

CASE STUDY 5

REVERSE MORTGAGE



CASE STUDY HIGHLIGHTS

CLIENT SCENARIO

Client is aged 78, a widower and in extremely good health with an active lifestyle. Home valued at \$500,000 with a mortgage balance of \$18,000 and a payment of \$400 per month. His house is outdated, needs a new deck and HVAC system. The goal is to update the kitchen, put in new flooring throughout the house, replace the HVAC system and have the deck torn out and replaced. The total cost of the project is estimated at \$95,000. House expected to be worth \$700,000 following renovation.

ASSETS

\$280,000 in savings and IRA.

INCOME

Pension-\$3,180 per month, Social Security-\$1,760 per month. Taking RMD.

OPTIONS

1. **Withdraw \$95,000 from financial assets.** Estimated tax implications of \$26,000. Client left with \$159,000 in liquidity after paying taxes. Income would remain unchanged. Future market growth on \$121,000 utilized is lost, liquidity is greatly reduced.
2. **Take out a HELOC to fund the renovations.** Estimated interest only payment of \$600 per month, fully amortized payment will increase payment down the road. This option increases monthly expenses and reduces retirement cashflow. Additional withdrawals will be needed from financial assets to meet obligations which will also increase taxes and reduce future market gains.
3. **Use Reverse Mortgage to fund renovations.** Client chooses the reverse mortgage option. He sees an immediate \$400 per month reduction in expenses due to no mortgage payment requirement. Reverse mortgage provides access to \$262,000 in an open line of credit, after renovations there is \$167,000 of remaining tax-free liquidity growing at 6.1% which will increase future liquidity. Opportunity cost is using home equity to fund renovations, but increased value and home appreciation will offset interest expense over time.

SUMMARY

Following the funding of the reverse mortgage client has \$280,000 in savings and IRA, net income increases by \$400 per month. Fully remodeled home with home value increase of \$150,000. Additional liquidity of \$167,000 tax free.

FOR MORE INFORMATION, PLEASE CONTACT US



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