

Leveraging Housing Wealth with Jumbo Reverse Mortgages During Economic Uncertainty

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As in the case with most recessions, the COVID-19 global pandemic has investors and businesses looking to “leverage.” Simply put, this is the concept of using various financial instruments or borrowed capital to multiply the potential return.

There has been a surge of interest from business executives and CEOs in jumbo reverse mortgages. Many of these clients are referred by financial advisers seeking a buffer from the economic volatility and loss of income their clients are now facing.

Specifically designed for homeowners 60+ with higher home values, jumbo reverse loans offer the following advantages versus traditional HECM reverse mortgages:

Larger Lending Limits – While traditional reverse mortgages limit borrowers with a lending limit of \$765,600, proprietary and jumbo reverse mortgages allow loan amounts up to \$4 million. The exact amount you can borrow depends on the value of your home, your age, interest rates and how much you currently owe on the home.

Receive Funds Right Away – When you take out proprietary or jumbo reverse mortgages, you can select to receive the full proceeds of the loans right away. It’s up to you to make the funds last throughout your retirement. By contrast, traditional reverse mortgages don’t allow you to take all the proceeds at once. Full proceeds from traditional reverse mortgage funds are spread out over a one-year period.

No FHA Approval Required – Reverse mortgages guaranteed by the FHA typically will have higher up-front fees versus the proprietary or jumbo options.

Lower Fees – Proprietary and jumbo reverse mortgages do not require upfront mortgage insurance (MIP) resulting in a lower cost option for qualified borrowers.

Typically, those interested in jumbo reverse mortgages are high net worth individuals or families that understand the benefits of leveraging housing wealth. Homeowners age 60+ have amassed a record of \$7.23 trillion in untapped housing wealth as of Q1 2020, according to data provided by the National Reverse Mortgage Lenders Association (NRMLA) in conjunction with data analytics firm RiskSpan. Particularly in times of uncertainty or periods of time where income and/or cash flow is impacted, understanding the concept of leverage can make all the difference in the survivability of one’s financial wellbeing.

Here's a good example of a recent jumbo reverse mortgage client using leverage. This particular couple has a net worth of \$7 million with income derived from a variety of sources. Their businesses are in several of the industries that had to shut down per government mandates. Most of their income has been completely put on pause for the foreseeable future.

Yet, as with all business owners, they still must meet payroll, pay outside vendors and attempt to keep the businesses afloat. They do have investment accounts which could be tapped into in order to bridge the income gap; however, in times of market anxiety, increasing the withdrawal rate on retirement accounts could amplify sequence of return risk and may result in long-term devastating effects on the overall portfolio.

This client owns a home valued at \$4.5 million – free and clear of a mortgage balance. With a jumbo reverse mortgage, roughly \$2 million of this home equity could be converted, making it available on demand. There was even an option to put some of the funds into a line of credit ready and available for future use. The couple still owns the home and can choose to pay down or pay back the loan at any time. Or they may defer payback until both parties permanently leave the home.

Like traditional government insured HECM reverse mortgages, jumbo reverse mortgages are non-recourse loans. This means that neither the borrowers nor the heirs are personally liable for any amount of the mortgage that exceeds the value of your home when the loan is repaid.

Another plus is that jumbo reverse mortgages can pay off and replace traditional mortgage loans, reducing the burden of a mandatory monthly payment and resulting in immediate savings — especially helpful in today's uncertain times. They also may replace an existing traditional reverse mortgage if there is a reasonable benefit to the borrower.

With any mortgage, homeowners are required to pay property taxes, pay homeowners insurance and maintain the home. For many homeowners age 60+ sitting on (or in for that matter) hundreds of thousands or even millions of dollars in home equity, a jumbo reverse mortgage may be a financial tool worth considering.

Leveraging amplifies possible returns, just like a lever can be used to amplify one's strength when moving a heavy weight. Sometimes it takes strategically moving various levers around at optimal times in order to survive and ultimately thrive. Education is paramount and it is important to understand the various options – particularly in these challenging times.

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