



Financial Planning for a Reverse Mortgage

Your 4-Step Checklist

A step-by-step guide to help you gather the financial documents needed to decide whether you (or your parents) are a good fit for a reverse mortgage.



HARBOR MORTGAGE SOLUTIONS, INC.

A **reverse mortgage** is designed to help senior homeowners convert the equity in their homes to monthly streams of income and/or lines of credit.

Fifteen years ago, fewer than 8,000 families took advantage of home equity conversion mortgages, also known as reverse mortgages. Today, as retirees and their adult children learn how versatile home equity can be, that number has increased exponentially. More than 58,000 families took out a reverse mortgage loan in 2015ⁱ.

Why do reverse mortgages make good financial sense for so many seniors? A few key reasons tell the story. Today's seniors are:

1. Living longer.

Approximately one in four 65-year-olds now live past age 90. One in 10 live beyond age 95ⁱⁱ.

2. Less supported by retirement savings or pension plans.

Nearly one-third of households with members aged 55 or older have no defined benefit plan or retirement savingsⁱⁱⁱ.

3. Able to tap into rising levels of home equity.

The total value of U.S. homes owned by seniors is on the rise, now up to \$5.7 trillion. Even in metro areas that were hard hit by the Great Recession, senior home values have proven more resilient to decline^{iv}.

Still, reverse mortgages aren't right for every family. If you or your parents are considering the Home Equity Conversion Mortgage (HECM) option, use this guide and checklist to conduct the financial planning and considerations that can help inform your decision.

If you find yourself asking questions at any point, please don't hesitate to [contact our team](#). We believe in *educating* homeowners about reverse mortgages—not selling them.

WHAT IS HECM? The Home Equity Conversion Mortgage (HECM) is a HUD/FHA-insured loan program. At this time, the HECM is the only reverse mortgage program approved in Massachusetts.

Who's a good candidate for a reverse mortgage?

There's no universal description that represents every family. Some HECM borrowers are retired; others are still working. Some are middle-class couples with very few assets apart from their homes; others have sizeable portfolios and retirement accounts. Some borrowers need cash *today*—for a family emergency, a medical procedure, or everyday bill-paying. Others are looking to fortify their retirement plans against inflation or unforeseen healthcare costs.

Does a reverse mortgage make financial sense for you?

Let's look at the three main needs that drive most reverse mortgage decisions:

1. To supplement your income and improve cash flow.

If you're struggling to make ends meet on a limited income, a reverse mortgage can provide much-needed liquidity. With extra cash on hand you could live more comfortably, reduce the physical and emotional side effects of financial stress, and enjoy a better quality of life.

For some households, a reverse mortgage can bring cash flow back into balance. Families may supplement their income in between jobs, or when downshifting into part-time employment.

For others, even a significant cash infusion won't lead to a viable long-term budget. (Keep in mind, according to the terms of a reverse mortgage, homeowners still need enough residual income to pay for property taxes, home insurance, and regular maintenance.) That's why it's important to have a clear outline of your financial picture as you weigh different options. It's also imperative to consider how your finances could change over the next few years. You may need to consider the possible financial impact of a spouse's death, for example. Will one Social Security check still allow you to live in your home?

2. To finance an immediate need.

A lot of seniors have worked hard to build a legacy for their children and grandchildren. But sometimes more immediate family financial needs arise. Expenses like college tuition or an emergency medical procedure are common catalysts for a reverse mortgage. It makes sense for some borrowers to access large, lump sums without tapping into their retirement accounts.

3. To establish an HECM line of credit for unforeseen expenses.

Even if you don't need liquidity *today*, a reverse mortgage can help you create a cash reserve—one that can be used in place of long-term healthcare insurance (especially if you're approaching an age when many Americans are declined or facing sky-high premiums). In this scenario, loan proceeds can be converted to a line of credit that grows every month (at the current interest rate) and is not subject to income tax. And unlike with a home equity line of credit, the bank cannot freeze a reverse mortgage credit line. This plan also provides a hedge against property value declines and against interest rate increases.

FINANCIAL PLANNING CHECKLIST

A reverse mortgage should be evaluated in the context of your *entire* financial picture—which means taking an up-close look at your balance sheet and cash flow.

The following checklist will walk you through how to assess your current financial picture, so that you have the right information to decide whether a reverse mortgage makes good financial sense for you.

Many of the components covered here – such as real estate assets and liquid assets – will be required on your reverse mortgage application, if you choose to proceed.



Step 1: Assemble an essential records binder

To begin, you'll want to gather together all of your personal financial and legal documentation. In the next steps, we will walk through what to do with this information to develop a comprehensive picture of your finances.

While you're pulling this information together, it is a worthwhile task to create a master binder to store these important documents. In the case of an emergency where you need to quickly leave your home, or if you become incapacitated, it will be a huge relief to have all of these documents together in one easy location.

Your essential records binder should include:

Contact Information

- Accountant / CPA
- Attorney
- Financial advisor
- Doctors
- Other relevant professionals

Life Documents

- Birth certificates
- Marriage certificate
- Other personal certificates: adoption, citizenship, divorce, death
- Passport
- Driver's license (copy)
- Healthcare directive / proxy

Estate Planning and Legal Documents

- Will
- Trust
- Power of Attorney
- Other documents: Advance directives, letters of instruction, funeral instructions

Property Records

- Vehicles
- Real Estate

Financial Account Information

- Bank account numbers and contacts
- Safe-deposit box location
- Investment / brokerage account numbers and contacts
- Loan account numbers and contacts

Financial Statements

- Cash flow
- Net worth
- Tax returns
- Pension benefit statements
- Social Security benefits statement
- Retirement account statements

Insurance Policies

- Auto
- Homeowners / Renters
- Health
- Life
- Disability
- Long-Term Care

Online Passwords

TIP: Designate a locked cabinet, drawer or fire-proof safe to store your records binder. This will keep it safe, and ensure you know where it is when you need it. You should also tell at least two trusted family members or friends where the binder is located, in case they need to access it on your behalf.



Step 2: Update your household balance sheet

If you haven't already gone through this process recently with a financial advisor, an updated household balance sheet will help you determine your personal net worth. Net worth is your total assets minus your total liabilities.

Assets:

- Cash savings: \$ _____
- Stocks / Investments (total): \$ _____
- Bonds: \$ _____
- Money market accounts: \$ _____
- CDs: \$ _____
- Mutual funds: \$ _____
- Retirement Accounts (401k, IRA, Roth IRA, Pension plans, Employee stock ownership plans): \$ _____
- College savings accounts: \$ _____
- Personal securities: \$ _____
- Home / property values: \$ _____
- Other real estate: \$ _____
- Personal property (jewelry, art, etc.): \$ _____

Total Assets: \$ _____

Liabilities

- Mortgage balance: \$ _____
- Credit card debt: \$ _____
- Car loans: \$ _____
- Personal loans: \$ _____
- Total Liabilities: \$ _____

Total Assets - Total Liabilities = Net Worth: \$ _____

Note: Your net worth may be negative if your total liabilities exceed your total assets.

TIP: Update your personal balance sheet once a year, or after major life changes, to maintain a current view of your net worth.



Step 3: Review your retirement budget, and create a cash flow analysis

A cash flow analysis compares your income to your expenses and illustrates whether you are spending more or less than you bring in. You can use your cash flow statement in conjunction with your net worth statement to get a better idea of your overall financial health

Creating a cash flow analysis is a little like creating a budget, which is why these two steps are listed together. You begin by listing all sources of income and all of your expenses (this is your budget). Then you add the final amounts for income and expenses, which represents your cash flow. Just like your net worth statement, a negative number means that your expenses exceed your income.

Income

<input type="checkbox"/> Earned income (salary):	\$ _____
<input type="checkbox"/> Bonuses, tips, commissions:	\$ _____
<input type="checkbox"/> Self-employment/freelance/consulting income:	\$ _____
<input type="checkbox"/> Government benefits (unemployment, disability, VA benefits, welfare, etc.):	\$ _____
<input type="checkbox"/> Child support / alimony:	\$ _____
<input type="checkbox"/> Investment income:	\$ _____
<input type="checkbox"/> Interest income:	\$ _____
<input type="checkbox"/> Dividends:	\$ _____
<input type="checkbox"/> Capital gains:	\$ _____
<input type="checkbox"/> Distributions:	\$ _____
<input type="checkbox"/> Pension:	\$ _____
<input type="checkbox"/> Social security:	\$ _____
<input type="checkbox"/> Annuity:	\$ _____
<input type="checkbox"/> Retirement plan distributions (401k, IRA, withdrawals):	\$ _____
Total income:	\$ _____

TIP: If your cash flow is positive, then you have additional money each month to help reach your financial goals. If your cash flow is negative, then you may need to either reduce your expenses or look for a way to supplement your income.

Step 3, cont.: Review your retirement budget, and create a cash flow analysis**Expenses**

<input type="checkbox"/> Mortgage / rent:	\$ _____
<input type="checkbox"/> Car payments:	\$ _____
<input type="checkbox"/> Insurance premiums:	\$ _____
<input type="checkbox"/> Property taxes:	\$ _____
<input type="checkbox"/> Alimony / child support:	\$ _____
<input type="checkbox"/> Investment contributions:	\$ _____
<input type="checkbox"/> Groceries:	\$ _____
<input type="checkbox"/> Utilities:	\$ _____
<input type="checkbox"/> Medical care:	\$ _____
<input type="checkbox"/> Entertainment / hobbies:	\$ _____
<input type="checkbox"/> Restaurants:	\$ _____
<input type="checkbox"/> Home maintenance:	\$ _____
<input type="checkbox"/> Auto maintenance:	\$ _____
<input type="checkbox"/> Spending money:	\$ _____
<input type="checkbox"/> Charity / giving:	\$ _____
<input type="checkbox"/> Other:	\$ _____
Total expenses:	\$ _____

Your Cash Flow Analysis

Add your total income and expenses to determine your personal cash flow.

**Step 4:** Review your insurance needs

Do you have enough insurance in place to protect you and your family, and take care of your daily and long term needs if an unforeseen emergency occurs? A financial advisor is the best resource to help you determine whether your current insurance levels are enough to meet your needs. You can begin by looking at your current insurance policies (these will be in your essential records binder, from step one).

- Health insurance
- Auto insurance
- Homeowners or renter's insurance
- Life insurance
- Disability insurance

Now what?

You've gathered all of your financial documents, and determined your net worth and cash flow. Still trying to figure out whether a reverse mortgage is the right solution for your needs?

We get it – it's a big decision, and there's a lot to learn and consider. You probably have some questions about how reverse mortgages work: the pros and cons, how money is disbursed, whether there are associated fees, and what the risks are. We are happy to sit down with you and your family members and answer all of your questions. If a reverse mortgage doesn't make sense for you, for any reason, we'll tell you so.

There are only nine certified reverse mortgage professionals in all of Massachusetts and Rhode Island (hard to believe, but it's true!), and two of them work in our office. Give us a call, and we'll set up a time for one of them to come meet with you.



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