RMF

REVERSE MORTGAGE FUNDING LLC

THE NEW CASE FOR REVERSE MORTGAGES AND THEIR FOUR COMMON USES

Marshall Gallop

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Most Reverse Mortgages are HECMs Or "Home Equity Conversion Mortgage"

- ✓ HECM is reverse mortgage insured by the U.S. Federal Gov't
- ✓ HECM Program started in 1989
- ✓ President Reagan -- FHA Insurance*
- ✓ > 1 Million Americans have Used a HECM

Sources: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmhome

***This material has not been reviewed, approved or issued by HUD, FHA or any government agency. The company is not affiliated with or acting on behalf of or at the direction of HUD/FHA or any other government agency.**

HECMs and FHA* Insurance Fund

- ✓ $111 Billion Insurance-In-Force
  - 580,238 Actively Insured

- ✓ Clients can draw cash even if home equity is negative

Sources: https://portal.hud.gov/hudportal/documents/huddoc?id=ActuarialMMIFHECM2016.pdf
Karin Hill, FHA April 2017 NRMLA Presentation

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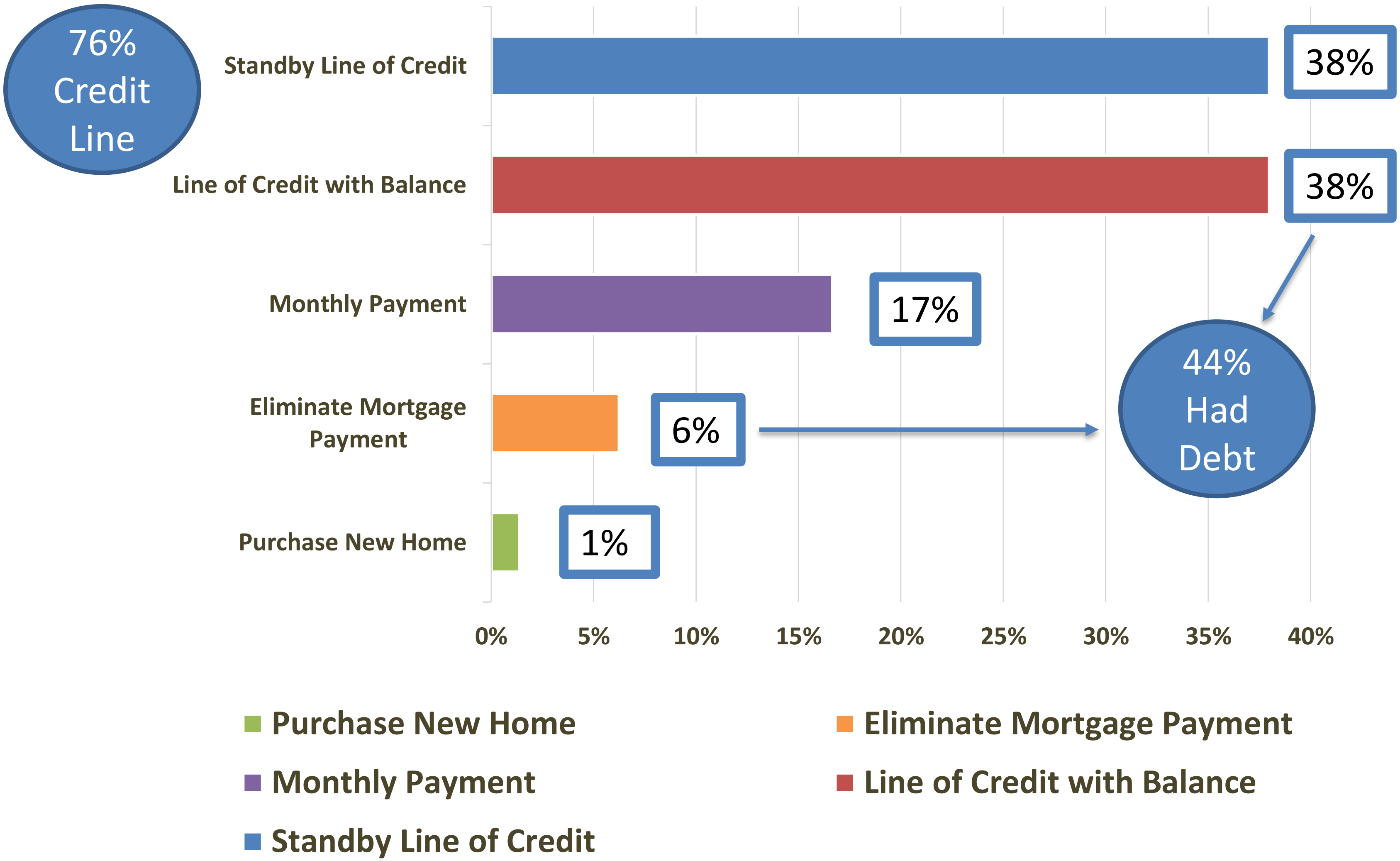
Has been true, and still true today

- Over 62 can access equity in home up to about 45% CLTV
  - With no required P&I payment, or FHA insurance
  - No personal recourse, don't owe more than house
  - If home sold with equity, proceeds after payoff to them
  - Could be line of credit that grows
  - Withdrawals are loan not income
  - Can buy home with about 55%+ cash, HECM the rest

- No other financial tool like that

- Even like home owned for cash, must pay taxes, HOA dues and prudent to pay insurance and maintain

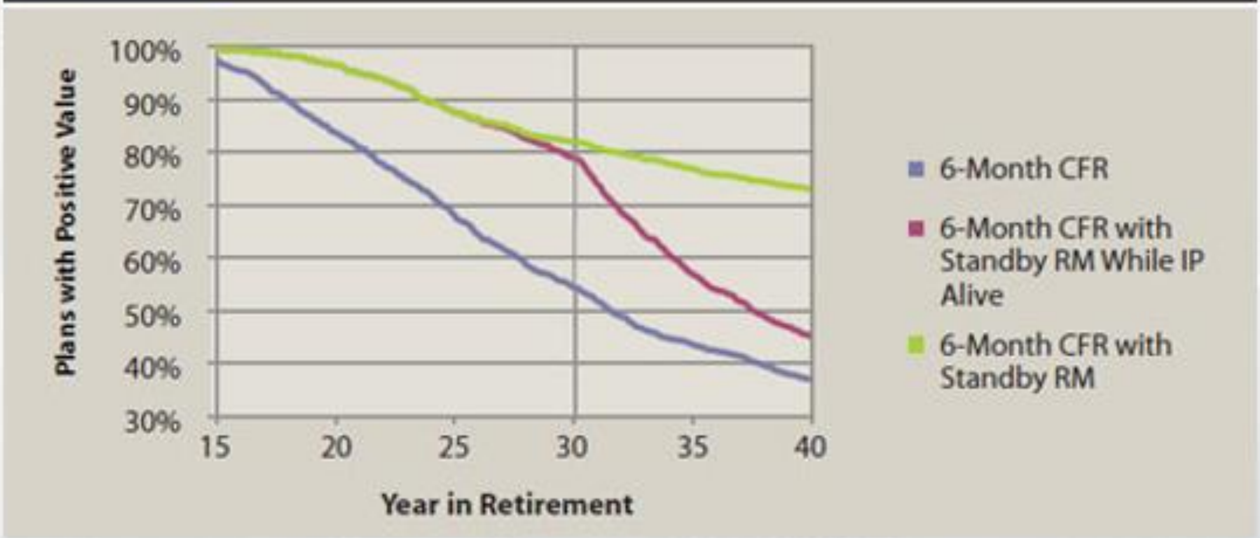
HECM Uses by
Financial Advisor Clients (2016)



Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions

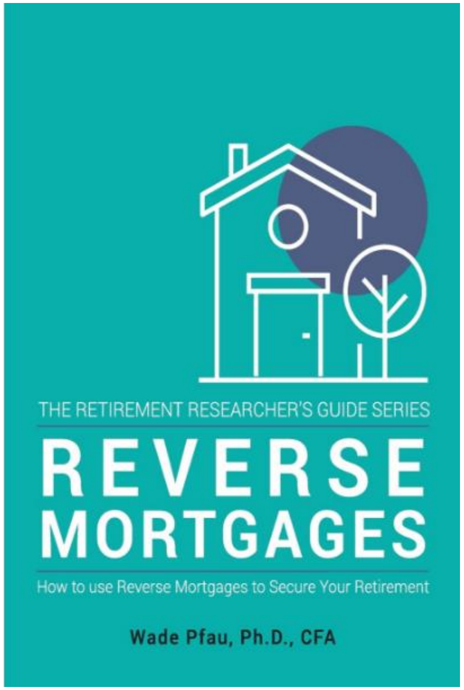
By John Salter, Ph.D., CFP®, AIFA®; Shaun Pfeiffer; and Harold Evensky, CFP®, AIF®

Figure 2: Portfolio Survival by Year in Retirement



Source: John Salter, Shaun Pfeiffer, and Harold Evensky. 2012. "Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions." *Journal of Financial Planning* 25 (8): 40–48.

Reverse Mortgages: How to Use Reverse Mortgages to Secure Your Retirement



Wade D. Pfau, Ph.D., CFA,
Professor of Retirement Income,
The American College

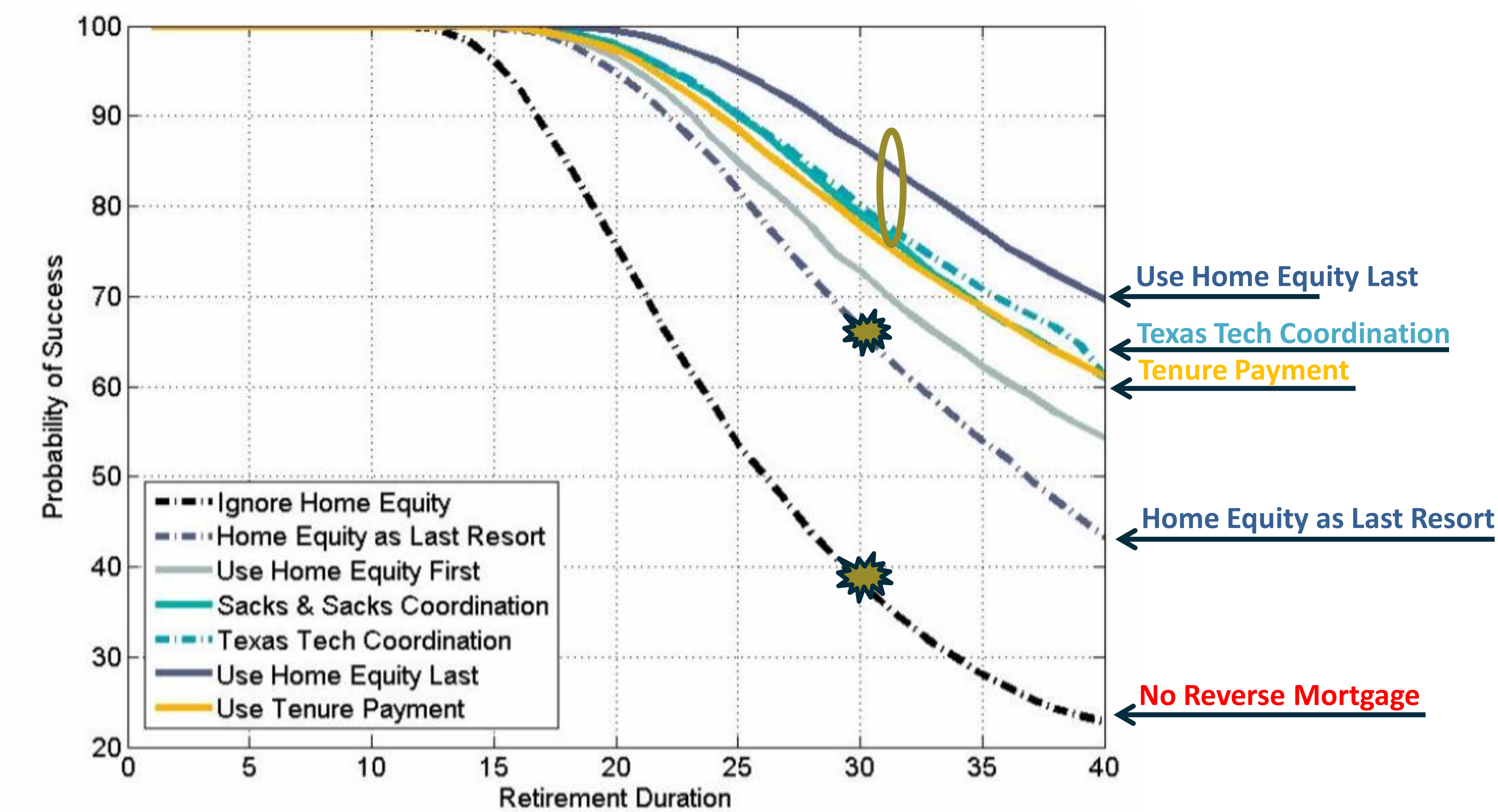
"Initiating the reverse mortgage earlier and then coordinating spending from home equity throughout retirement offers a way to meet spending goals and provide a larger legacy."

"That is the ultimate goal of retirement-income planning: using assets to allow for more income and/or a larger legacy."

Source: Advisor's Perspectives, December 1, 2015

6 Ways to Boost Lifetime Spending

Get Reverse Mortgage Line of Credit Early

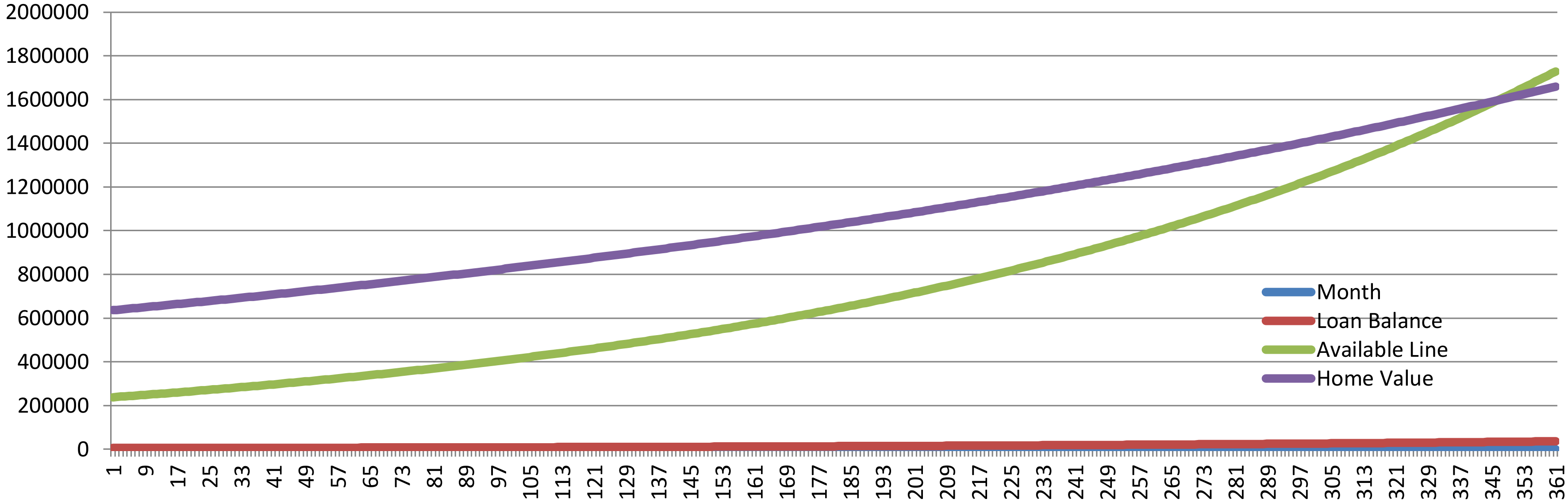


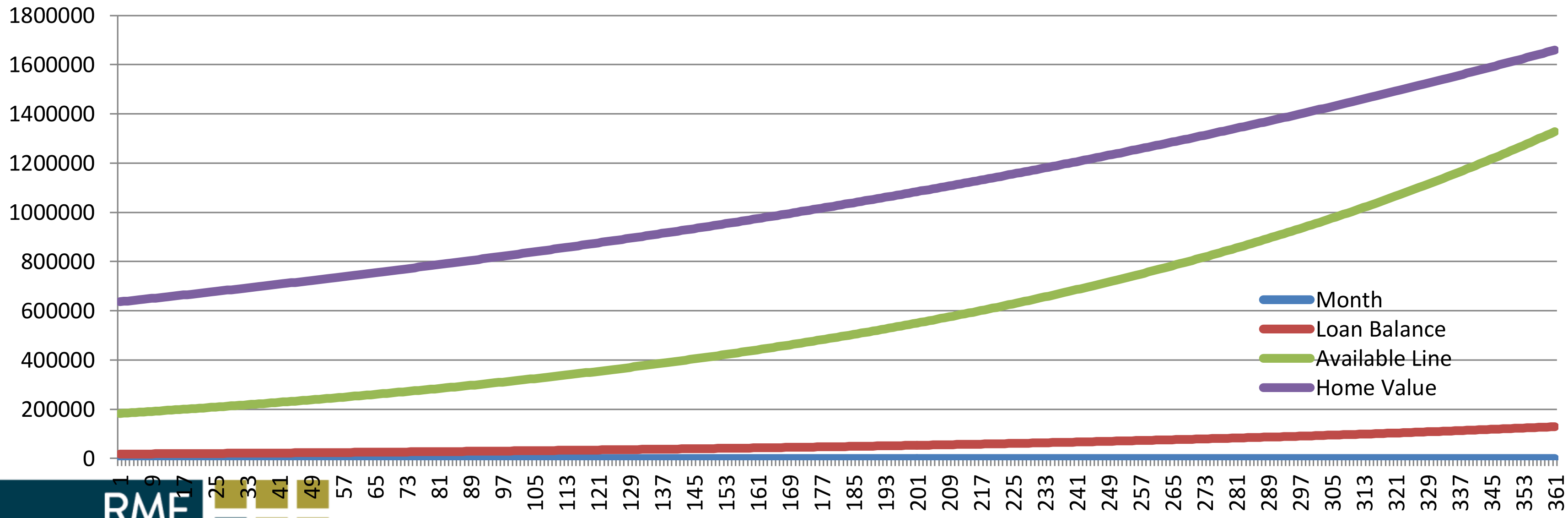
Source: Pfau, Wade. 2016. "Incorporating Home Equity into a Retirement Income Strategy" *Journal of Financial Planning*.

4% post-tax initial WD rate. $1M 50/50 portfolio, $500K home, 25% marginal tax rate

1ST COMMON USE: HECM LINE OF CREDIT (LOC) GROWTH

First is graph of before rules change for credit line, Second is after change

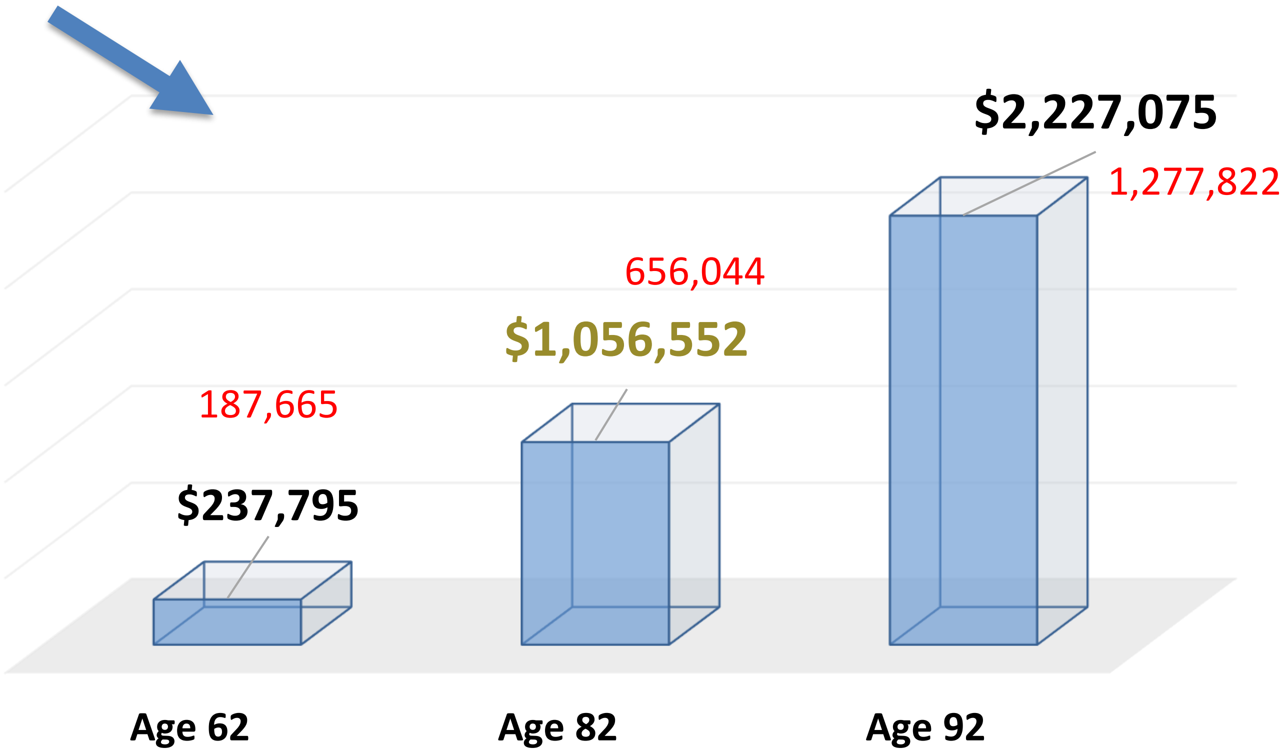




HECM Line of Credit (LOC) Growth

SUPPLEMENTED

- 62-year-old client with $636,150 Home (FL)



Note: Line grows regardless of what happens to value of home.†

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†If part of borrower's loan is held in a line of credit upon which they may draw, then the unused portion of the line of credit will grow in size each month. The growth rate is equal to the sum of the interest rate plus the annual mortgage insurance premium rate being charged on the borrower's loan.

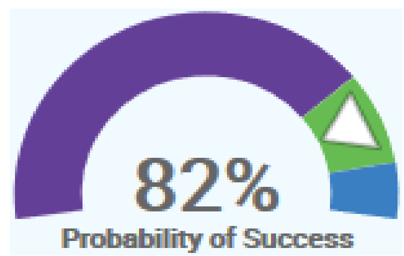
Long Term Care Event with/without Protection

Example: California Couple, both 62 years-old, with $1,500,000 portfolio, Social Security benefits, and $625,500 home (no mortgage) **with no Long-Term Care Insurance (LTCI)**. Husband requires assistance at age 85 at a cost of $75,000 per year for 3 years.

Current Scenario: No LTCI

Safety Margin: $170,555

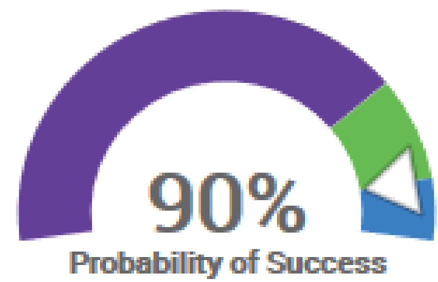
HECM Credit Line as Protection



$587,526 LOC Draws for 3 Years

Safety Margin: $626,220

HECM Credit Line as Protection + Longevity Insurance



$965,526 LOC Draws through end of plan

Safety Margin: $2,173,807

The information being displayed is for illustrative purposes only. Assumptions are (1) 62-year-old borrower; (2) CA home valued at $625,500; (3) LOC will grow at 1.25% above the Annual Adjustable Rate Mortgage (ARM), which uses the 1-Year LIBOR plus a margin of 3.5%. Initial APR is 4.741% as of 06/21/2016, which can change annually. 2% annual interest cap, and 5% lifetime interest cap over the initial interest rate. Maximum interest rate is 9.741%; (4) the rate remains at 4.970%; (5) no draws by borrower. Interest rates and funds available may change daily without notice.

HECM LOC vs. Traditional Home Equity Line of Credit (HELOC)

	HELOC	HECM LOC
Line growth?[1]	No	Yes
Cancelable?[2]	Yes	No
Requires monthly principal & interest payments?[3]	Yes	No
Age restriction?	None	Age 62+

[1]If part of borrower's loan is held in a line of credit upon which they may draw, then the unused portion of the line of credit will grow in size each month. The growth rate is equal to the sum of the interest rate plus the annual mortgage insurance premium rate being charged on the borrower's loan.

[2]As long as the terms of the loan are met, a HECM line of credit cannot be canceled or reduced by the lender.

[3]As with any home-secured loan, borrower must keep current with property taxes and insurance for the loan to remain in good standing. As long as these obligations are met, the loan does not have to be repaid until the last surviving borrower (or qualified non-borrowing spouse) passes away, sells the home or moves out.

2ND COMMON USE: REFINANCING AN EXISTING MORTGAGE WITH A HECM

Payoff of Existing Mortgage(s)

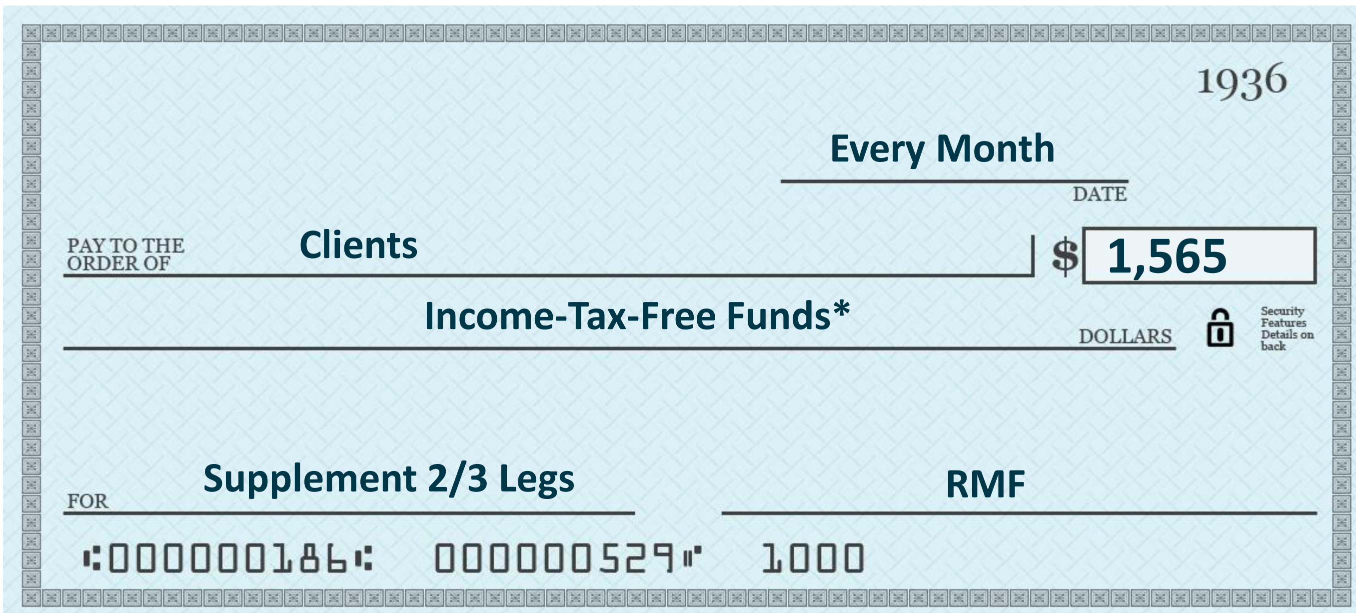
1 Clients 62 or older with mortgage payments

2 And ≥ **50%** in home equity may refinance with HECM

3RD COMMON USE: HECM TENURE PAYMENT

Monthly Tenure Payment

- 62-year-old couple with $636,150 Home Value (FL)



1221

Age 82
4268/mo

*This is not tax advice, consult a tax professional.
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4TH COMMON USE: USING A HECM FOR PURCHASE (H4P) TO RIGHTSIZE

Buying a Home with a HECM for Purchase (H4P)

- 65-year-old couple Buying a $400,000 Home Value (FL)

34% of Retirees Think about Downsizing
Source: Retirement Confidence 2017 Survey

$400,000
Purchase Price

Option A

$200,000

+

$200,000

Option B

207,534

$200,481

+

HECM
Purchase

$199,519

192,465

The information being displayed is for illustrative purposes only. Based on factors including their age, property state, interest rates, and the appraised value of the home they are buying.

John Salter Rightsizing Research

	Pay all Cash	HECM Purchase	HECM Line of Credit
Probability	78%	88%	95%

Scenario: 62-year-old clients sell their previous home for $500,000 and directly purchase their new home worth $300,000. Outlined above is impact of financing choices on probability of client meeting spending goal over 30 year period. Assumptions include: $500,000 portfolio and $28,000 spending goal per year, adjusted for inflation.

Source: Salter, John. "Options for Moving in Retirement Using the HECM for Purchase." April 2017.

NOW WHAT?

Review your 62+ Clients – 4 Common Uses

	Yes	No
1. Do you have clients (62 or older) at Risk of Outliving their Assets? (e.g. <$1 MM in investable assets)	___	___
2. Do you have clients (62 or older) who are making mortgage payments?	___	___
3. Do you have clients (62 or older) who are purchasing a home?	___	___
4. Do you have clients (62 or older) with no long term care insurance?	___	___

HECM Reverse Mortgage Illustration

1 List any client whose savings are less than $1,000,000

	Client Name	Age*	Home Value	Mortgage Debt (if any)	Zip Code
1					
2					
3					
4					
5					

* The youngest client may be less than 62 years of age.

2 List any client who carries mortgage debt

	Client Name	Age*	Home Value	Mortgage Debt (if any)	Zip Code
1					
2					
3					
4					
5					

* The youngest client may be less than 62 years of age. And, note the client must have 50% in home equity to refinance with a HECM.

3 List any client planning on rightsizing (i.e. moving)

	Client Name	Age*	Home Value	Mortgage Debt (if any)	Zip Code
1					
2					
3					
4					
5					

* The youngest client may be less than 62 years of age.

4 List any client who is self-insuring for long-term healthcare

	Client Name	Age*	Home Value	Mortgage Debt (if any)	Zip Code
1					
2					
3					
4					
5					

Get a Free a Client Illustration

Required Information:

1. Age of Youngest Client:
2. Estimate Home Value:
3. Total Mortgage Debt (if any):
4. Zip Code:

MARSHALL GALLOP
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FHA-insured* HECM Program

Available for single-family property, HUD-approved condo, or up to 4-unit home (HECM for Purchase not available on multi-unit properties.)
The home must be their primary residence
Proceeds can be used to refinance a property or purchase a home
Can be used to pay off a first mortgage or HELOC
A HECM cannot be reduced, called or canceled, as long as the terms of the loan are met
Clients downsizing or rightsizing can use a HECM to finance the purchase of their new home
As with any home-secured loan, borrower must keep current with property taxes and insurance for the loan to remain in good standing. As long as these obligations are met, the loan does not have to be repaid until the last surviving borrower (or qualified non-borrowing spouse) passes away, sells the home or moves out.

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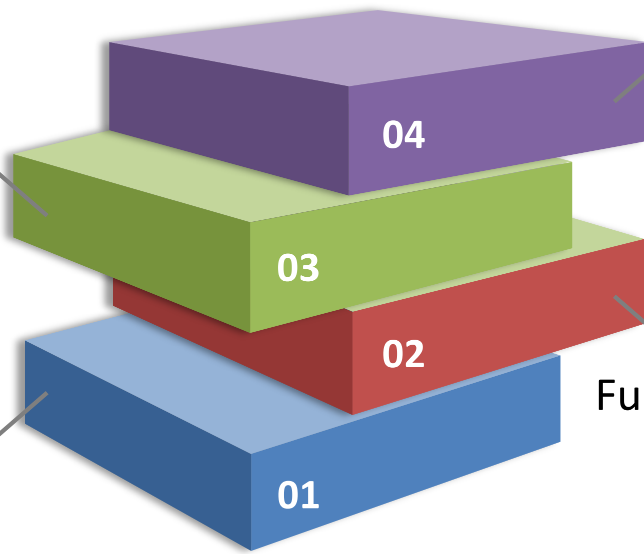
RMF Highlights

Achieved 21.4% market share in the first quarter of 2016

NATIONAL LENDER

Well capitalized, with broad institutional support

RMIT, our parent company, has raised approximately $300 million from institutional investors since 2014



Fully integrated reverse mortgage finance company

Education. Origination. Servicing oversight. Securitization.

Leadership: Former MetLife Bank executives

Managed the market-leading reverse mortgage business

RMF

REVERSE MORTGAGE FUNDING LLC

EQUAL HOUSING LENDER

NRMLA National Reverse Mortgage Lenders Association

1ST COMMON USE: HECM LINE OF CREDIT (LOC) GROWTH

The Math for Calculating the Money Available

$636,150 Home Value

<u>X .3738 Net Principal Limit Factor (PLF)</u>

$237,795 Net Available Principal

PLF Factors Vary with

(1) Client Age and

(2) Expected Rates: Lender Margin + 10-Year LIBOR Swap

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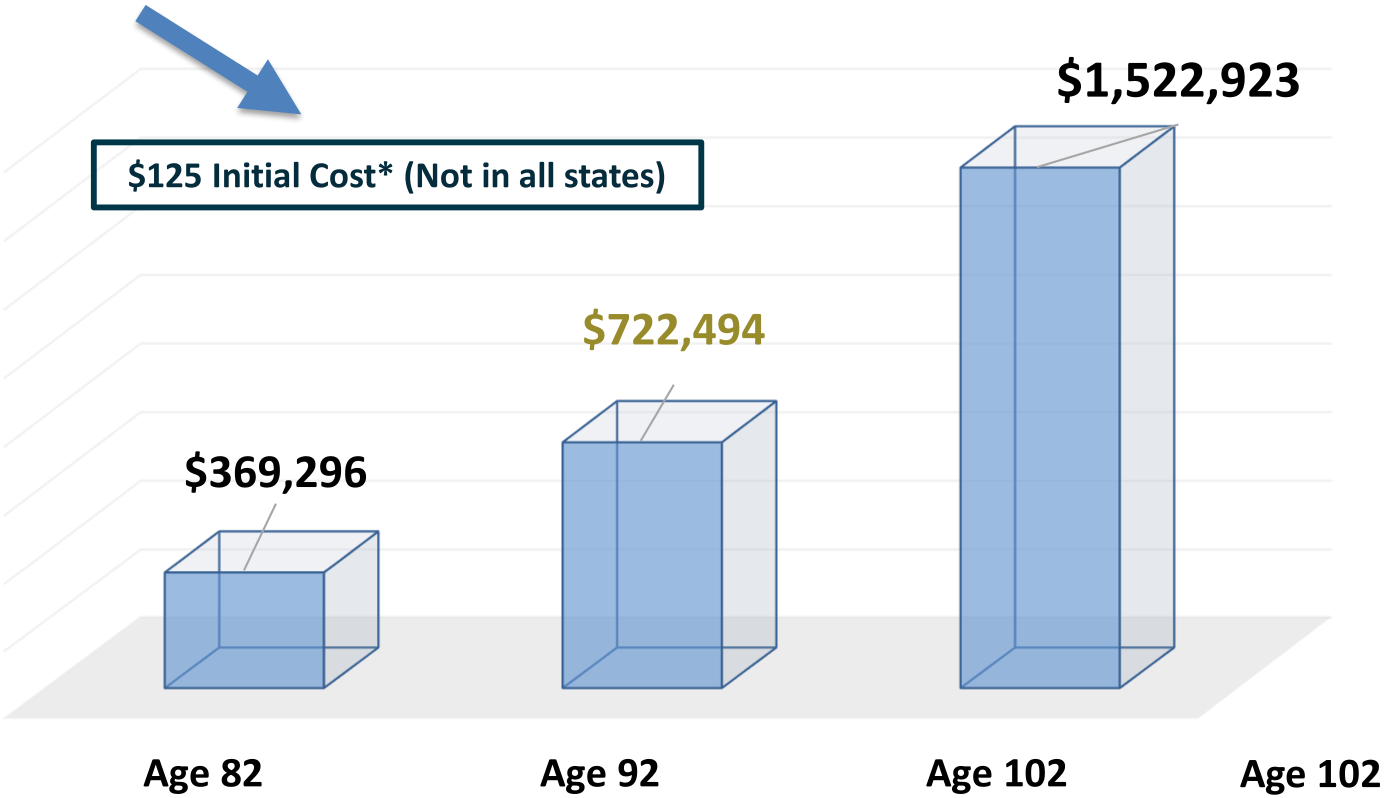
RMF

HECM Line of Credit (LOC) Growth

- 82-year-old client with $636,150 Home (IL)



Note: Line grows regardless of what happens to value of home.†

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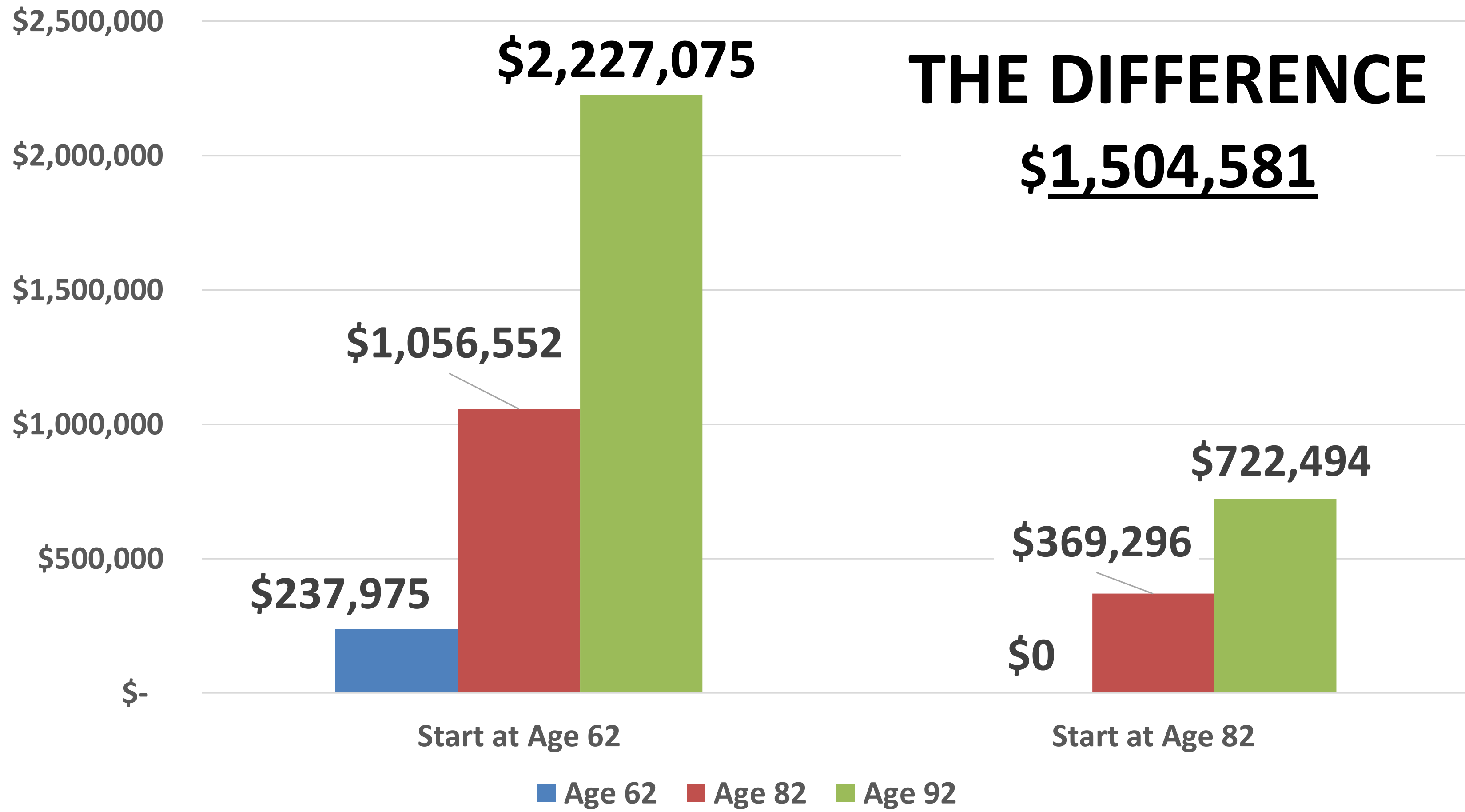
Starting Credit Line at Age 62 vs. Age 82



Credit Line Growth: How it Works

$237,795 **Available Line:**

X 7.48%*

$17,787 Growth in Y1†

4.00%	Lender Margin	1
2.23%	Libor Index	2
1.25%	FHA MIP	3
7.48%		

$ 17,787 Growth

+ 237,795 Initial Line

$ 255,582 Available Line Y2

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Retiree Health Care Costs and Advice

47% …

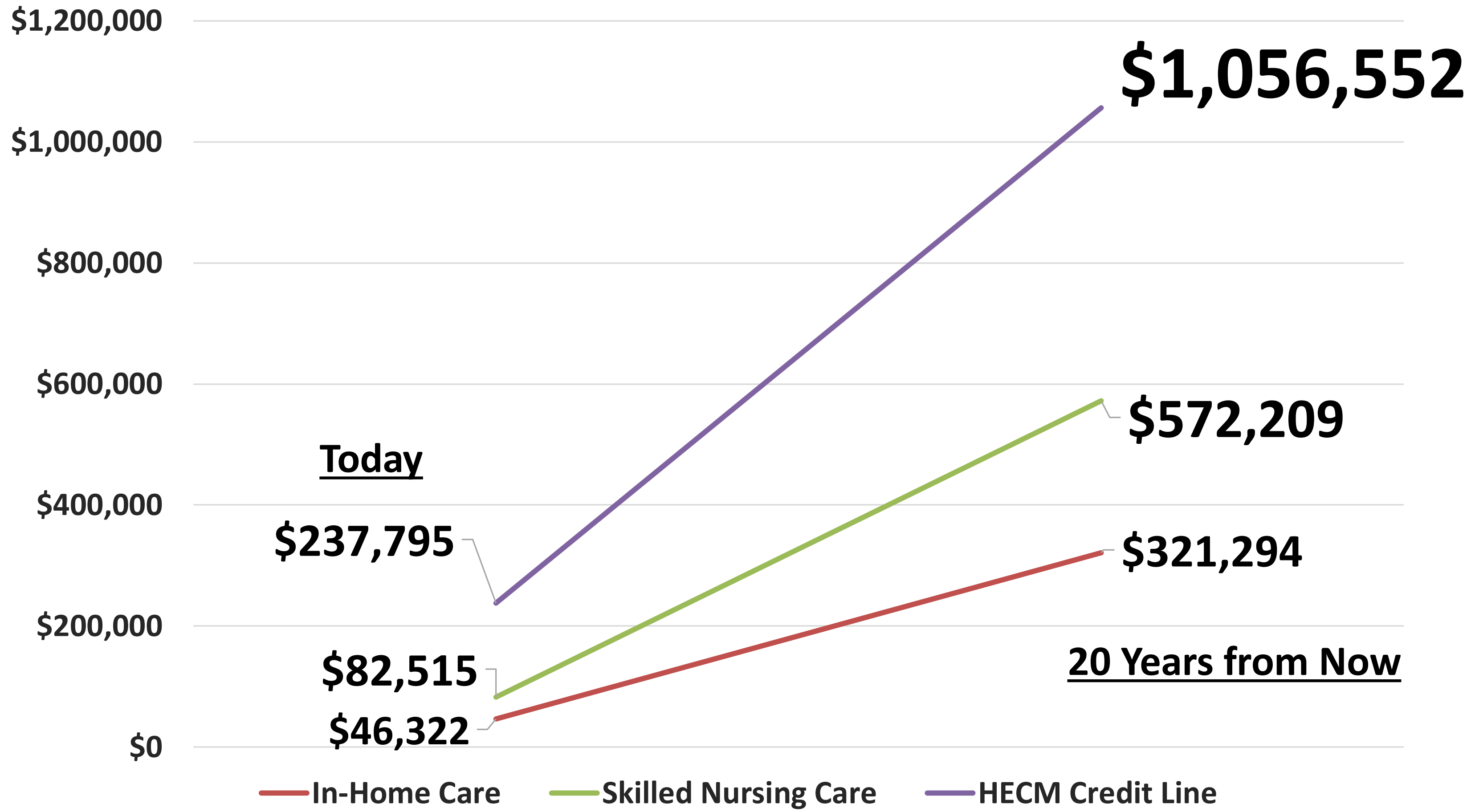
of Retirees Health Care Expenses are Higher than Expected

34% …

of Retirees want Financial Advisor's Advice on How to Cover Health Care Expenses

Source: Retirement Confidence 2017 Survey; EBRI and Greenwald & Associates

HECM Credit Line for 3 Years of Care in 20 Years



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Source: Genworth 2016 Cost of Care Study.

Deferred Income Strategy Using Credit Line:

Convert HECM Credit Line Growth into income-tax-free* funds at Age 82

$ 1,056,552 Available Line (Age 82)

X 7.48% Growth Rate

$79,030 Annual income-tax-free funds*

This is another possible use of the credit line; i.e. client can draw income-tax-free funds* from the line at future point in time.†

*This is not tax advice, consult a tax professional.

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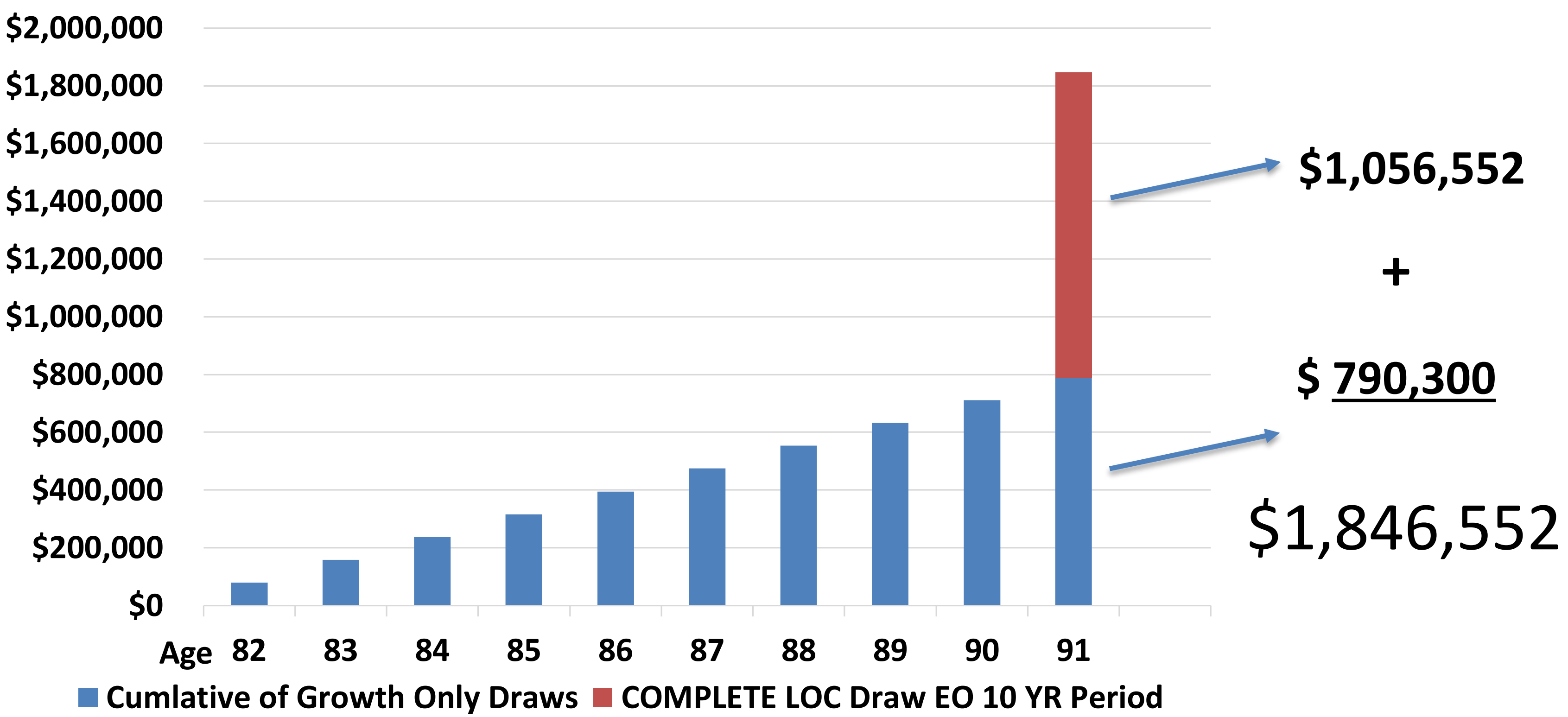
Income-tax-free funds* over 10-year Period

$79,030 for 10 Years + Full LOC Draw at EO Year 10



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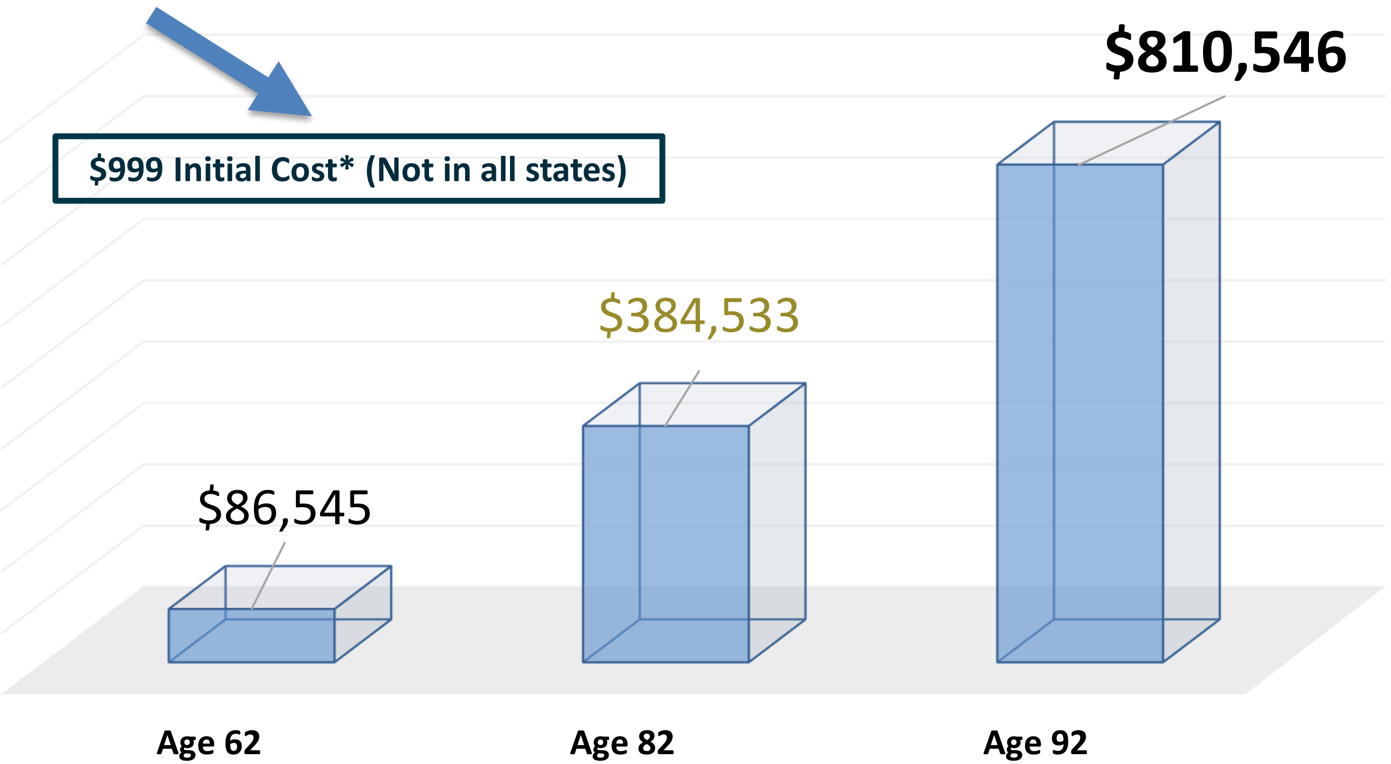
HECM Line of Credit (LOC) Growth

- 62-year-old client with $250,000 Home (TX)



Note: Line grows regardless of what happens to value of home.†

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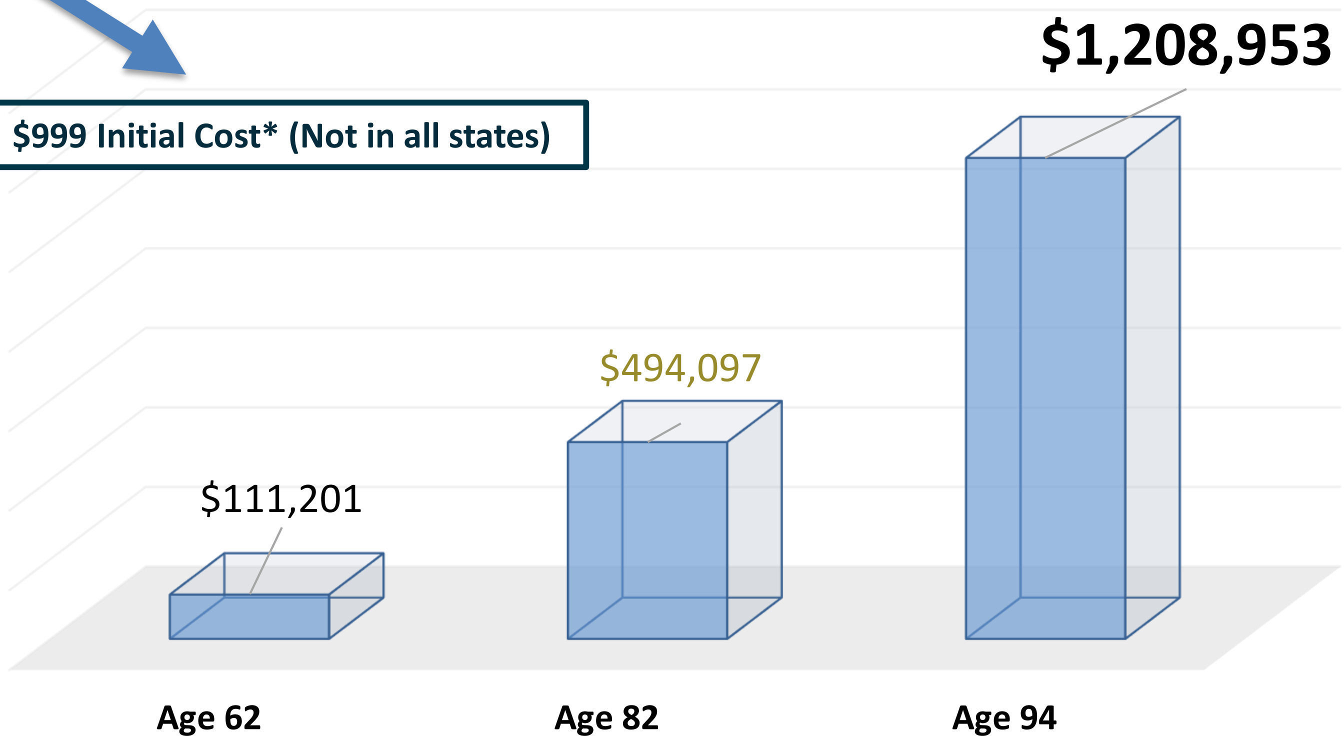
HECM Line of Credit (LOC) Growth

- 62-year-old client with $300,000 Home (PA)

$999 Initial Cost* (Not in all states)



Note: Line grows regardless of what happens to value of home.†

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Is Hedge that Provides Access to Resource of

$1,056,552 (20 Yrs) or

$2,585,257 (30 Yrs)

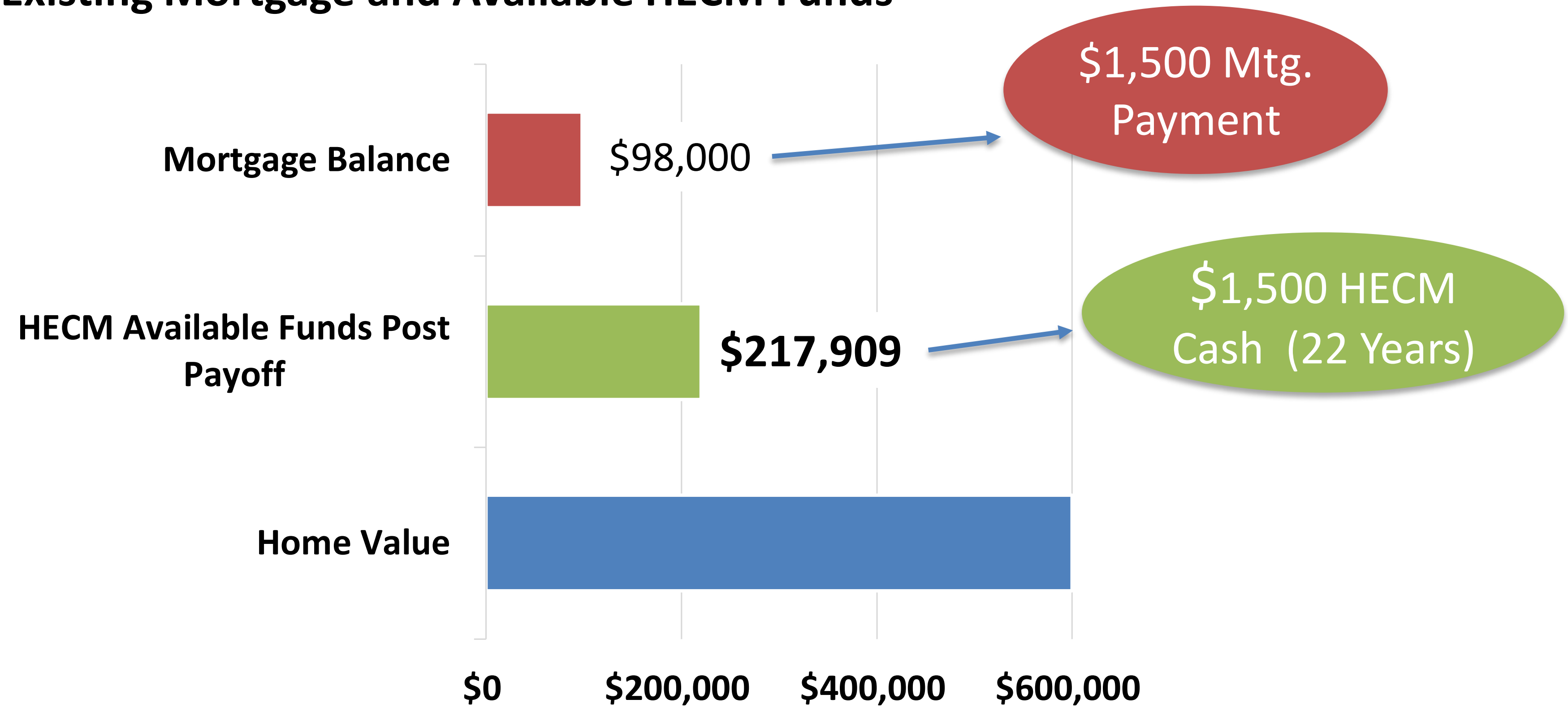
Worth $125*? (1/2% in FL)?

*With this pricing option, borrower receives a lender credit covering nearly all closing costs. Up-front cost shown is for a non-refundable independent counseling fee of approximately $125 on average, which the borrower pays directly to the counseling agency. Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only. Assumptions are: (1) 62-year-old borrower; (2) IL home valued at $636,150; (3) LOC will grow at 1.25% above the interest rate Adjustable Rate Mortgage (ARM), which is based on uses the 1-Year LIBOR plus a margin of 4.000%. The initial interest rate is 5.736% which can change annually. There is a 2% annual interest cap, and a 5% lifetime interest cap over the initial interest rate. Maximum interest rate is 10.736%; (4) the growth rate remains at 6.99%; (5) there are no draws taken from the line of credit by the borrower. Interest rates and funds available may change daily without notice.

2ND COMMON USE: REFINANCING AN EXISTING MORTGAGE WITH A HECM

Refinance for 65 & 67-Year-Old Couple

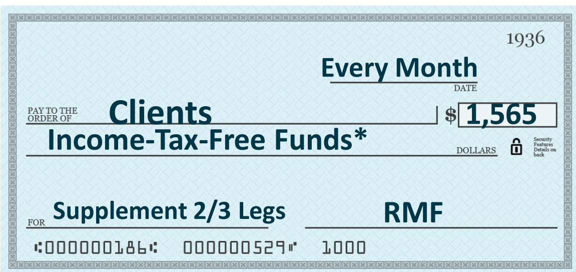
Existing Mortgage and Available HECM Funds



The information being displayed is for illustrative purposes only. Assumptions are: (1) 65-year-old borrower; (2) PA home valued at $600,000; (3) HECM ARM Annual as of July 28, 2017. The initial interest rate is 4.486%, adjustable interest rate of 4.486% tied to one year LIBOR with a margin of 2.750%. Interest rates and funds available may change daily without notice. Comparison is made to sale client having a $98,000 mortgage with 3.92% fixed rate for 15-year term.

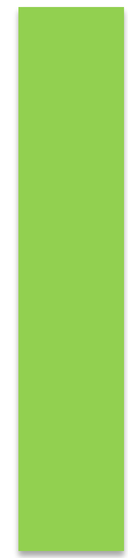
Surving Spouse Provision

- 62-year-old couple with $636,150 Home Value (IL)



Widow continues to receive $1,565 per month

$582,211



Clients Get 1st Payment - Month 1

Husband Dies in Month 2

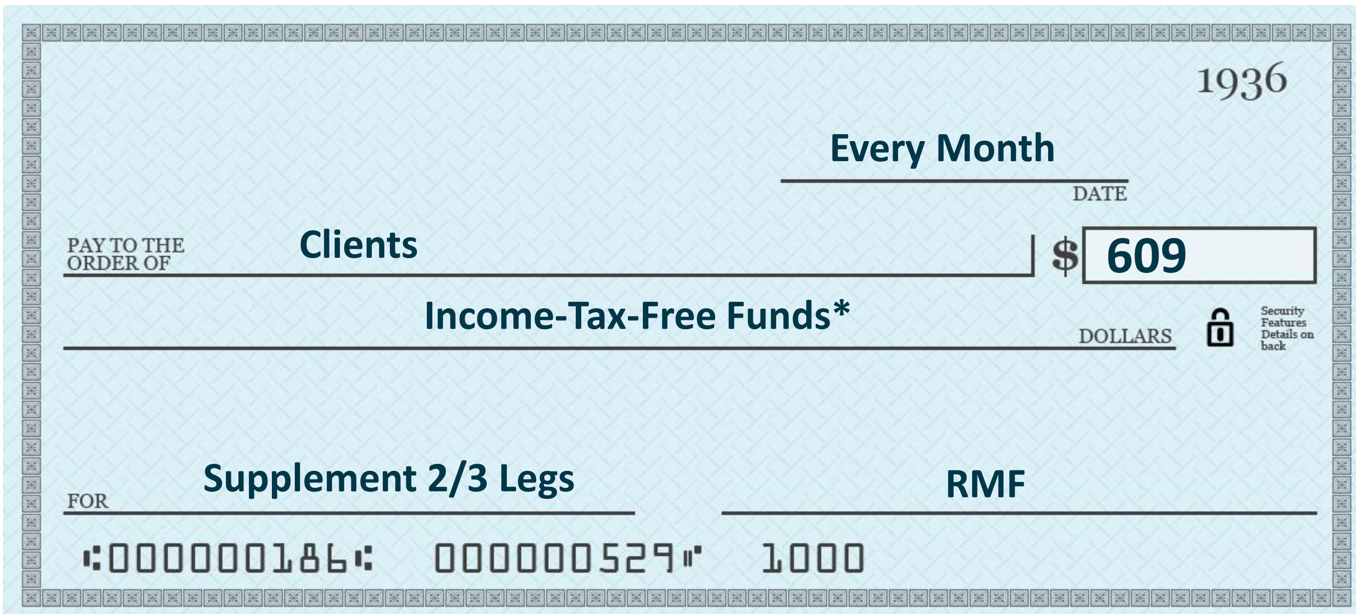
Total Paid Over 31 years

*This is not tax advice, consult a tax professional.

With this pricing option, borrower receives a lender credit covering nearly all closing costs. Up-front cost shown is for a non-refundable independent counseling fee of approximately $125 on average, which the borrower pays directly to the counseling agency. Not available in all states. Certain conditions and fees apply. The information being displayed is for illustrative purposes only. Assumptions are: 62-year-old borrower; IL home valued at $636,150; HECM Arm Annual as of 7/28/17. The initial interest rate is 5.736%, adjustable interest rate of 5.736% tied to one year LIBOR with a margin of 4.000%. Interest rates and funds available may change daily without notice.

Monthly Tenure Payment

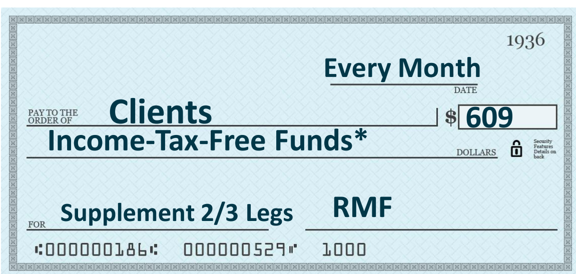
- 62-year-old couple with $250,000 Home Value (TX)



*This is not tax advice, consult a tax professional.
With this pricing option, borrower receives a lender credit covering nearly all closing costs. Up-front cost shown is for a non-refundable independent counseling fee of approximately $125 on average, which the borrower pays directly to the counseling agency. Not available in all states. Certain conditions and fees apply. The information being displayed is for illustrative purposes only. Assumptions are: 62-year-old borrower; TX home valued at $250,000; HECM Arm Annual as of 7/28/17. The initial interest rate is 5.736%, adjustable interest rate of 5.736% tied to one year LIBOR with a margin of 4.000%. Interest rates and funds available may change daily without notice.

Surviving Spouse Provision

- 62-year-old couple with $250,000 Home Value (TX)

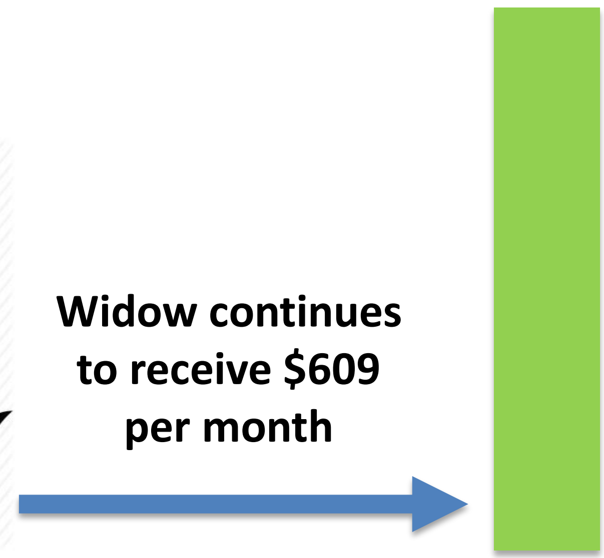


Clients Get 1st Payment - Month 1

Husband Dies in Month 2

Widow continues to receive $609 per month

$226,486



Total Paid Over 31 years

*This is not tax advice, consult a tax professional.
With this pricing option, borrower receives a lender credit covering nearly all closing costs. Up-front cost shown is for a non-refundable independent counseling fee of approximately $125 on average, which the borrower pays directly to the counseling agency. Not available in all states. Certain conditions and fees apply. The information being displayed is for illustrative purposes only. Assumptions are: 62-year-old borrower; TX home valued at $250,000; HECM Arm Annual as of 7/28/17. The initial interest rate is 5.736%, adjustable interest rate of 5.736% tied to one year LIBOR with a margin of 4.000%. Interest rates and funds available may change daily without notice.