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Reverse Mortgages 101: Key Concepts

Reverse Mortgage Clients

August 2026

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Presenter

Mark Reeve
VP, Reverse Mortgage Division
Plaza Home Mortgage®

Agenda

- Introduction to Reverse Mortgages
- Borrower Protections & Costs
- Two Loan Products: Fixed & Adjustable HECM
- The Line of Credit Advantage
- Plaza's Ready Reverse Process
- Resources & Next Steps

Introduction to Reverse Mortgages

What is a Reverse Mortgage?

A HECM (Home Equity Conversion Mortgage) is a special type of mortgage that enables **homeowners aged 62 or older to tap into the equity in their home.**

$ Unlike traditional home loans, no repayment of the HECM loan is required until the borrower no longer occupies the home as their principal residence.

At that time, the lender will declare the mortgage due and payable.

What is borrowed plus interest is due to the lender, any remaining equity remains with the estate.

How Long Have Reverse Mortgages Been Around?

Reverse mortgages are a financial resource that have enabled seniors to use their home equity to sustain long term retirement while maintaining residence in their home. The program was developed by the Federal Housing Administration of the US Department of Housing and Urban Development began in 1988 as part of the Federal Housing and Community Development Act.

Main Uses

Although there are no limitations as to how a person may use the proceeds from a reverse mortgage, most borrowers fall into one of these three scenarios:

- Typically paying off an existing mortgage, eliminating that monthly payment and accessing additional equity for retirement needs.

Refinance

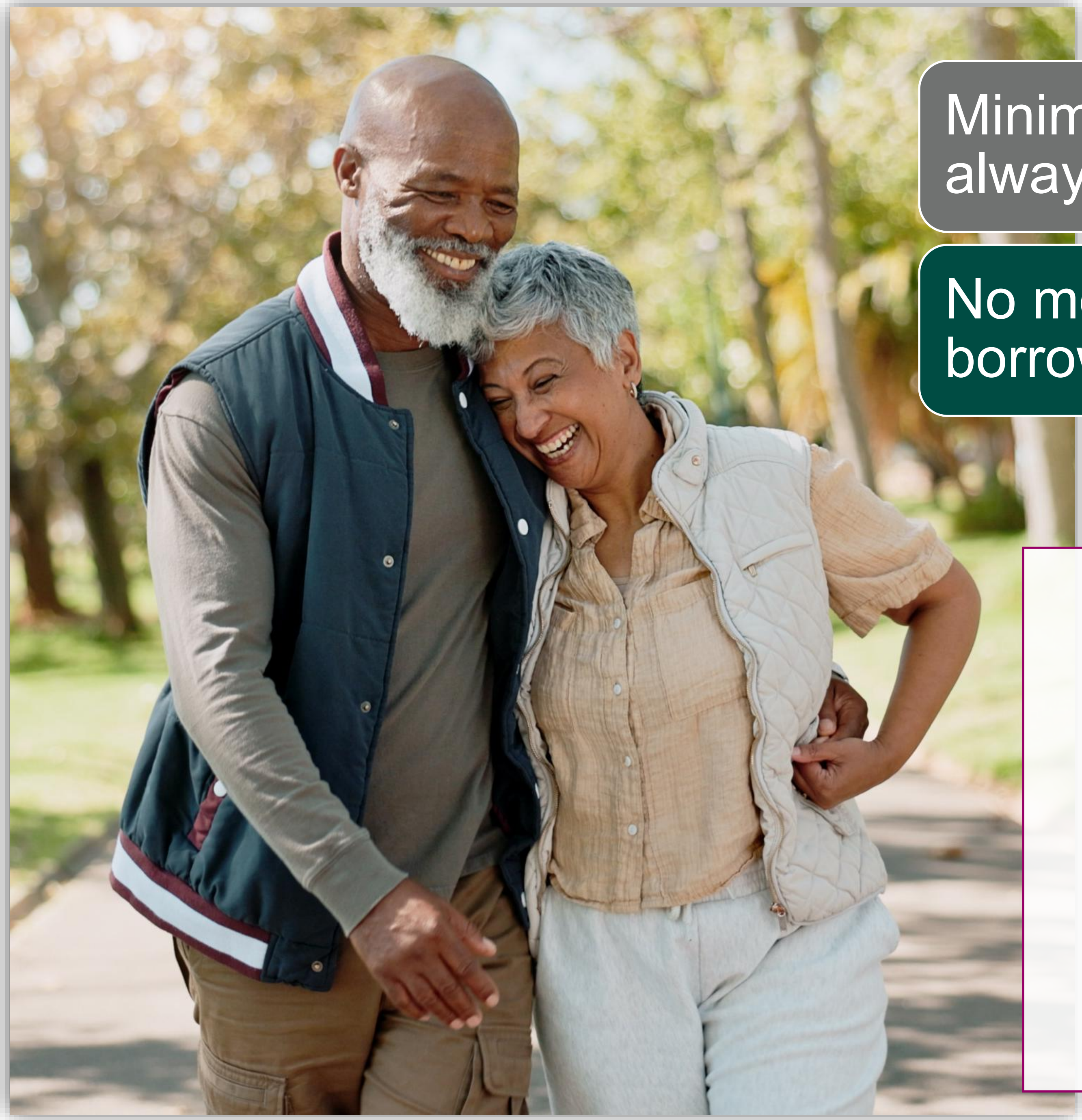
- Using a reverse mortgage to purchase a home. Buying “up” or stretching precious retirement liquidity while securing housing without a mortgage payment.

Purchase Money

- Using Reverse as part of an overall retirement strategy to improve one’s financial security.

Part of a Retirement Planning Solution

Definition Explained



Minimum age is 62, age of the youngest borrower is always used.

No monthly mortgage payment - #1 reason borrowers get a reverse mortgage.

Loan Maturity

- No longer occupy the residence - (death, move out)
- Failure to maintain property Taxes / Hazard Insurance
- Failure to reside in subject property for 12 months
- Convey Title to someone else
- General maintenance on the Property
- Sells the home

Loan Maturity

What are the Family's Options at Loan Maturity?

- Sell the Home – Satisfy the reverse mortgage – Retain remaining equity
- Estate can buy back the home at 95% of the home value at loan maturity
  - Great option if the home is upside down
- Deed In Lieu – Servicer takes responsibility
  - Great option if the family has no interest in the property upside down
  - Cash for Keys, case by case

Non-Recourse Loan!
Borrower / Estate will never owe more than the value of the home.

Future Growth & Opportunity

By 2030, all Baby Boomers will be older than 65

By 2040, about 78.3 million people will be 65 or older

- Projected to comprise 22% of the U.S. population

For older people reporting income in 2022 (55.7 million)

- 10% reported less than $10,000
- 58% reported $25,000 or more

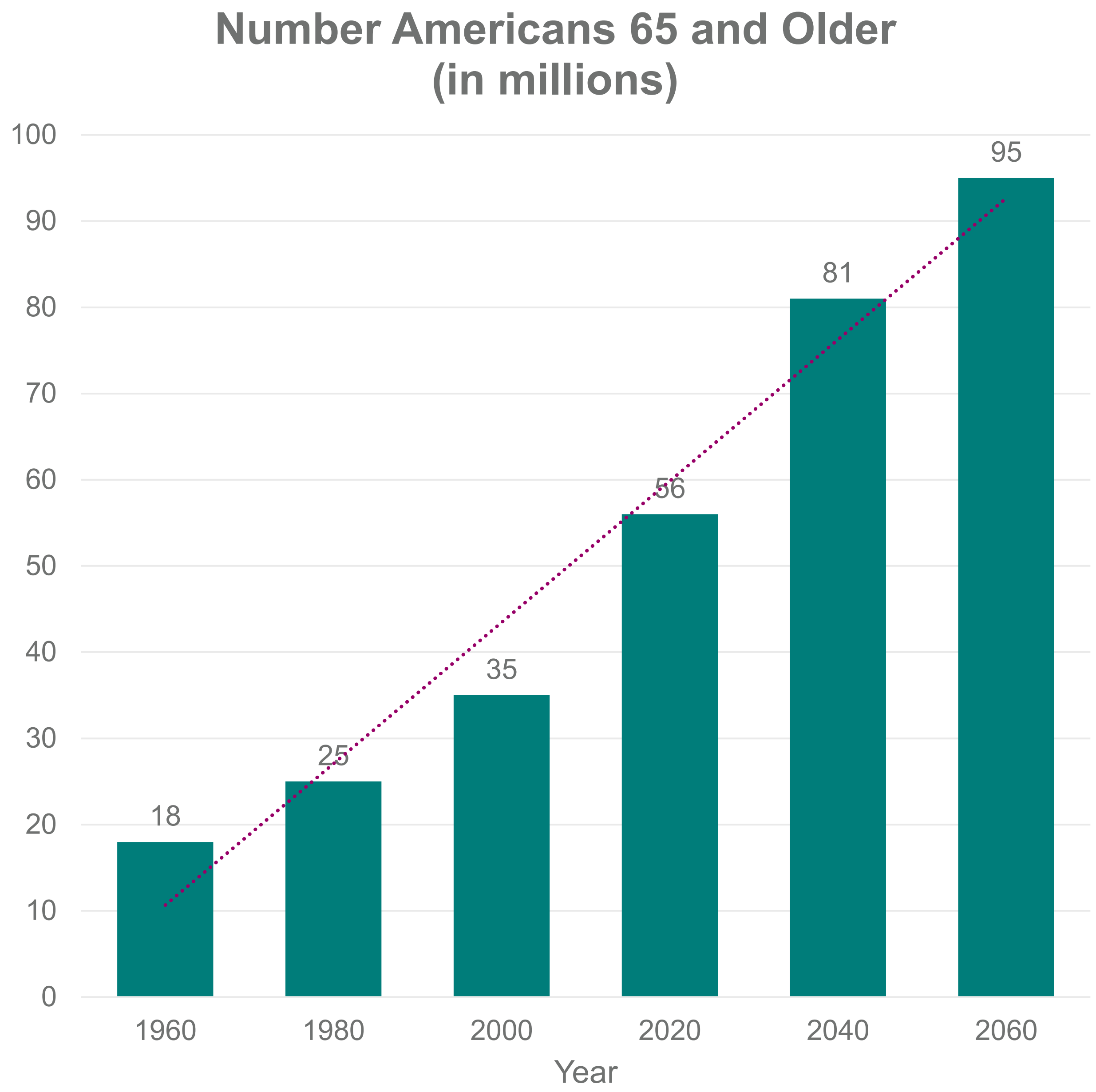
Of the 14.8 million households headed by people 75 and older in 2021, 78% (11.5 million) owned their homes

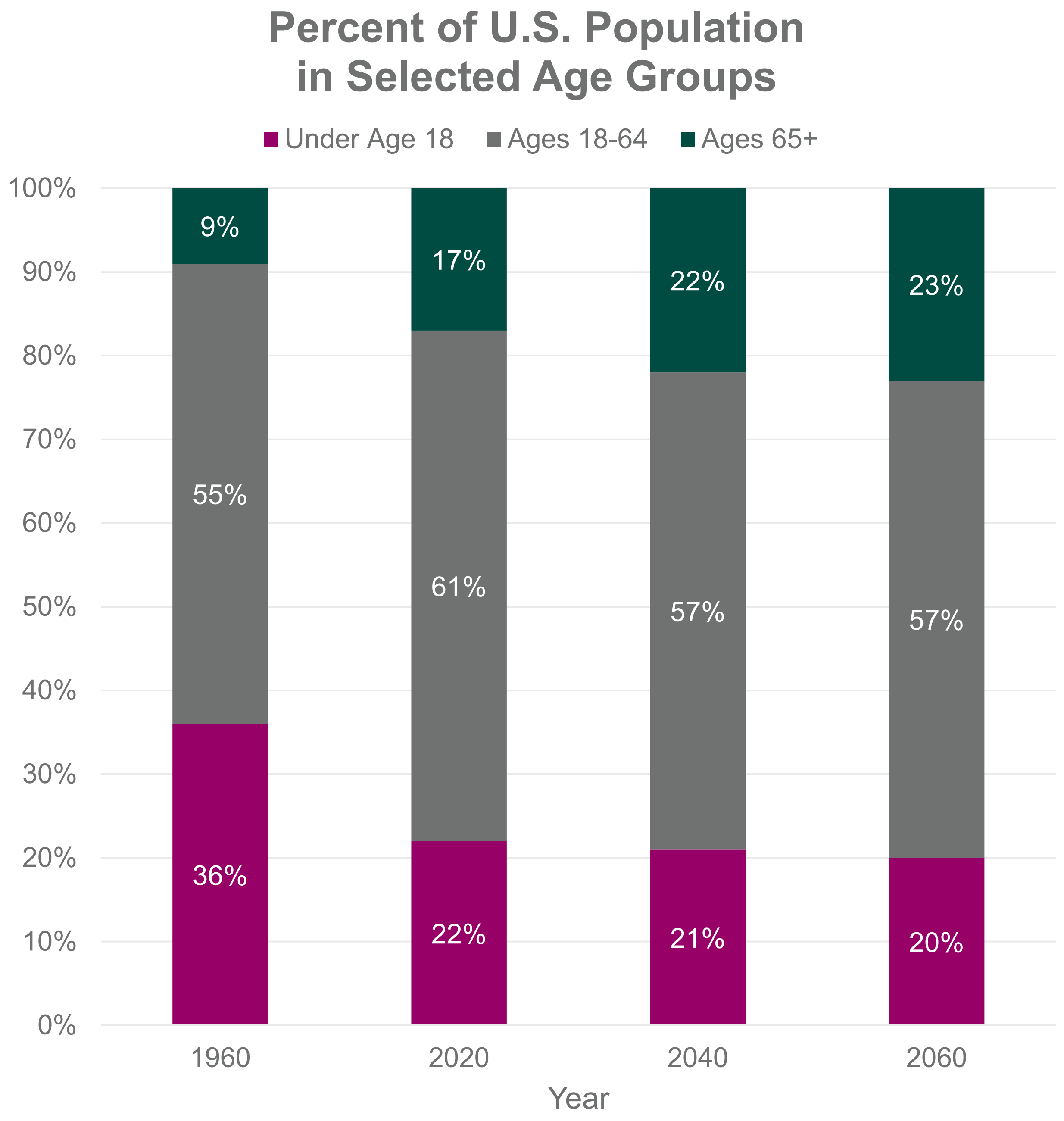
- Median construction of their home was 1974

In 2023, 11.2 million (19.2%) Americans 65 and older were working or actively seeking work

Sources: United States Census Bureau and acl.gov

Aging U.S. Population





Source: United States Census Bureau

Income

Baby Boomers are turning 62 at the rate of 10k per day

- By 2030, all Baby Boomers will be age 65 or older

The average monthly Social Security check to a retired worker is around $1,900

- The average household run by an American older than 65 spends more than $4,000 a month

Only 58% percent of Baby Boomers own retirement accounts

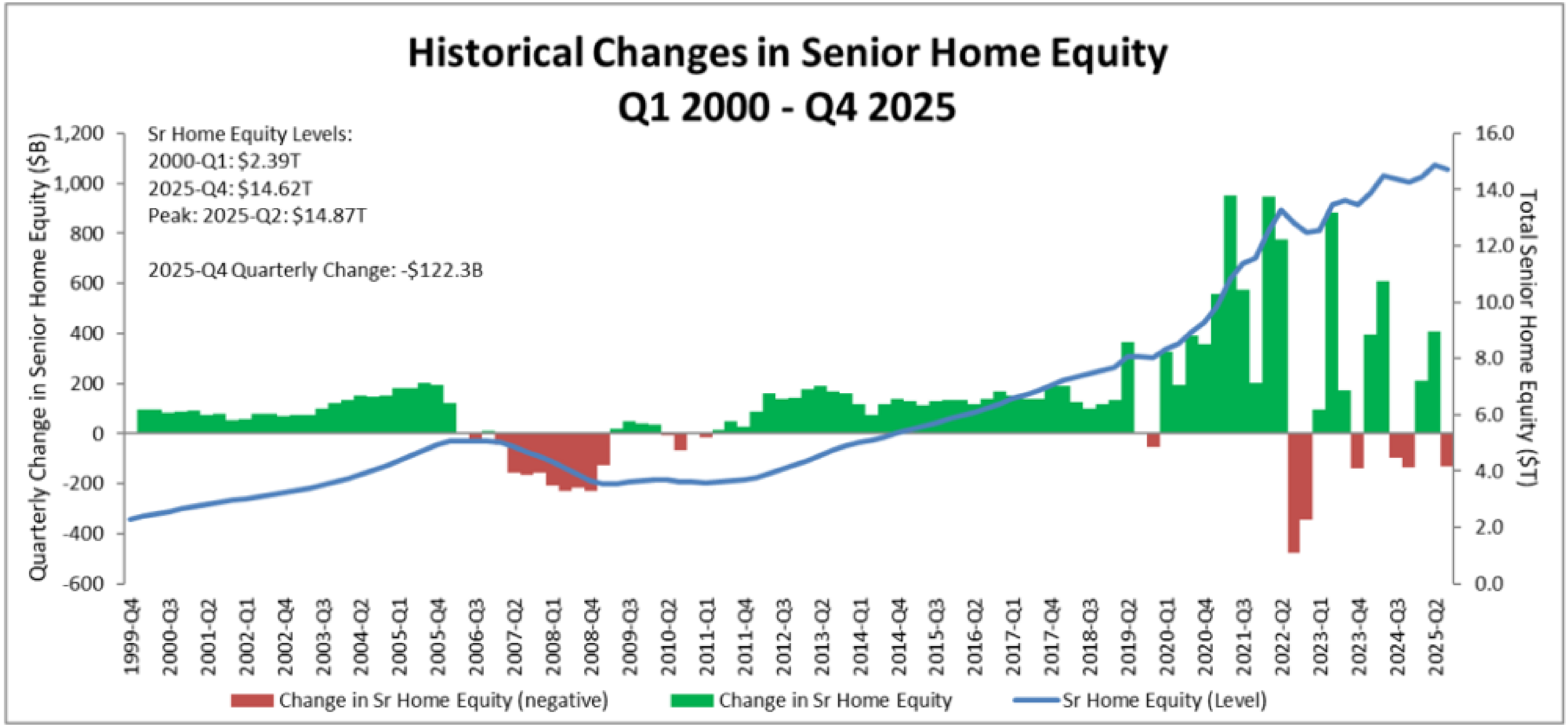
- Over half of boomers have less than $250,000 saved

Average cost of assisted living in the United States is $4,500 per month or $54,000 annually

Zero alternatives of additional monthly cash for most seniors other than home equity

Source: United States Census Bureau
Source: https://www.seniorliving.org/assisted-living/costs/

Quarter Over Quarter Changes in Senior Home Equity



Prepared by RiskSpan, Inc.
Data sources: American Community Survey, Census, FHFA, Federal Reserve

Source: https://www.nrmlaonline.org/

Borrower Protections & Costs

Guidelines that Protect the Borrower

Non-Borrowing Spouse (NBS)* (ML 2015-02)

If the borrower is married, both individuals must be accounted for in the underwriting decision of a reverse mortgage. If the borrower's spouse was not of qualifying age when the reverse mortgage was taken out, this guideline prevents the mortgage from being called "due" in the event of the borrower's death. NBS and Non-Borrowing Occupant can remain on Title!

Income and Credit Underwriting (SEL 2015-10)

This guideline requires the borrower(s) to be subject to a credit and income underwriting decision. The intent of this guideline is to minimize property tax and insurance defaults and help to ensure the desired loan is a positive benefit for the borrower.

Limitations on Cash Out in the First Year (ML 2014-12)

Regardless of how much the borrower is eligible to borrow, the amount of loan proceeds they can access during the first 12 months after closing is limited to 60 percent of the loan amount. For example, if they are eligible for a $100,000 reverse mortgage, they may only access $60,000.

Principal Limit and Floor Rates (ML 2017-12)

This Mortgagee Letter increased the upfront Mortgage Insurance Premium (MIP) for many, lowered the annual MIP for all, as well as reduced the amount borrowers will be able to receive under the program. This change was to help ensure long term sustainability of funds available through FHA programs into the future.

*NBS is ineligible in Texas and Minnesota.

Initial Mortgage Insurance Premiums

FHA Guidelines:

Flat 2% of the lesser of Maximum Claim Amount (MCA) $1,249,125 appraised value, or purchase price

Easy rule of thumb - 2% of the appraised value - cap at: $24,982.50

For example, $700,000 appraised value x 2% = $14,000 in upfront MI

The interest charged to the borrower is the note rate plus the MI (0.5%)

Limitations On Cash Out / MI Schedule

First 12 months only!

Example:

- 74-year-old Borrower
- Home is valued at: $500,000
- Qualifies at 52.4% LTV
- HECM Principal Limit = $262,000 (Loan Amount)

Depending upon mandatory obligations (lien pay-off / closing costs)…
How much can you access in the first 12 months?

- < 60% ($157,200)
- > 60% ($157,200) + $26,200
- Only access 10% of PL in the first 12 months ($26,200) > 60% Utilization
- No more restrictions accessing available funds after 12 months.

Step 1 – Qualifying LTV

Max Claim Amount: effective 01/01/26 lesser of $1,249,125, appraised value or purchase price

LTV is based upon the Expected Rate & Age of the youngest borrower

Determine how much borrower(s) qualify for

FMV - $500k; 70-year-old; 5.50% Expected Rate, 43.9% LTV = $219,500.00

FMV – 1.75MM ($1,249,125); 70-year-old; 5.00% Expected Rate, 46.5% LTV = $580,843.12

Two Loan Products

Fixed Rate HECM

Adjustable Rate HECM

Fixed Rate HECM

Rate is fixed.

Borrowers would like to receive funds at closing, with no option of accessing additional funds at a later date.

Most times these are best suited for high utilization loans where all HECM proceeds are allocated toward paying off an existing mortgage.

There are no credit line and payment options with the Fixed.

Fixed may be an inferior product when used as a financial tool

Adjustable Rate HECM

Index is the 1 Year CMT + Margin = Note Rate

- Adjusts monthly and has a 5% Lifetime CAP above initial Note rate

Typically allows borrowers to receive the most funds

Borrowers have flexibility in accessing the available funds

- Cash at close
- Monthly disbursement schedule (term payment)
- Monthly payment for life (tenure)
- Credit Line (access cash as needed)
- These options are flexible; can be combined and changed at a later date

Current market is 98% ARM vs. 2% Fixed

The Line of Credit Advantage

How Does the Credit Line Work?

Funds left on the credit line do not incur interest until those funds are drawn upon

- Prolongs the equity positioning in the home and protects the estate/inheritance

Only the **available** line of credit will grow over time

Funds on the credit line grow at the rate of the credit line growth rate

- Growth rate is the Note rate + .5 (MI), calculated monthly (not daily)

The credit line growth rate is not interest; it is simple, a built-in feature that allows future access to additional credit

How Does the Credit Line Work?

Borrowers have limited availability in the first 12 months, after which there are no more restrictions in accessing the available funds

Borrowers can (but aren't required to) access funds and pay them back only to re-access them later

Credit line grows regardless of the equity position in the home

Funds are guaranteed and will not be held up, frozen, or reduced because of real estate market declines or the home's future equity position

- Great hedge against future home depreciation
- Why better than a HELOC? - permanency

If the interest rate increases on the HECM, the credit line growth rate increases as well

- Great hedge against future interest rate increase

Why Not Just a HELOC?

Most HELOCs have term limits of 10-20 years

Lower Fees

Requires a monthly payment

Loan can be called by the lender at will in a depreciating housing market
In 2008, HELOCs were closed, or credit was reduced

No security

As future planning, HELOC does not offer any assurance of permanency; can be closed by the lender at any time

HELOC is not a retirement tool; it's short-term liquidity

Why is the Line of Credit (LOC) so Good?

LOC is open ended credit

- Borrow from it, pay it down and borrow from it again

LOC is liquid

- Cash is available typically in 48-72 hrs
- Direct Deposit is encouraged

LOC is not taxed when drawn upon!

LOC is secure

- Will not be reduced, frozen or eliminated if property value should decline

LOC grows

- At the same interest as the Note rate + MI
- Yes! It compounds

What We Must Know About the Line of Credit (LOC)?

plaza HOME MORTGAGE®

Available only with the ARM

LOC is open ended credit – Borrow funds, pay it back and re-access without restrictions

LOC is not taxed when drawn – Strategic draws may allow a homeowner to remain in a lower tax bracket

LOC is secure – It will not be reduced, frozen or withdrawn if property value decreases

LOC grows – Available credit grows and compounds at the same rate as the interest charged on borrowed money

Techniques to Improve Retirement Income Plan

Defer Social Security Benefits

Reduce Sequence of Returns Risks

Impact on Taxes

Reduce Retirement Expenses and Cash Outflow

Resources & Next Steps

Plaza's Ready Reverse Process

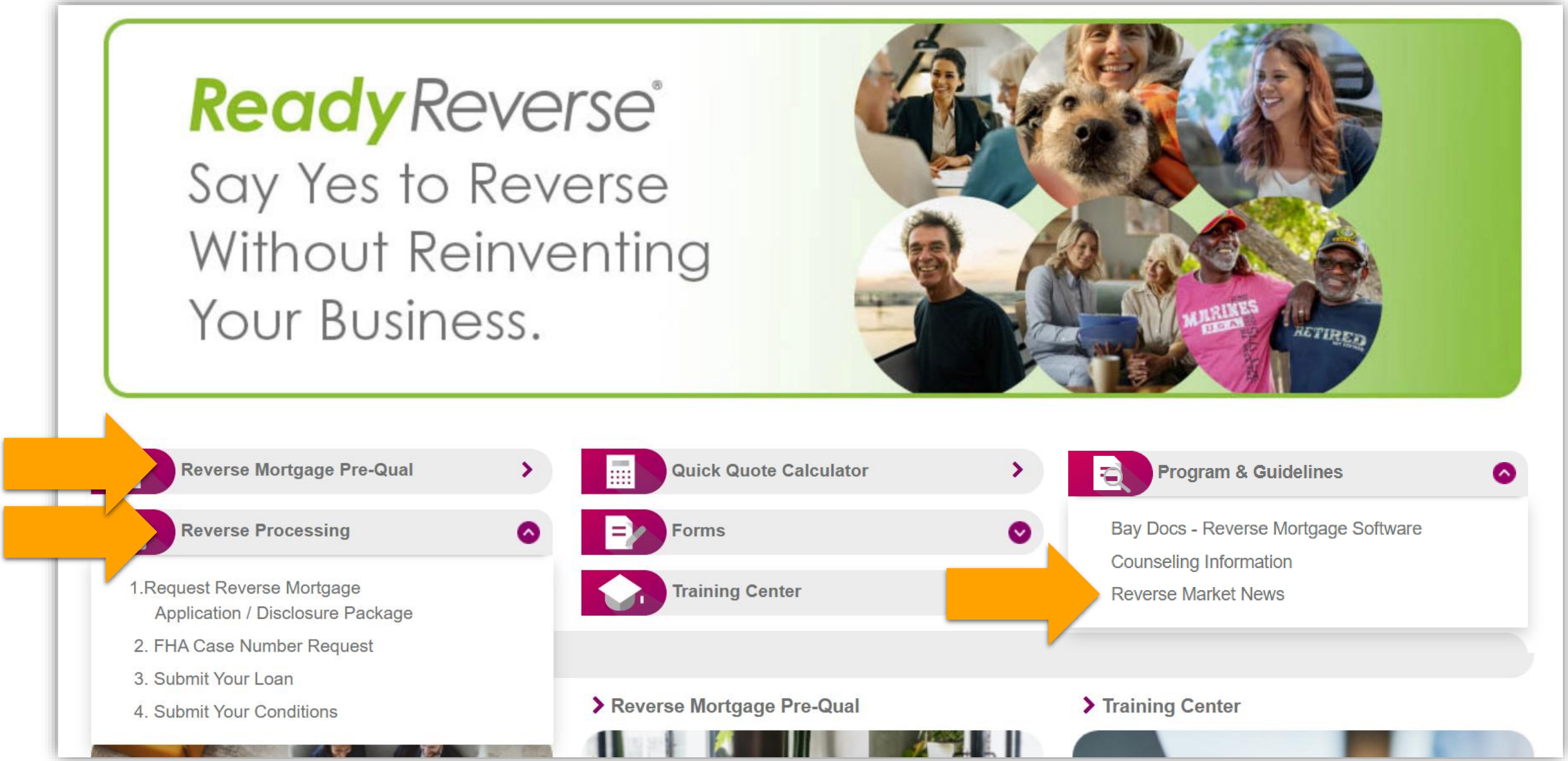
Plaza's Ready Reverse™ is a streamlined process that makes your entire reverse origination journey super simple and super quick. Here's why you'll love it:

- No set-up fees
- Speedy Pre-Quals and closings
- Webinars and videos to guide you through the process of this unique loan program
- Manage title and closing services to ensure conditions and demands are met
- Experienced guidance from our reverse mortgage pros who specialize in introducing reverse mortgages to traditional originators
- Support for compliant counseling, application, redisclosure and closing packages so you can focus on the most important thing – your borrowers!
- Manage all appraisal ordering

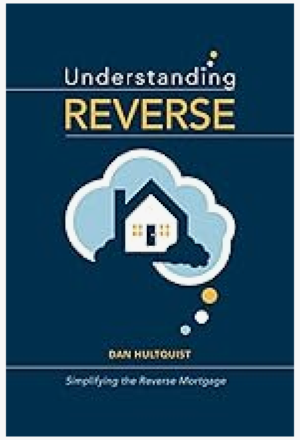
ReadyReverse™

PlazaHomeMortgage.com

Plaza's Reverse Mortgage Website



Suggested Resources – Books



Understanding Reverse: Simplifying the Reverse Mortgage
by Dan Hultquist | Feb 1, 2024
★★★★★ 13

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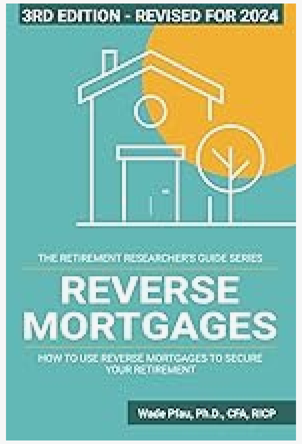

Reverse Mortgages: How to use Reverse Mortgages to Secure Your Retirement (The Retirement Researcher Guide Series)
Part of: The Retirement Researcher Guide Series (4 books) | by Wade D. Pfau Ph.D. | Feb 24, 2022
★★★★½ 209

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If you have any questions or comments, please feel free to contact your Plaza Account Executive or mark.reeve@plazahomemortgage.com.