

Total Annual Loan Costs Overview

- Generally are greatest in the early part of the loan, and then decline over time because:
The upfront costs become a smaller part of the growing loan balance, and
The likelihood increases that the loan balance will be limited by the loan's non-recourse limit.
- Generally are greatest when the loan term is shortest and appreciation is greatest.
- Generally are greatest through life expectancy and vary the most over time with tenure advances

Table 7-b represents a TALC disclosure box for a 69 year old client who is looking to supplement her monthly income. This analysis assumes the client is using a tenure plan of \$308 per month.

Notice that in addition to the required disclosure periods of 2 yrs, 100% of life expectancy (16 yrs) and 140% of life expectancy (22 yrs); this chart includes an additional column at 8 years. This additional column (8 yrs) represents 50% of life expectancy. Some software adds this additional column to the required columns.

The interest rate used for this calculation was 5.761%. Notice how high the rate is in the early years and how steeply it drops. This is because the upfront costs are such a high percentage of the loan balance compared to the benefit.

As the benefit to cost increases, the rate goes down. The rate drops lower in the later years when the home's value does not appreciate because the loan balance has exceeded the home value. If the borrower or the heirs sell the house at this point, they pay back less than what is owed, which reduces the cost.

Table 7-b Total Annual Loan Cost Rate, \$308 tenure plan, 5.761%

Assumed Annual Appreciation	Disclosure Periods			
	2 yrs	8 yrs	16 yrs	22 yrs
0%	62.67%	10.50%	6.39%	1.68%
4%	62.67%	10.50%	6.53%	5.57%
8%	62.67%	10.50%	6.53%	5.57%

Table 7-c represents a TALC disclosure box for our 69 year old client if she decides to take a lump sum at closing with a fixed interest rate of 5.56%.

The effect of the non-recourse feature (lower TALC with less appreciation) may be difficult to explain to your clients. You should focus on three critically important cost patterns:

- Reverse mortgages can be very expensive if they are repaid within a few years.
- The overall annual average cost goes down over time.
- The cost can be quite moderate or even inexpensive if the borrower lives in the home beyond life expectancy and the home has little or no appreciation.

Table 7-c Total Annual Loan Cost Rate, lump sum, 5.56%

	Disclosure Periods			
Assumed Annual Appreciation	2 yrs	8 yrs	16 yrs	22 yrs
0%	13.90%	8.18%	4.28%	3.04%
4%	13.90%	9.07%	8.26%	7.16%
8%	13.90%	9.07%	8.26%	7.96%

In your counseling session you might suggest to your client that, to get an idea of what the TALC is telling her, she might ask herself this question: “At a particular point in time, how much did I get compared to how much it cost?”

To illustrate the concept in a very simplified way, imagine that you borrowed \$200 one year and it cost you \$100. In this example your costs are 50% of your benefit for that year. (Assume no interest is added.) After another year, you’ve stretched the \$100 in costs over 2 years, averaging \$50 per year. Now the average annual cost in year 2 is \$50 compared to \$200 of benefit or 25%.

Note: The TALC is not this simple because there are additional charges that have to be averaged in, and the resulting percentage represents average costs over the term of loan and not for that particular year.