

Reverse Mortgages Can Drive Deposits And Strengthen Relationships

By Jim Mahoney

How can a mortgage product help banks retain customers and increase deposits?

While it may seem counterintuitive that a lending product could result in deposits, home equity conversion mortgages—commonly called reverse mortgages—can do that and more.

A reverse mortgage is not a typical loan. This loan puts a large sum of tax-free cash in the hands of older homeowners without asking them to take on monthly payments. The funds can be used to eliminate debt, supplement retirement income, create a cash reserve, or whatever the homeowner desires. And consumers are responding.

A Growing Trend

A few years ago reverse mortgages were not even blips on most consumers' or banks' radar screens. Prior to 2000, if the industry as a whole made 5,000 or 6,000 of these loans, it was considered a great year.

Now, spurred by a push to educate consumers about these unique loans, their popularity has grown tremendously. Lenders originated a record 18,097 home equity conversion mortgages during the most recent federal fiscal year, ending Sept. 30. This was a 39 percent jump over the 13,049 reverse mortgages loans closed the previous year.

And industry leaders expect to see continued growth as consumer interest picks up even further, and believe loan volume could double over the next two years. Reverse

mortgages are one of the most frequent subjects of inquiry through organizations such as the AARP. And according to one ACB member who has been active in this market, the mere mention of the product on their Web site generates inquiries from all over the country. While consumer interest in this type of mortgage is growing, relatively few banks are currently offering this product.

Reverse mortgages are maturing at a terrific time for community banks. The interaction with customers using this product is much deeper than it is for a more transactional traditional mortgage product. And as such, reverse mortgages can be perfect for community banks in terms of differentiating their products, targeting a niche, and building long-term relationships with customers. Given community banks' status as trusted advisors, they are well positioned to offer these products to their senior customers.

And reverse mortgages can also help the bank win deposits, because these loans put significant lump sums of cash in seniors' hands. According to research from Financial Freedom Senior Funding Corp., the majority of borrowers receive all, or a significant part, of their loan proceeds in a lump sum. Typically, on a \$200,000 house,

a 75-year-old borrower would receive roughly between \$120,000 and \$130,000 (depending on product and location of the home). That's a significant amount of cash that needs to be managed—and a great opportunity to win deposits.

Just as exciting is the ability of reverse mortgages to fill the void left by a drop off in refinance business. The high home values and low interest rates that made refis compelling will continue to be a driver for reverse mortgages for the foreseeable future.

Reverse Mortgages Explained

In the simplest terms, a reverse mortgage is a loan against the equity in the home that provides tax-free cash advances, but requires no payments during the term of the loan.

Reverse mortgages enable senior homeowners age 62 or older to convert part of the equity in their home into income without having to sell the home, give up title, or take on a new monthly mortgage payment.

The homeowners can choose to receive the reverse mortgage funds as a lump sum, as monthly income (for up to life), as a line of credit, or any combination. Borrowers make no monthly payments on a reverse mortgage during the life of the loan. The

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loan becomes repayable when the borrower sells the home or permanently moves out.

Borrowers will never, under any circumstances resulting from the reverse mortgage, be forced to leave their homes—providing they pay their real estate property taxes and insurance payments.

In addition, the repayment amount cannot exceed the value of the home. The funds from the reverse mortgage are tax-free and can be used for any purpose. Best of all, these products have numerous, built-in consumer protection features, so bankers can be confident about recommending them to a client.

The National Reverse Mortgage Lenders Association, based in Washington, D.C., has developed a code of conduct and best practices designed to establish the highest standards for customer service and consumer protection in the business of reverse mortgage lending. **5**

Jim Mahoney is president and chief executive officer of Financial Freedom Senior Funding Corp., an ACB Business Partner. Through the partnership, now in its second year, Financial Freedom offers ACB members an easy way to get started in offering reverse mortgages to their customers almost immediately, with minimal expense, while maintaining complete control over the customer relationship. For more information on reverse mortgages, visit Financial Freedom's Web site at www.financialfreedom.com or see the National Reverse Mortgage Lender's Association's Web site at www.reversemortgage.org.

For more information about the ACB/Financial Freedom partnership, contact Debbie Whiteside, ACB Business Partners' senior vice president, at (202) 857-5580 or dwhiteside@acbankers.org. ACB Business Partners offers a complete menu of business solutions in mortgage, technology and payments, and financial and capital markets. Visit www.AmericasCommunityBankers.com/Partners to learn more.



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