

# Reverse Mortgages

## Convert Your Home into Income

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An FHA-insured reverse or conversion mortgage works by allowing homeowners age 62 and older to borrow on their home's equity without having to make monthly mortgage payments. As the borrower, you can take funds in a lump sum, line of credit or via structured monthly payments. Nearly 70 percent of all home equity conversion mortgages (HECMs) are designed to eliminate mortgage payments.

Reverse mortgages have had a bad reputation, mainly due to improper sales practices. But in 2013, the U.S. Congress passed The Reverse Mortgage Stabilization Act, and the FHA now requires lenders to validate their HECMs as sustainable solutions for the homeowners buying those products. The law also created protections for non-borrowing spouses under age 62. Prior to the legislation, if the borrower left the home, there were no protections for the spouse. Couples often did this without realizing the potentially catastrophic implications. If only one spouse's name was on the mortgage and that spouse died, the surviving spouse would be required to either repay the loan in full or face eviction.

As well, some recent articles about reverse mortgages reference large numbers of homeowners losing their homes. But some of that blame falls on the homeowners. The homeowner must do a few things each year to make sure they can remain in their home, including paying the homeowners' insurance and property taxes. If you don't, a lien can be placed on the property and you could lose your home. Federal regulations require every person going through the reverse mortgage process to take educational training to ensure they understand the type of loan they are taking and their responsibilities.

One of the most compelling reasons to take out a HECM is that the loan is "non-recourse," meaning the FHA absorbs the remaining balance of the loan if the proceeds from sale of the home are insufficient to cover the balance. The home title is not turned over to the bank until death; the homeowner has full control throughout their lifetime. When your home is sold to repay the loan, neither you nor your heirs will be required to pay more than the sales price.

While the most popular use of an HECM is to eliminate a mortgage payment, other strategies exist. The resulting line of credit allows you to tap into your home equity and treat your home like an investment. This has proven a good strategy, especially during times of stock market volatility when you should not be selling investments at depressed



prices, allowing you to mitigate sequence risk by tapping into your non-depreciating assets and keeping the rest of your money at work for you.

A line of credit could prove useful even if you do not need the funds immediately. A “standby” line of credit can be used for an unexpected expense, for example. An intriguing point: your line of credit increases at the same rate as your loan balance. And when and if you choose to tap into it, you withdraw the money tax-free, which allows your financial advisor to treat this asset as a supplement to your retirement income plan. Other prospective uses of an HECM line of credit include self-insuring for long-term care, purchasing long-term care insurance, delaying social security, gifting to children and grandchildren, and paying taxes on a Roth IRA conversion.

According to the Department of Housing and Urban Development, the maximum FHA loan for 2019 is \$726,525. You can take out a reverse mortgage if your home value is greater, but the amount of the mortgage will be limited to the current ceiling. In higher end markets like Naples, Fla., jumbo reverse mortgages are available, but they are not insured by the FHA. Large financial institutions have been entering the jumbo mortgage space as they recognize their viability for wealthy individuals.

HECMs are certain to gain more traction as the public becomes more aware of all their benefits. If you have questions about an HECM, call us at 239-263-1960 or email me at [DDarwish@hbkswealth.com](mailto:DDarwish@hbkswealth.com).

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David Darwish is a principal and senior financial advisor in the HBKS® Naples and Fort Myers, Florida, offices. He has extensive experience in the areas of financial planning, retirement planning and asset allocation analysis. Along with his client responsibilities, he works on a team with Christopher Sorce and Amanda Mahland in the Naples offices.

Dave began his financial services career with an investment services firm in Birmingham, Alabama, in the operations and discount brokerage departments. He moved to Naples, where he worked as an investment associate and later as a financial advisor with a large Wall Street firm and joined what was then HBK Sorce in 2005.

Dave earned his B.S. degree in finance from the University of Alabama in Birmingham and is a CERTIFIED FINANCIAL PLANNER™. He is a member of the Estate Planning Council of Naples, Inc.

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