THE NEW CASE FOR REVERSE MORTGAGES AND THEIR FOUR COMMON USES

Marshall Gallop
Certified Reverse Mortgage Professional (CRMP)
Reverse Mortgage Funding, LLC
Phone: 904.662.2634
Email: mgallop@reversefunding.com
www.marshallgallop.com
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/hec/mhecmhome

*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

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 Line of Credit: 38%
- Line of Credit with Balance: 38%
- Monthly Payment: 17%
- Eliminate Mortgage Payment: 6%
- Purchase New Home: 1%

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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

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


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

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

$237,795
187,665
$656,044
$1,056,552
$2,227,075
1,277,822

Age 62  Age 82  Age 92

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)

<table>
<thead>
<tr>
<th></th>
<th>HELOC</th>
<th>HECM LOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Line growth?**¹</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>**Cancelable?**²</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>**Requires monthly principal &amp; interest payments?**³</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Age restriction?</strong></td>
<td>None</td>
<td>Age 62+</td>
</tr>
</tbody>
</table>

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)

*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

<table>
<thead>
<tr>
<th>Option A</th>
<th>$400,000 Purchase Price</th>
<th>Option B</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200,000</td>
<td>207,534</td>
<td>HECM</td>
</tr>
<tr>
<td>+</td>
<td>$200,481</td>
<td>Purchase</td>
</tr>
<tr>
<td>$200,000</td>
<td>$199,519</td>
<td></td>
</tr>
<tr>
<td></td>
<td>192,465</td>
<td></td>
</tr>
</tbody>
</table>

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.
### 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.

<table>
<thead>
<tr>
<th></th>
<th>Pay all Cash</th>
<th>HECM Purchase</th>
<th>HECM Line of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>78%</td>
<td>88%</td>
<td>95%</td>
</tr>
</tbody>
</table>

**Source:** Salter, John. “Options for Moving in Retirement Using the HECM for Purchase.” April 2017.
NOW WHAT?
Review your 62+ Clients – 4 Common Uses

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
   * 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
   * 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
   * 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
Get a Free Client Illustration

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

MARSHALL GALLOP
Certified Reverse Mortgage Professional (CRMP)
Reverse Mortgage Funding, LLC
Phone: (904) 662-2634
mgallop@reversefunding.com
www.marshallgallop.com
FHA-insured* HECM Program

<table>
<thead>
<tr>
<th>Available for single-family property, HUD-approved condo, or up to 4-unit home (HECM for Purchase not available on multi-unit properties.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The home must be their primary residence</td>
</tr>
<tr>
<td>Proceeds can be used to refinance a property or purchase a home</td>
</tr>
<tr>
<td>Can be used to pay off a first mortgage or HELOC</td>
</tr>
<tr>
<td>A HECM cannot be reduced, called or canceled, as long as the terms of the loan are met</td>
</tr>
<tr>
<td>Clients downsizing or rightsizing can use a HECM to finance the purchase of their new home</td>
</tr>
<tr>
<td>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.</td>
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RMF Highlights

Well capitalized, with broad institutional support

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

Leadership: Former MetLife Bank executives

Managed the market-leading reverse mortgage business

Achieved 21.4% market share in the first quarter of 2016


Fully integrated reverse mortgage finance company

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1ST COMMON USE: HECM LINE OF CREDIT (LOC) GROWTH
The Math for Calculating the Money Available

$636,150  Home Value

X .3738  Net Principal Limit Factor (PLF)

$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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HECM Line of Credit (LOC) Growth

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

$125 Initial Cost* (Not in all states)

$369,296

$722,494

$1,522,923

Age 82

Age 92

Age 102

Age 102

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Starting Credit Line at Age 62 vs. Age 82

THE DIFFERENCE
$1,504,581

Start at Age 62
$237,975
$1,056,552
$2,227,075

Start at Age 82
$0
$369,296
$722,494

Start at Age 92

Colors:
- Age 62
- Age 82
- Age 92
Credit Line Growth: How it Works

$237,795 Available Line:

X 7.48%*

$17,787 Growth in Y1†

4.00% Lender Margin
2.23% Libor Index
1.25% FHA MIP

$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
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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.†

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

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

*Cumulative of Growth Only Draws

$1,056,552 + $790,300 = $1,846,552

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HECM Line of Credit (LOC) Growth

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

$999 Initial Cost* (Not in all states)

$86,545  
$384,533  
$810,546

Age 62  
Age 82  
Age 92

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HECM Line of Credit (LOC) Growth

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

$111,201
$494,097
$1,208,953

$999 Initial Cost* (Not in all states)

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

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2\textsuperscript{nd} COMMON USE: REFINANCING AN EXISTING MORTGAGE WITH A HECM
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.
Surviving Spouse Provision

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

Clients Get 1st Payment - Month 1

Husband Dies in Month 2

Total Paid Over 31 years

$582,211

Widow continues to receive $1,565 per month

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

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Monthly Tenure Payment

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

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Surviving Spouse Provision

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

Clients Get 1st Payment - Month 1

Husband Dies in Month 2

Total Paid Over 31 years

$226,486

Widow continues to receive $609 per month

Clients Income-Tax-Free Funds*

Every Month

Supplement 2/3 Legs

RMF

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