

IN THIS BOOK YOU WILL LEARN HOW:

- To Unlock the Truth About Reverse Mortgages and Move Your Past The Retirement Goal-line
- Accessing the Equity in your home can benefit you in Retirement
- Your Home can be a significant part of your Retirement Cash Flow
- To pay for In-home Care Expenses and Age In Place through your Home's Equity

"We all know that planning for retirement is important, but many of us overlook how the home can get us to our retirement goals. Ken Pitts dispels the myths and mysteries around reverse mortgages and shows how a reverse mortgage can be a solution in a variety of planning situations. A must-read for the financial professional!"

JOHN SCOTT, Pew Charitable Trusts



'Reverse Mortgages Demystified! A perfect mix of storytelling and facts to illustrate the power of this often-misunderstood financial tool. A must-read for anyone who wants to explore the many ways a Reverse Mortgage can put Home Equity to work for themselves or a loved one.'

JULIA BRAUN, Reverse Mortgage Professional



KEN PITTS

is a licensed mortgage broker with over 33 years of experience in mortgage lending and real estate. He is a graduate of the prestigious Swarthmore College and has served as an instructor for the Philadelphia Mortgage Bankers Association School of Mortgage Banking and on several non-profit boards.

Ken's foray into the reverse mortgage world is a direct result of his commitment to his client's financial well-being. As his client base began reaching retirement age, he found himself fielding more and more questions about reverse mortgages. Baffled by the negative

reputation of the loan, Ken set about learning about the product and researching its potential impact on retirement planning.

What emerged was a layman's guide to understanding the reverse mortgage and how to evaluate it as a potential retirement tool. Ken's dedication to his clients and their financial security has made him a respected and sought-after lender in his market.

KINETIC WEALTH

KINETIC WEALTH

How to use Home Equity to Cross the Retirement Goal Line

Free Sample Chapter

KEN PITTS

K E N P I T T S

KINETIC WEALTH

How to Use Home Equity to Cross the Retirement Goal Line

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First Edition

*This book is dedicated to Brenda,
whose support and encouragement have kept me going
through the highs and lows in life.*

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INTRODUCTION

What started off as a simple business lunch with my new business banking rep, Clara, turned into a detailed discussion about retirement, taking care of parents, and elder care.

When Clara called me, we decided lunch would be a good contact point to get up to speed on the banking relationship.

We began with the regular back and forth about where we started our careers and how we ended up where we are. While discussing real estate, Clara mentioned her mother's home and how it was just up for sale after she had recently passed. I joined in the conversation with the experiences my wife and I had selling my father-in-law's home. We discussed estates, planning for the end, and how we both had to take care of our parents and I shared that I had just recently lost my mother.

Clara and I are both in our early sixties. These are the conversations people our age have.

How do we take care of our parents?

How do we plan our retirement?

And how will it impact our kids?

I mentioned in the course of conversation that followed that I had decided to focus on reverse mortgages. Clara immediately zeroed in and asked me some very pointed questions.

“Why did you decide to focus on reverse mortgages?” she asked, lifting her eyes from the menu. I explained that many of my past clients were in and around my age, basically 45 to 75. Clients were asking me questions about it, and I felt it was my responsibility to know as much as I could about the product and how it could fit into a financial plan. “If I don’t help them, it doesn’t sit well with me,” I smiled. “Do you know what you’re going to order?”

What I knew was this: Many people planned for retirement, but statistics showed they would come up short. The good news is they aren’t completely sunk; one of the largest assets is their home.

In most cases, homes have experienced incredible equity growth over the last five years. Yet ... most people have no idea how to apply this asset to their financial plan.

“Why is there this negative vibe around reverse mortgages?” Clara asked once the waiter had taken our order and headed back to the kitchen.

“Well, I think it has a lot to do with communication,” I replied, calling on my experiences with past clients who’ve reached

out asking questions about reverse mortgages because their parents took one out. Unaware of why they took out the loan or how it worked, they were confused about what needed to be done with it when their parents passed and how the property and debt became a part of the estate.

The outcome of the estate now colored their view of reverse mortgages, but once I explained why their parents likely took out the loan and how it worked, their view changed. They came to understand that their parents had spared them the cost of carrying them over the years when their cost of living started to exceed their fixed incomes, in other words, the problem of more month than money.

Clara folded her hands then began to tell me the story of her mother and father and how, after her father passed, her mother wanted to stay in the home for as long as possible. “Income-wise, my mother needed a little more to make it through the month and keep up on home maintenance. So, I investigated a reverse mortgage for her and asked my then-boss what he thought of the idea. He immediately said, ‘Don’t do it,’” Clara shrugged.

“I bet that threw you for a loop,” I said.

“Not as much as you might think.”

Rather than question her boss’ reasoning, Clara accepted his comments as she respected him. She encouraged her mother to take out a line of credit on the home for as much as she could qualify for, which wasn’t all that much given her fixed income.



10 Minutes, Your Biggest Reverse Mortgage Question Answered

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No-More-No-Less Meeting!**

After a period of time, the line was maxed out, and the payments pushed her income stream to the limit. Rising medical costs and in-home help put additional strains on the family.

“I knew Mom couldn’t do any more with the resources we had,” Clara said with a little sigh.” I nodded in support so she would continue. “I then put a line of credit on *my* home to cover the monthly costs of my mother’s home equity loan and the in-home care, which exacerbated my husband’s and my budget for several years.” She then explained rather sadly, “We knew when Mom passed, we could sell her home to pay off the debt and move on. But there were a rough few years, and I didn’t like to think about what was to come.”

We all need to face basic realities in retirement: Our income is fixed, budgeting is paramount, and we can count on one fact for certain—our cost of living will rise.

The world is different now.

We are living longer.

Our children are not looking to inherit our home to live in. They have long established their own residences.

The biggest concern our children have is how to take care of us in our later years. Properly applied, a reverse mortgage can help supplement income, pay for in-home care expenses, and

help finance the desire to age in place—precisely what would have helped Clara.

Who Am I?

I’ve made a career as a loan officer and mortgage broker, solving financial problems with home loans. Some of my interactions with clients may be as simple as buying a first home or as complex as a divorce buyout. I have spent my 32-plus years in mortgage lending finding the right loan program to offer solutions to my clients.

The reverse mortgage is a solutions-based product. It can fit into a retirement plan as needed. For the majority of the mass affluent in this country, those whose savings and investments land between \$100,000 and \$1,000,000, home equity represents most of their net worth. Using this asset can significantly change the trajectory of their retirement.

What the Heck is a HECM?

For the purpose of clarity, the reverse mortgage product I will be featuring throughout this book is the Home Equity Conversion Mortgage more commonly known as the HECM (pronounced “heck um” by industry professionals). I am featuring this product because it has the most flexible terms to apply to financial plans and offers insurance to protect heirs at the time of sale in

the event the mortgage exceeds the home value—more on this in a later section.

Consider how much more secure your retirement would be if:

- You could eliminate your mortgage and debt payments
- You could have access to a line of credit with no monthly payments
- You could supplement your monthly income

Well, it is possible. You can plan to use your reverse mortgage to help you in your golden years, which gives you access to all of the above. That's why I wrote this book: to make you aware that a reverse mortgage is a hidden tool that can greatly alleviate your retirement challenges and worries. Keep reading to learn more!

CHAPTER 1

WHY WRITE A BOOK ON THE HOME EQUITY CONVERSION MORTGAGE (Reverse Mortgage)?

“The universe of mortgage lending has gotten to the point where there is a place in it for everybody.”

—Joe Mays

In her book, *What's the Deal with Reverse Mortgages?* Shelley Giordano succinctly dispels the negative myths surrounding reverse mortgages with what she calls the HECM 4 Nevers:

- Never give up title to your home.
- Never owe more than the home's value upon leaving the home.
- Never have to leave the home after spending down a line of credit as long as taxes, insurance, and maintenance continue to be paid.
- Never have to make loan repayments in advance of leaving the home unless you choose to do so.

Debunking the Myths and Misconceptions of Reverse Mortgages

Would you consider a reverse mortgage in your financial planning?

Why or why not?

A misconception about reverse mortgages that, for some reason, has taken hold is that reverse mortgages are somehow “bad.” I’m surprised how many people reveal their underlying negative feelings to me by saying exactly that: “The reverse mortgage is a ‘bad’ loan.”

Over the years, I have found that most people are familiar with the term “reverse mortgage,” but they are not really aware of its intended purpose and possible applications.

Untruths About Reverse Mortgages

- The bank owns your home
- Reverse mortgages are too expensive
- The bank owns the equity when your home is sold

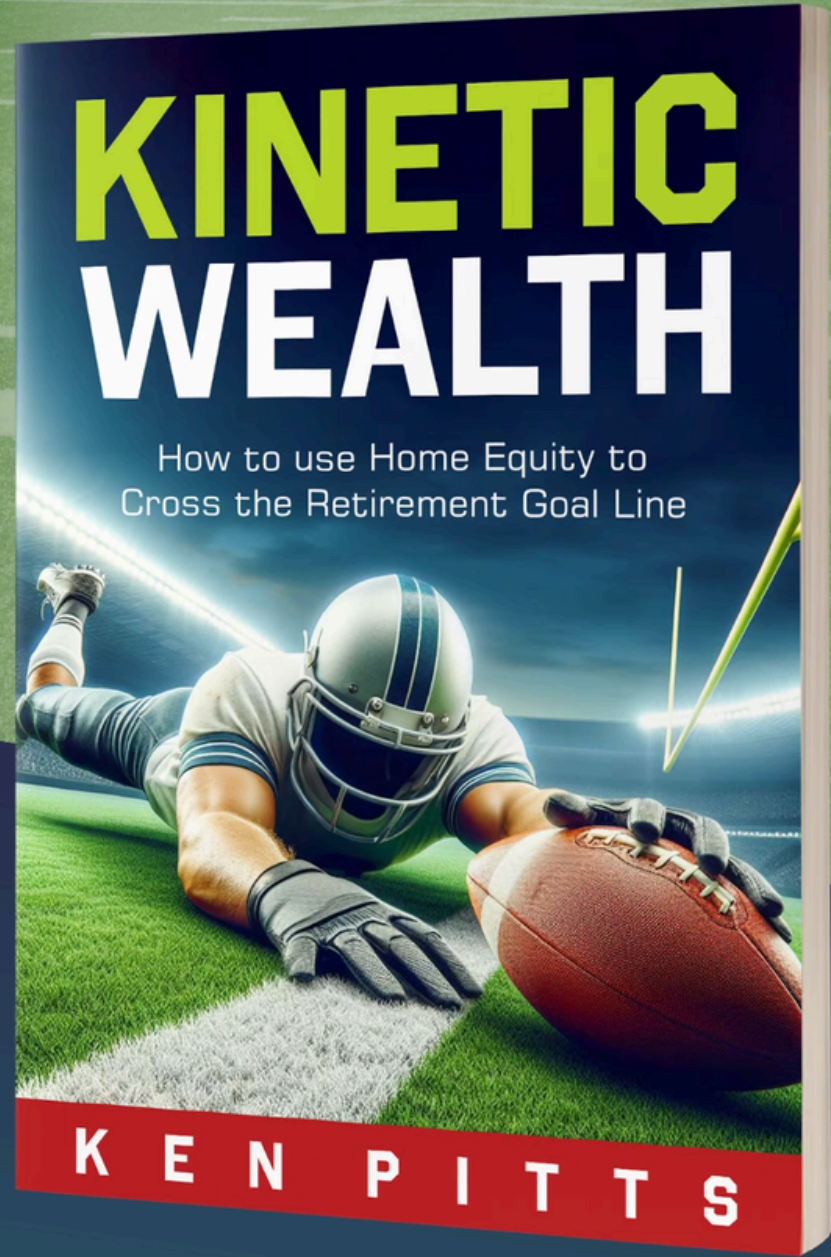
Before we dive in too deeply, let’s first define what a reverse mortgage is and the types of loans available. I will discuss the detailed workings of the reverse mortgage in Chapter 3, but here are some basics to get started.

What Is a Reverse Mortgage?

Its name gives you the most accurate explanation. A reverse mortgage is a mortgage that works in reverse of a traditional forward mortgage, like the one you may have used to purchase or refinance a home.

To get a bit clearer, let’s first consider a traditional forward mortgage loan. For most homeowners, a loan backed by a mortgage (mortgage loan) is needed to afford to purchase their home. A forward mortgage typically has an amortized period of duration during which you will make a prescribed monthly payment over time (15, 20, or 30 years). The monthly payment consists of principal and interest. At the beginning of an amortized loan, you will pay mostly interest and some principal that will pay down the balance. As the loan ages out, more of the monthly payments will apply toward the principal and less toward interest until, finally, the mortgage is paid off.

The difference between the two loans is that a reverse mortgage allows you to get equity out of your home OR purchase a home with no monthly mortgage payment, unlike a traditional forward mortgage, where you will make monthly payments. Your loan balance on the reverse mortgage increases as monthly interest accrues on the balance of the principal used and because you are not required to make a monthly mortgage payment. As interest accrues, it is added to the loan balance.



CROSS THE RETIREMENT GOAL LINE

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The entire loan balance up to a limit becomes due and payable when one of five triggering events happen: 1) all title holders pass away, 2) title holders move out of the home permanently, 3) The home is sold, or 4) the borrower neglects to pay real estate taxes and/or homeowner insurance, and/or 5) the property is not properly maintained. The limit is determined by the appraised value of the home at the time of sale. If the loan balance is higher than the appraised value, the limit due and payable is 95% of the appraised value. If the appraised value is higher than the loan balance, 100% of the loan balance would be the limit due, and any additional equity would go to the borrowers or their estate.

Misconception #1: The Bank Owns Your Home

There are many misconceptions about reverse mortgages, but the most common I've heard people say is, "If I take out a reverse mortgage, the bank owns my home."

That's not remotely true. You are the title holder, and you are taking out a loan on your property. Yes, you will have to pay back that loan just like you would any other loan. The difference is that you will not have to pay it back monthly.

Instead, you will pay it back through the sale of the property. The requirement to sell your property only applies when either

of two events occurs: 1) you depart the property as your primary residence for a period of 12 consecutive months, or 2) you pass away. When I use the word "you" above, I am referring to ALL title holders of the property.

The misconception that the bank "owns your home" appears steeped in some of the problems the loan had in its past that were addressed in the 2014 guideline updates.

Prior to 2014, if there were multiple title holders on a home (typically two, representing a couple), and one of the title holders was younger, loan officers would put the older homeowner on the loan and omit the younger borrower. The intention was to maximize the amount of equity available to the owners, as the older you are, the more equity you have access to. Unfortunately, when the borrower on the loan either passed away or went into a nursing home long-term, the bank, per the provisions of the loan, would call it due and payable. If the remaining spouse could not refinance the loan or pay it off, they were forced to sell the home.

A well-known legal case from the pre-2014 guideline changes was *The Estate of Caldwell Jones Jr. v. Live Well Financial, Inc.* In this case, Caldwell Jones Jr. (formerly a 76ers basketball player) owned a home in Georgia with his wife, Vanessa. Mr. Jones took out a reverse mortgage on the home for some additional cash-

flow. The loan originated in Caldwell's name only as Vanessa was too young to qualify as a borrower (you must be 62 to be a borrower for a HECM reverse mortgage). Vanessa was considered a non-borrowing spouse (NBS). Unfortunately, Mr. Jones died not long after taking out the reverse mortgage, and Vanessa was required to pay off the reverse mortgage. But she couldn't qualify for a reverse mortgage because not only was she too young; she couldn't meet the requirements for a standard forward mortgage. As a result, Living Well Financial, Inc. proceeded with a foreclosure. The appeals court in this case acknowledged that it was not the intent of HUD (US Department of Housing and Urban Development) to offer the HECM and put a non-borrowing spouse at risk of foreclosure, but provisions were not in place to protect the non-borrowing spouse.

As a result of situations like the Jones' case, 2014 revisions to the HUD guidelines for the HECM were instituted. The guidelines are very clear that a non-borrowing spouse may remain in the home. Below is the basic HUD guideline change as taken from a HUD Mortgagee Letter dated July 2014:

“Effective for all FHA case #s assigned on or after August 4, 2014, FHA has instituted a deferral period for the HECM being due and payable upon the death of the last surviving borrower or HECM borrower remaining in a health care facility for more than 12 consecutive months, permitting that the eligible NBS

meets and continues to meet all requirements for a deferral period.

“The deferral period is the time that the NBS can remain in the property before the loan is required to be paid off (death of the NBS or vacating the property for a period of 12 consecutive months).”

In plain language, the non-borrowing spouse gets the deferral benefit even if the borrower is not living in the home for a period that exceeds 12 consecutive months (such as in the case of a long-term care event).

Here is the detailed guideline from the HUD revision (also from the 2014 letter):

“In order for the deferral period to apply to a non-borrowing spouse, the non-borrowing spouse must:

“1. Have been the spouse of a HECM mortgagor at the time of loan closing and have remained the spouse of such HECM mortgagor for the duration of the HECM mortgagor's lifetime; 2. Have been properly disclosed to the mortgagee at origination and specifically named as a non-borrowing spouse in the HECM documents; and 3. Have occupied, and continue to occupy, the property securing the HECM

as the principal residence of the non-borrowing spouse.”

All of this is to say the misconception that the bank owns your home likely evolved from non-borrowing spouses being forced to sell the property to meet the stipulations of the reverse mortgage. With the protections afforded by the 2014 changes, the occurrence of a forced foreclosure was addressed and now protects the non-borrowing spouse. The deferral period is the time from the death of the borrower until the time the non-borrowing spouse vacates the property.

Misconception #2: Reverse Mortgages Are too Expensive

I hear the objection about the high cost of reverse mortgages from accountants often. Similar to the non-borrowing spouse changes made in 2014, provisions were also made to control the costs of getting a reverse mortgage. Unfortunately, in the mortgage business, when there are no regulations in place, unscrupulous lenders will abuse borrowers. Before 2014 protections were in place, I’ve seen some lenders appear to make a year’s worth of income off one loan.

Because the reverse is most often used as a refinancing tool to access equity, borrowers were unaware of the total costs as the fees were a part of the loan and not out-of-pocket. In essence, the

costs were buried since they were included in the loan amount and not transparently disclosed.

Today, all costs of a reverse mortgage are disclosed upfront and transparently.

I will say that the closing costs for a reverse mortgage are definitely higher than what you could see for a typical forward mortgage refinance or purchase; however, it is important to note why and what the distinctions are.

First, let’s talk about the max origination fee rules for lenders. Compensation in the form of origination fees is capped as follows: Lenders may charge an origination fee of \$2,500 or 2% of the first \$200,000 of the property, whichever is higher, and then 1% of the amount of value over \$200,000 with an overall cap of \$6,000. For example, if the value of your home is \$500,000, the origination fee formula would allow \$4,000 (2% of the first \$200,000 rule), then \$3,000 (1% for every \$100,000 in value over the first \$200,000); the combination of the calculation rule would bring the origination fee in at \$7,000 (\$4,000 + \$3,000). As that is over the cap, in this example, \$6,000 would be the max origination fee.

All other HECM costs are right in line with closing costs for a regular forward mortgage except for one—the mortgage insurance premium or MIP. The MIP consists of a one-time ini-

tial mortgage insurance premium (IMIP) equal to 2% of your home's appraised value or the maximum lending limit (currently \$1,149,825)—whichever is lower, and then an annual MIP of 0.5% of the outstanding mortgage balance accrues annually. For example, if your home's value is \$500,000, the upfront portion or IMIP would be \$10,000. The IMIP represents close to 40% of the overall closing costs and is the number that causes closing sticker shock. Most homeowners have heard of mortgage insurance as a necessary evil when you put less than 20% down on a home purchase. It is protection for the lender to recover losses in case of foreclosure.

The mortgage insurance premium (MIP) for a reverse mortgage is the opposite in a sense. Its purpose is twofold: 1) if the lender should happen to go out of business, the FHA (Federal Housing Administration) will step in and ensure the borrower has continued access to their money, and 2) the MIP guarantees that when the property is sold to pay back the reverse mortgage, the borrower will never owe more than the value of the home. So yes, it makes the closing costs more expensive, but the insurance it provides is very important.

What could create a situation where the MIP is used?

More and more people want to remain in their homes during retirement. If you take out a reverse mortgage early in retirement, the accrued interest can get close to or exceed the value of the home if the borrower lives a long and healthy life into their late nineties.

An unexpected violent drop in home values, as we witnessed in the post-2008 crash, can put a reverse mortgage upside down as well. A combination of the two can also create this position. It's important to recognize that HUD periodically adjusts the calculation of the percentage of the home that can be borrowed based on actuarial charts for life expectancies. Bottom line, if you outlive the equity, your estate has protections from the MIP, so while it may appear expensive, it can save your heirs money.

The length of time you plan on staying in your home should always be considered when deciding on a reverse mortgage. Generally speaking, you want to remain there for at least five years to justify the costs of obtaining the loan. In that sense, it is very similar to the evaluations used to determine if someone should refinance. You want to reap the benefits of the reverse mortgage for a long enough period to justify the costs.

Remember, the main purpose of the reverse mortgage is to age in place long term. Some shorter-term applications may allow someone to take out a reverse for less than five years, but that is certainly not the norm, given the expense of closing costs.



10 Minutes, Your Biggest Reverse Mortgage Question Answered

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Like any purchase, whether you are financing or refinancing, you will have closing costs. Make sure the benefits of the loan justify the closing costs.

In Chapter 5 I will be discussing applications of the reverse mortgage and the long-term and short-term strategies of the reverse mortgage.

Misconception #3: The Bank Owns the Equity

In the development of this book, I interviewed a number of financial advisors to get their impressions and understanding of reverse mortgages. I will address the overall findings in a later chapter; for now, just know that these conversations brought out a serious misconception. A number of financial advisors stated that one of their concerns is that the bank owns the equity in the property. This is not correct. The bank is only owed the balance of the mortgage.

Again, this misconception usually stems from a general misunderstanding of the reverse mortgage.

Let's say you own a home worth \$800,000, and you take out a HECM HELOC reverse mortgage at age 70. A HELOC is a

Home Equity Line of Credit. The HECM has a home equity line of credit option that works the same way a traditional home equity loan works. It gives you access to available equity, and you only get charged interest on the amount of the outstanding line.

We'll assume you have a current mortgage balance of \$180,000 to be paid at closing. You will have a principal limit of \$300,000 based on an expected rate of 6.88% (we will talk more about how we arrive at the principal limit in Chapter 3). For the sake of this example, let's say that you plan on taking out \$12,000/yr. to supplement your income (totaling \$216,000 over 18 yrs.). We will also assume that you pass away at age 88. You will have received \$216,000 in cash withdrawals while eliminating the interest payments on your \$180,000 mortgage. Note that these cash withdrawals are not considered income and, as such, are not taxable. The balance of your loan at the time of your passing would be \$1,084,206 (assuming an expected rate of 6.88%).

This balance represents the original closing costs + \$180,000 mortgage payoff + \$216,000 taken out over 18 years and accumulated interest over 18 years. We'll also assume that the real estate market was completely flat, and your house did not go up in value at all—so when you pass away, your estate sells the home for the appraised value of \$800,000. The bank would receive \$760,000 from the sale (95% of the market value) to pay toward the balance of the loan. The shortage on the payoff of \$324,206

would be covered by the FHA MIP insurance that is a part of the HECM reverse loan.

It would be rare in our example that the home would have had no appreciation after 18 years. True, catastrophic economic events could impact value for an extended period of time, but even after the disastrous mortgage meltdown of 2008, values from the peak rebounded by 2017, some 9 years later.

Now, let's look at the same example with at least 4% appreciation over the same 18 years. Taking into account the financial assumptions used above, with a 4% annual appreciation, after 18 years, the market value would calculate to a property value of \$1,620,653. Assuming the estate sells the property for this appreciated value, the estate would receive \$536,447 before selling expenses (\$1,620,653 sale price - \$1,084,206 HECM balance due = \$536,447). The bank would only receive what is due on the loan balance of the reverse; the estate gets the rest.

Now Is the Time

It is an ideal time to consider a reverse mortgage as part of your retirement plan. Home equity is at the highest we've seen in decades, which is advantageous to you. You currently have an asset (your home) that has risen sharply in value. Inflation, however, has impacted your cashflow. In retirement, incomes are generally fixed. In periods of higher than normal inflation, the costs of living increase while income stays fixed, creating a shortfall in

your disposable income, causing you to cut back your lifestyle or, more unnervingly, biting into your essential cashflow, creating a "more month than money" scenario. These circumstances can force you to make difficult financial decisions about healthcare, nutrition, shelter, and overall lifestyle.

According to Federal Reserve Economic Data, home equity in America has grown from \$8.2 billion in 2012 to just under \$32 billion at the end of 2023.

It's also worth noting that over 65% of all available residential housing belonged to homeowners. Of that 65%, 77% were age 65 and older.¹

Clearly, the bulk of home equity is in the hands of homeowners near retirement or who have retired. Using this equity effectively in your financial plan can help extend the life of your invested retirement assets and supplement cashflow.

What This Book Is and Is Not

I wrote this book to open your mind to the fact that your home can be a significant part of your retirement cashflow, not just a hard asset factor of your net worth. This book is not meant to

¹ "Households; Owners' Equity in Real Estate, Level." FRED, June 7, 2024. <https://fred.stlouisfed.org/series/OEHRENWBSHNO>.

provide specific financial planning advice. I am not a licensed financial planner. This book is about awareness and bringing to light a financial product that can significantly impact your retirement cashflow when applied correctly.

Problems Solved

That said, let's look at the reverse mortgage in action. Here are a few fact patterns to consider:

Eliminating Debt and Maximizing Social Security

Rob, age 70, and Beth, age 67, lived in a suburban home that had increased in value rather dramatically over the years. Rob owned and ran a small business and had started collecting Social Security at his full retirement age of 67. He had a couple hundred thousand saved for retirement and planned on selling his business, which would net him a few hundred thousand more. Beth was thinking about retirement. She had some money saved, as well, but they could see they were going to come up short on monthly cashflow.

The elephant in the room was a \$280,000 line of credit on the home. This line of credit had paid for college educations and weddings—both worthwhile expenditures at the time, which were now creating quite a burden on their finances as rates rose every quarter in 2023. In addition, some short-term expenditures for Rob's business to the tune of \$25,000 on a credit card

approaching 25% interest and close to \$30,000 in necessary long-term improvements to the home were straining the couple's finances.

After my analysis of their situation, we completed a reverse mortgage that paid off the line of credit on the home and credit card, and we were able to get out an additional \$25,000 to help cover the majority of the home improvement costs.

Rob and Beth saved over \$2,412/mo. in credit obligations by paying off the equity lines and the credit card. Note that the savings represent the interest saving per month and do not account for any reduction in the principal balance as they were making interest-only payments on the line of credit and the card. If the line of credit converted to an amortized payoff, which most lines of credit do after a period of years, the strain on their monthly financial obligations would have been significantly higher (over \$4,000/mo.).

The positive swing in their monthly cashflow gave Beth the opportunity to retire and take Social Security at full retirement age. With that information, Beth decided to work a few more years and max out her retirement contribution while gaining an additional 14% on her Social Security benefit.

Moving Past a Family Tragedy

Tom and Betty had long since retired. They have lived in the same home since 1972. Tom had a successful marketing career,

and Betty had a small hairstyling business. Both were happily retired and living comfortably on Social Security and a pension.

Then, the unexpected hit. Their daughter was diagnosed with cancer and battled heroically for five years. Unfortunately, she lost her battle. Tom and Betty had supported their daughter without reserve, making sure their grandchildren were safe and secure during this time. They took on a number of their daughter's household expenses during her several rounds of treatment and recovery. The debt to help with expenses grew to \$170,000 in home equity loans and \$18,000 in credit card debt.

Tom and Betty could live comfortably on their retirement income, but the added expenses of the credit line and credit card made each month uncomfortable. Tom was in his early eighties and Betty in her late seventies; they had no interest in selling their home. He and Betty had built a lifetime of memories there. Just a look around the house at all their pictures painted a history of their lives together.

By completing a reverse mortgage, we eliminated \$1,268 of monthly debt. The retirement of these debts realigned their monthly cashflow back to what was comfortable and took the financial stress off their shoulders, giving them the bandwidth to work through the loss of their daughter.

Preparing to Age in Place

Virginia is a 76-year-old widow living in the retirement home she and her husband had selected. It's near to all the kids, and Virginia enjoys living independently but being close enough to see all her children and grandchildren. It was actually her son-in-law, a financial professional, who reached out to me. I had just emailed my database that I was taking on the reverse mortgage product as a way to help my clients navigate retirement, and that prompted the call. Jim saw an opportunity for his mother-in-law to capitalize on her equity. She owned a \$426,000 home free and clear.

Jim asked me to walk him through the particulars of the loan. I then ran a specific proposal to address his mother-in-law's situation. Virginia wanted to renovate the main bathroom, making it safer for her to navigate as she gets older. In particular, she wanted a low step-in shower, grip bars, and better spacing overall. Virginia also wanted to freshen up the kitchen.

All in all, she needed \$50,000. Since she owned the house outright, she had access to more equity than she needed for the repairs. In fact, she had access to \$183,000 of equity based on her age and current rates at the time. It was great she could get the work she wanted completed, but Jim most appreciated that she could access the remaining line of credit for \$133,000 at any time.

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How to use Home Equity to
Cross the Retirement Goal Line



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CROSS THE RETIREMENT GOAL LINE

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The idea was to tap the line of credit in the future if Virginia needed help maintaining the house and/or with in-home care visitation. The advantage of taking the line of credit out now was that it freed up funds for the rehab of the bath and kitchen with the balance of the equity available as a line of credit, which Virginia could use whenever needed.

Often overlooked, an advantage of the HECM line of credit is whatever balance is not used grows year over year. In Virginia's case it was growing at close to 7% in the first year. She had no immediate need for the line of credit, so it made sense for it to sit unused and let it grow, allowing her access to even more equity in the future when she would have more of a need to tap it for her in-home care expenses.

The cost of in-home care can be shockingly expensive. To see an estimate for your area, check out the cost of care calculation model from Genworth at: <https://www.genworth.com/aging-and-you/finances/cost-of-care>.

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ABOUT THE AUTHOR

Ken Pitts is a licensed mortgage broker with over 33 years of experience in mortgage lending and real estate. He is a graduate of the prestigious Swarthmore College and has served as an instructor for the Philadelphia Mortgage Bankers Association School of Mortgage Banking and on several non-profit boards.

Ken's foray into the reverse mortgage world is a direct result of his commitment to the financial well-being of his clients. As his client base began reaching retirement age, he found himself fielding more and more questions about reverse mortgages. Baffled by the negative reputation of the loan, Ken set about learning about the product and researching its potential impact on retirement planning, not just for his clients but for himself.

What emerged was a layman's guide to understanding the reverse mortgage and how to evaluate it as a potential retirement tool. Ken's dedication to his clients and their financial security has made him a respected and sought-after lender in his market.

Ken resides in the beautiful countryside of southern Chester County, Pennsylvania, with his wife, Brenda. He spends his time on long hikes in the woods with his crazy Boston Terrier, Winnie, working on his '64 Corvair, and watching all the Philly sports teams.

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