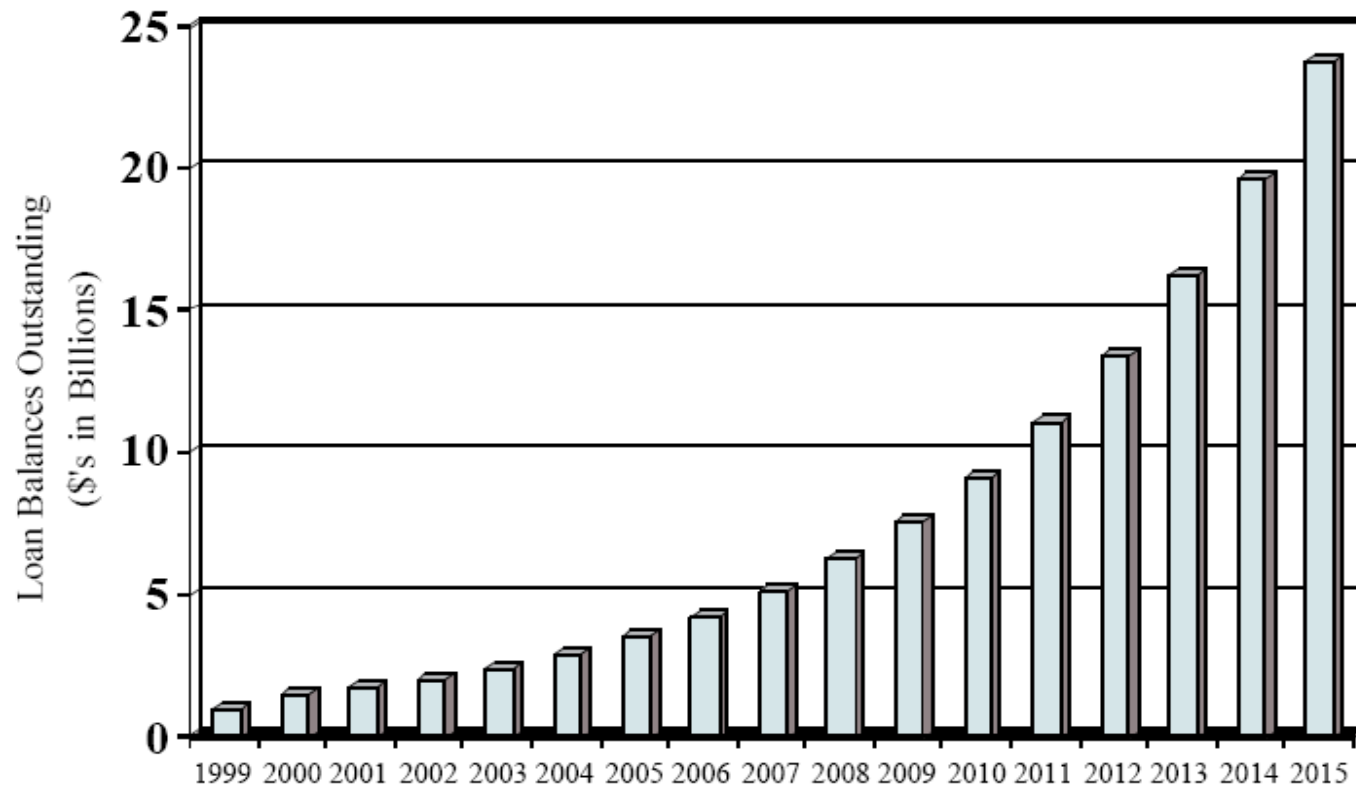
Annualized Growth of Reverse Mortgage Industry (in Units)

Source: FHA Data Warehouse from MBAA



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## Reverse Mortgage Industry – Projected HECM Growth



*\*Estimate based on AARP, NRMLA and Fannie Mae Data*

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## Reverse Mortgage Industry Today – Competition Landscape



Approximately 1,700 reverse mortgage lenders nationally.

Top 10 Lenders amount for 43% of the total units (2007):

- Wells Fargo Home Mortgage
- Financial Freedom Senior Funding
- Bank of America
- Liberty Reverse Mortgage
- American Reverse Mortgage Company

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## Reverse Mortgage Basics - Program



- Enables homeowners age 62 and older to tap the equity in their home and receive tax-free income without having to sell their home, give up title or take on a new monthly payment
- No repayment is required until the home is no longer their principal residence
- There are no income, asset, employment or credit requirements to participate

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## Reverse Mortgage Basics - Benefits



- The homeowner always retains title and ownership of the home
- Cash advances can be used for any purpose
- No fixed maturity date
- Tax-free income will not affect Social Security or Medicare benefits
- Non-recourse loan

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## Reverse Mortgage Basics - Products



- **Home Equity Conversion Mortgage (HECM)**  
(U.S. Dept. of Housing and Urban Development)
- **Home Keeper Mortgage**  
(Fannie Mae)
- **Private Lender Products**  
(Conventional – “jumbo” loans)

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## Reverse Mortgage Basics - Eligibility



- **62 years of age or older**
  - (Revocable Trusts, Guardianships, Conservatorships, DPOA's, Life Estates)
- **Own home free and clear or have a balance that can be paid off with the reverse mortgage**
- **Occupy property as principal residence**
- **Agree to attend a informational session with an approved counseling agency to alleviate predatory lending concerns**

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## Reverse Mortgage Basics – Counseling Requirement



- Ensure the borrower understands how the program works
- Examine if the reverse mortgage is the best fit and meets the needs of the borrower
- Provided by a HUD-approved agency
- Face-to-Face interview is preferred
  - Telephone counseling is available
- Typically a one hour appointment - Free

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## Reverse Mortgage Basics – How Much Can Be Borrowed?



- **Age of the youngest Homeowner**
  - The older the homeowner, more money is available
- **Current interest rate**
  - The lower the interest rate, more money is available
- **Market value of the home**
  - The higher the home value, more money is available
- **FHA county lending limit where property is located- FHA 203(b)**
  - The higher the lending limit, more money is available

**Online Calculator: [www.reversebrokerin.com](http://www.reversebrokerin.com)**

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## Reverse Mortgage Basics – Interest Rate



YEAR	INDEX (%)	MARGIN* (%)	ANNUAL PERCENTAGE RATE (%)
1992	3.96	1.50	5.46
1993	3.42	1.50	4.92
1994	5.47	1.50	6.97
1995	5.53	1.50	7.03
1996	5.82	1.50	7.32
1997	5.63	1.50	7.13
1998	5.38	1.50	6.88
1999	5.11	1.50	6.61
2000	6.08	1.50	7.58
2001	3.70	1.50	5.20
2002	2.06	1.50	3.56
2003	1.07	1.50	2.57
2004	2.14	1.50	3.64
2005	3.46	1.50	4.96
2006	5.27	1.50	6.77

- Rate is based on the 1 Year Constant Maturity Treasury Index (CMT) plus a 150 bps margin
- Annual ARM rate is based on the 1 CMT plus a 310 bps margin
- Fixed Rate product is in a design stage

\*This is a margin we used recently

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## Reverse Mortgage Basics – Borrower's Options to Receive Funds



- **Lump Sum/Partial Cash advance to cover large expenses**
- **Fixed monthly Payments to supplement income**
  - **Term: Monthly payments for a specified period of time**
  - **Tenure: Monthly payments for as long as the homeowner occupies the property**
- **Line of Credit to draw as needed**
  - **Payments received upon request**
- **Combination of Above**

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## Reverse Mortgage Basics – Payment Plan Examples



Based on a 75 year old borrower with a \$200,000 home value

	FHA HECM	Fannie Mae Home keeper	Cash Account
Net Principal limit	\$132,003	\$77,708	\$91,255
Lump Sum/ Line of Credit (LOC)	\$132,003	\$77,708	\$91,255
Tenure monthly payment	\$875	\$675	N/A
Term Payment (120 months)	\$1,100	N/A	\$760
Combination	\$30,000 Lump sum \$10,000 LOC \$610 Tenure	\$30,000 Lump sum \$10,000 LOC \$327 Tenure	\$30,000 Lump sum \$10,000 LOC \$610/ 100 months

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## Reverse Mortgage Basics – Settlement Costs



- **Origination Fee**
- **Mortgage Insurance Premium (MIP)**
- **Other Closing Fees**
- **All settlement costs may be financed, but typically the lender will require an appraisal deposit of (\$300) at time of loan application**

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## Reverse Mortgage Basics – Origination Fee



- **2% of the Maximum Claim Amount with a minimum fee of \$2,000 (*Maximum Claim Amount is defined as the appraised value of the home or the FHA Lending Limit in the county for a one-family residence*)**
  - **Maximum broker compensation is 25% of the origination fee that Wells Fargo collects**
  - **There is no additional cost to the consumer for the broker's involvement in this transaction**
- **Example:**
  - **Appraised value of the home: \$400,000**
  - **FHA County limit: \$362,750**
  - **Max Claim Amount (MCA): \$362,750**
  - **Origination Fee: \$7,255.80 (2% of the MCA)**
  - **Broker Portion of the fee: \$1,813.95 (Typically 25% of the origination fee)**

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## Reverse Mortgage Basics – Mortgage Insurance Premium (MIP)



- Reduces the risk of loss in the event that the outstanding balance, including accrued interest, MIP and fees, exceeds the value of the property at the time the mortgage is due and payable
  - A one-time non refundable initial MIP equal to 2% of the Maximum Claim Amount (MCA)
  - A monthly MIP equal to one-twelfth (1/12) of the annual rate of 0.5% of the balance)
- Example:
  - Appraised value of the home: \$65,000
  - FHA County limit: \$200,160
  - MIP: \$1,300 (2% of the lesser value)
  - Note: The MIP DOES NOT have the \$2,000 min. as allowed for with the origination fee

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## Reverse Mortgage Basics – Other Closing Costs



- Appraisal
- Title Insurance
- Credit Report
- Recording Fee
- Flood Zone Certification
- Document Preparation

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## Reverse Mortgage Basics – HECM Termination Actions



- All the borrowers have died or sold the property
- Property is no longer principal residence of a least one borrower for a period exceeding 12 months
- Borrower violates any other covenant
  - Annual payment of property taxes
  - Annual payment of homeowners insurance
- Borrower refuses to fix property in disrepair
  - Borrower does not fix conditions named in the repair rider
  - Regular home maintenance is not keep up

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## Reverse Mortgage Basics – Reverse Mortgage Repayment



- **No mortgage payments are required throughout the life of the reverse mortgage Loan**
- **The loan may be repaid at anytime either in whole or in part without penalty**
- **Partial repayments can be used to increase monthly income payments**
- **Upon a maturity event (see HECM Termination Actions Slide 20) the loan must be repaid in one lump payment**
- **Usually the loan balance is paid from sale proceeds of the home and the estate will retain the excess equity of the home**
- **No requirement that the home be sold on that the loan be repaid**
- **Non-recourse loan**
  - **Borrower is not liable for payments exceeding the value of the home at the time the loan is repaid**

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# Reverse Mortgage Basics – HECM Vs: Other Products



Features	FHA HECM 1 Month ARM	FHA HECM 1 Year ARM	FHA HECM Fixed (BNY)	Home Keeper 1 Month ARM	Cash Account 6 Month ARM
Minimum Age Eligibility	62		62	62	62
Interest Rate	1 year Constant Maturity Treasury Index		5 year CMT	1 month CD Index	6 month LIBOR
Margin	150 bps	310 bps	150 bps	340 bps	350 bps
Interest Rate Cap	10% Lifetime	2% Annual 5% lifetime	N/A	12% Lifetime	6% Lifetime
Maximum Lending Limit	FHA Lending Limit set by county Max limit in the country \$362,750		Same as FHA ARM	Fannie Mae National Lending Limit \$417,000	Virtually no lending limit
Eligible Properties	1-4 unit dwellings, condo, town homes, manufactured home		Same as FHA ARM	Single Family Homes Condo, town homes	1-4 unit dwellings, condo, town homes, manufactured home, CO-OP (NY Only )

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## Reverse Mortgage Basics – HECM Vs: Other Products



Features	FHA HECM 1 Month ARM	FHA HECM 1 Year ARM	FHA Fixed	Home Keeper 1 Month ARM	Cash Account 6 Month ARM
Home Purchase Option	No		No	Yes	Yes
Payment Options	Lump Sum, Monthly Payment (Term and Tenure), Line of Credit, or a combination		Lump Sum Only	Lump Sum, Monthly Payment (Tenure only), Line of Credit, or a combination	Lump Sum, Monthly Payment (Term only), Line of Credit, or a combination
Line of Credit	Grows annually at the same rate as it accrues on their outstanding loan balance		N/A	N/A	5% Growth Rate
Origination Fee	2% of Max Claim Amount – Min. of \$2,000		Same as FHA ARM	2% of Max Claim Amount	Varies with Product
Mortgage Insurance	A one-time non-refundable initial MIP = to 2% of MCA		Same as FHA ARM	N/A	N/A
Monthly Servicing Fee	\$30		\$30	\$30	\$20

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## Broker Responsibilities – RESPA Tasks



- Educate the prospective borrower on the loan process and advise the borrower about the reverse mortgage product
- Assist the borrower in understanding credit problems
- Take information from the borrower and fill out the “Borrower’s Worksheet”
- Direct and orient the borrower to the appropriate counseling agency
- Collect documents that are part of the application process
- Submit “Borrower Worksheet”, “Signed Application Assistance Agreement”, & “Certificate of Counseling” to Wells Fargo
- Maintain regular contact with the borrower and lender
- Participate in the loan closing, if requested by the applicant

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## Broker Responsibilities – Loan Process (45 days)



- **Broker completes RESPA tasks (outlined in slide 25)**
- **Wells Fargo representative contacts borrower and takes the loan application**
  - **This includes us ordering title, appraisal and any other services the client might need for the loan**
  - **Wells Fargo originates the loan, typically loans will close within 45 days from this point**
- **Borrower signs closing paper work**
  - **All closings are done with a mobile notary and take place anywhere of the borrower's choosing. Typically this is their home**

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## Marketing Options – Other Interested Consumers



- **Adult children**
- **Senior service professionals**
  - **Medical suppliers**
  - **In-home healthcare providers**
  - **Senior activity centers (i.e. bingo halls, churches, or senior centers)**
- **Financial advisors**
  - **Estate Planning**
  - **Long term care insurance**

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# Marketing Options – Marketing Materials



We have the following non-branded materials available for our brokers:

- Reverse Mortgage Guide
- Reverse General Flyer
- Reverse Q&A Flyer
- Reverse Friends & Family Flyer
- Reverse PowerPoint Presentation

**Reverse Mortgage**  
Your Family And Friends Can Have A More Comfortable Retirement In Their Own Home

**Independence And Increased Cash-Flow**

- Independence - They continue to live and live in their home.
- Liquidity - They receive monthly payments instead of making payments.
- Flexibility - Because you can develop your own schedule, you can develop your own schedule.
- Choice - A reverse mortgage is a loan that you can use for anything you want.
- Equity - The amount they can receive is based on the value of their home.
- Security - Don't ever affect Social Security or Medicare benefits.
- Knowledge - Help can help you get the most out of your reverse mortgage.

**Features To Help Make The Most Of Their Years**

- Independence - You continue to live and live in your home.
- Liquidity - Because you can develop your own schedule, you can develop your own schedule.
- Choice - You may receive back as little as a few hundred dollars, or as much as \$20,000 per month.
- Security - Don't ever affect Social Security or Medicare benefits.
- Knowledge - Help can help you get the most out of your reverse mortgage.

**Call me today!**

**Your Name**  
Title  
Phone: (XXX) XXX XXXX  
Fax: (XXX) XXX XXXX  
E-mail: (XXX) XXX XXXX  
Home: (XXX) XXX XXXX  
Cell: (XXX) XXX XXXX

**Reverse Mortgage**  
Your Family And Friends Can Have A More Comfortable Retirement In Their Own Home

**A Quick Q&A Guide On How To Optimize Retirement Cash Flow Without Selling Your Home**

**Who is eligible?**

- Homeowners who are at least 62 years of age and occupy the property as their primary residence.
- The home must be owned by you and able to be used as your primary residence.
- The reverse mortgage is a loan that you can use for anything you want.
- The reverse mortgage is a loan that you can use for anything you want.

**How much cash can someone receive?**

- The amount that can be borrowed is based on the borrower's age, the value of the property, and the interest rate.
- The reverse mortgage is a loan that you can use for anything you want.

**How long has reverse?**

- The reverse mortgage is a loan that you can use for anything you want.

**Call me today!**

**Your Name**  
Title  
Phone: (XXX) XXX XXXX  
Fax: (XXX) XXX XXXX  
E-mail: (XXX) XXX XXXX  
Home: (XXX) XXX XXXX  
Cell: (XXX) XXX XXXX

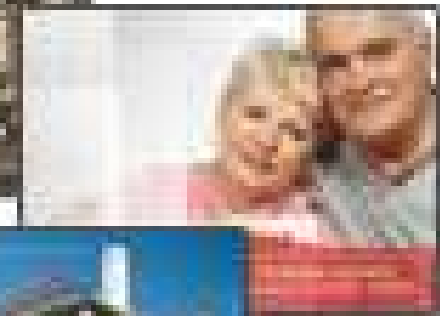
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## Marketing Options – Third Party Venders



Marketing material can also be found via other vendors. Here is are some vendors we have found that have reverse specific marketing material for sale:

- <http://www.postcardmania.com/mortgage.asp>
- [http://www.intouchtoday.com/mortgage/morpc\\_reverse.htm](http://www.intouchtoday.com/mortgage/morpc_reverse.htm)
- <http://www.zdisecure.com/gotlds/Got%20Leads%20folder/Got%20Leads/reverse.html>
- <http://fdidata.com/ReverseMortgageLeads.htm>



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## Resources



- Wells Fargo's Broker-In Website: [www.reversebrokerin.com](http://www.reversebrokerin.com)
- Housing and Urban Development (HUD): [www.hud.gov/buying/rvrsmort.cfm](http://www.hud.gov/buying/rvrsmort.cfm)
- National Reverse Mortgage Lenders Association (NRMLA): [www.reversemortgage.org](http://www.reversemortgage.org)
- American Association of Retired Persons (AARP): [www.aarp.org/revmort](http://www.aarp.org/revmort)

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**Questions?**

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