Abstract
Elderly homeowners own $7 Trillion in home equity and many are struggling with a financial plan that fully fund their lifetime expenses, but financial advisors overlook this hidden wealth. Why? In this 1-hour presentation, we take a deep dive into the federally-insured Home Equity Conversion Mortgage (HECM) to understand how it can improve the retirement plans of clients, protect against longevity risk, be optimized to fit with client goals, and to do so in an ethical and compliant manner. Home equity is one of the largest sources of assets for clients, and the HECM is a federally-insured program that can unlock this hidden wealth in a safe and standardized manner.

Learning Objectives:

1. Review changes to the HECM program over the past several years that have strengthened consumer protections.
2. Understand core foundation of HECM including qualification, ongoing requirements, consumer protections, disbursement of funds, credit line growth, and settlement.
3. Demonstrate impact of HECM funds for retirement planning and estate planning
4. Apply HECM strategies using web-based learning tool for 3 case studies
5. Adhere to compliance considerations of when and how to present a reverse mortgage

Bio:
Before making the move to reverse mortgages, Jerry spent 25 years in the Hospitality industry – with 6 years serving as General Manager of Food and Beverage at the Golden Nugget Casino in Laughlin, Nevada. In this role, Jerry took care of seniors every day, and saw the financial challenges many people face in retirement. After a life-changing accident forced Jerry to leave the hospitality industry, a switch to a career in Reverse Mortgages aligned perfectly with his values and lifestyle. Jerry believes seniors shouldn't have to worry about finances during retirement, and over the past four years he has helped countless seniors increase their monthly cash flow to improve their golden years. Jerry works alongside professionals in the financial services industry to show them how reverse mortgages can be used to strengthen their client's retirement.

Home Equity Planning "How To":

Identify Candidates and Introduce Reverse Mortgages into Your Practice

Longbridge

Financial, LLC

Date: November 14, 2019

Presented by: Jerry Auippa, Senior Account Executive

The power of home.™

*Elderly Homeowners Have Over $7.2 Trillion In Home Equity**

*NRMLA Weekly Report, June 27, 2019

What Is Different Today?

Now it's a lower cost, lower risk tool to provide additional access and control of financial resources

Past products	Today's product
High initial and ongoing costs with no flexibility	Capped initial costs, lower ongoing costs and fees, flexible options
Full draw at closing accumulated interest faster	First year draw limits slow depletion of equity
No financial underwriting	Financial Assessment raises profile, limiting distressed clients
Spouses not on the title had no repayment protection at borrower's death	New protections allow eligible "non-borrowing" spouses to continue deferral and remain in the home

Past Prejudices and Misperceptions Remain Challenging

HECM Basics

- Borrower Age 62+ in primary residence.
- Equity available is typically 40-75% based on age and interest rate.
- Lender makes income tax-free payments to homeowner.
- FHA insured HECM is non-recourse loan (no liability above home value).
- It is just a mortgage…without required payments
  - Homeowners keep title, ownership and control.
  - Borrower must maintain the home and stay current on property taxes and insurance.
- Repayment deferred until home is permanently vacated or sold.

Four Requirements

1. Live in the home permanently
2. Stay current on property taxes and assessments
3. Keep homeowner's insurance in place
4. Maintain the home – consistent with any FHA loan

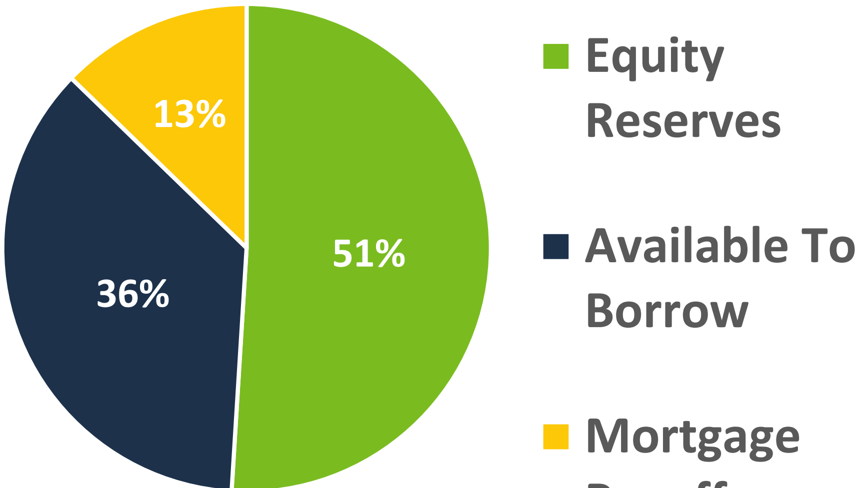
Homeowners Keep Title, Ownership And Control
A HECM Is *Just A Mortgage*

How Can Proceeds Be Used?

Choose Between Four Distribution Options:

1. **Line of credit** that grows over time
2. **Monthly cash payment**
   - Term
   - Tenure (Lifetime)
3. **Single lump sum** distribution
4. **Combination** of options

62 Years Old
3.75% Expected Rate
Principal Limit Factor: 48.7%



EXAMPLE

**Interest will accrue on the outstanding loan amount and be added to the loan balance. Remaining equity displayed is an estimate at the commencement of the loan.

How Much Can Be Accessed?

Age	Expected Rates									
62	4.000	0.470	4.125	0.462	4.250	0.454	4.375	0.447	4.500	0.439
63	4.000	0.477	4.125	0.469	4.250	0.461	4.375	0.453	4.500	0.446
64	4.000	0.483	4.125	0.475	4.250	0.468	4.375	0.460	4.500	0.452
65	4.000	0.490	4.125	0.482	4.250	0.474	4.375	0.467	4.500	0.459
66	4.000	0.497	4.125	0.489	4.250	0.481	4.375	0.474	4.500	0.466
67	4.000	0.504	4.125	0.496	4.250	0.488	4.375	0.481	4.500	0.473
68	4.000	0.511	4.125	0.503	4.250	0.496	4.375	0.488	4.500	0.481
69	4.000	0.518	4.125	0.510	4.250	0.503	4.375	0.496	4.500	0.488
70	4.000	0.522	4.125	0.515	4.250	0.507	4.375	0.500	4.500	0.493
71	4.000	0.522	4.125	0.515	4.250	0.507	4.375	0.500	4.500	0.493
72	4.000	0.524	4.125	0.516	4.250	0.509	4.375	0.502	4.500	0.494
73	4.000	0.532	4.125	0.524	4.250	0.517	4.375	0.510	4.500	0.503
74	4.000	0.539	4.125	0.531	4.250	0.524	4.375	0.517	4.500	0.510

“Principal Limit” = Funds Available For Use

“Max Claim Amount” = Home Value (up to $726,525) x Factor

(Any value over $726,525 is excluded on FHA HECM loans)

Example: $400,000 home, age 63, 4% Expected rate of interest

$400,000 x .477 = $190,800 Available to pay off mortgage, cover costs and create credit line/income stream

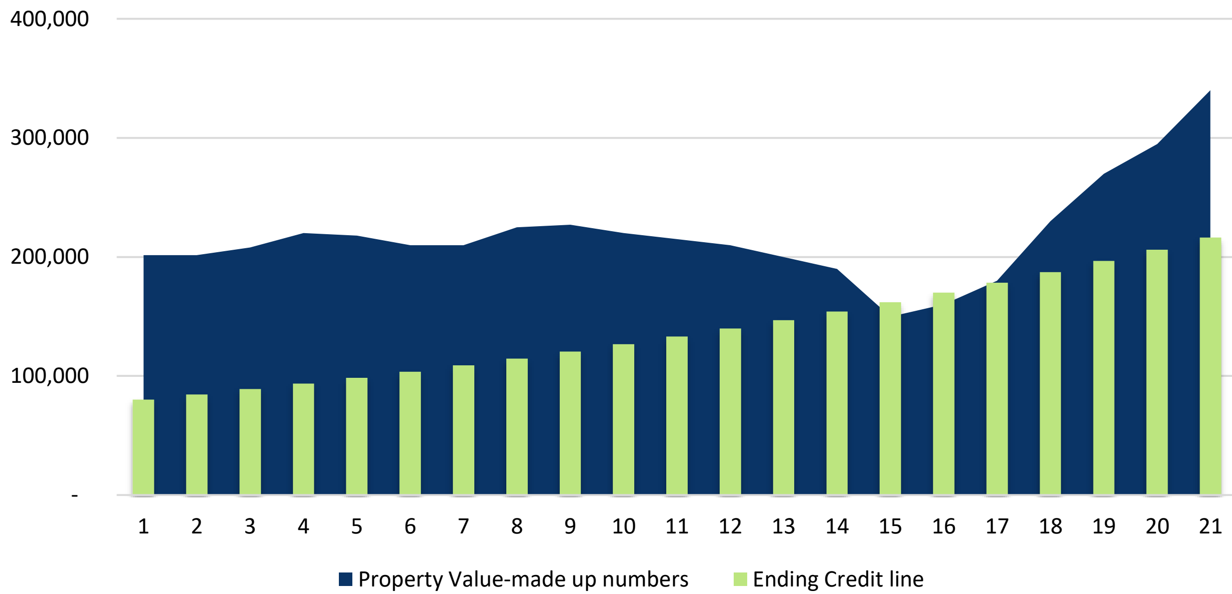
If rates rise 1/2% – client would have to be <u>68</u> to access a higher percentage of equity than they could have received at <u>63</u>

Principal Limit Factor (PLF) Table

Age	3.000	3.125	3.250	3.375	3.500	3.625	3.750	3.875	4.000	4.125	4.250	4.375	4.500	4.625	4.750	4.875	5.000
60	0.511	0.511	0.503	0.494	0.485	0.476	0.467	0.458	0.450	0.442	0.433	0.425	0.418	0.410	0.403	0.395	0.388
61	0.517	0.517	0.509	0.500	0.491	0.482	0.473	0.465	0.456	0.448	0.440	0.432	0.424	0.417	0.409	0.402	0.395
62	0.524	0.524	0.522	0.513	0.504	0.496	0.487	0.479	0.470	0.462	0.454	0.447	0.439	0.431	0.424	0.417	0.410
63	0.530	0.530	0.528	0.519	0.511	0.502	0.493	0.485	0.477	0.469	0.461	0.453	0.446	0.438	0.431	0.423	0.416
64	0.536	0.536	0.534	0.526	0.517	0.508	0.500	0.492	0.483	0.475	0.468	0.460	0.452	0.445	0.438	0.430	0.423
65	0.542	0.542	0.540	0.532	0.523	0.515	0.506	0.498	0.490	0.482	0.474	0.467	0.459	0.452	0.444	0.437	0.430
66	0.549	0.549	0.547	0.538	0.529	0.521	0.513	0.505	0.497	0.489	0.481	0.474	0.466	0.459	0.452	0.445	0.438
67	0.556	0.556	0.553	0.545	0.536	0.528	0.520	0.512	0.504	0.496	0.488	0.481	0.473	0.466	0.459	0.452	0.445
68	0.562	0.562	0.560	0.551	0.543	0.535	0.527	0.519	0.511	0.503	0.496	0.488	0.481	0.474	0.467	0.460	0.453
69	0.569	0.569	0.566	0.558	0.550	0.542	0.534	0.526	0.518	0.510	0.503	0.496	0.488	0.481	0.474	0.467	0.461
70	0.576	0.576	0.570	0.562	0.554	0.546	0.538	0.530	0.522	0.515	0.507	0.500	0.493	0.486	0.479	0.472	0.465
71	0.583	0.578	0.570	0.562	0.554	0.546	0.538	0.530	0.522	0.515	0.507	0.500	0.493	0.486	0.479	0.472	0.465
72	0.588	0.580	0.572	0.563	0.555	0.547	0.539	0.531	0.524	0.516	0.509	0.502	0.494	0.487	0.480	0.474	0.467
73	0.595	0.587	0.579	0.570	0.562	0.555	0.547	0.539	0.532	0.524	0.517	0.510	0.503	0.494	0.489	0.482	0.475
74	0.602	0.593	0.585	0.577	0.569	0.561	0.554	0.546	0.539	0.531	0.524	0.517	0.510	0.503	0.496	0.490	0.483
75	0.609	0.601	0.593	0.585	0.577	0.569	0.562	0.555	0.547	0.540	0.533	0.526	0.519	0.512	0.505	0.499	0.492
76	0.614	0.606	0.598	0.590	0.582	0.575	0.567	0.560	0.553	0.546	0.539	0.532	0.525	0.518	0.511	0.505	0.498
77	0.621	0.613	0.606	0.598	0.591	0.583	0.576	0.569	0.562	0.555	0.548	0.541	0.534	0.527	0.521	0.514	0.508
78	0.629	0.621	0.614	0.606	0.599	0.592	0.585	0.578	0.571	0.564	0.557	0.550	0.544	0.537	0.531	0.524	0.518
79	0.633	0.626	0.618	0.611	0.604	0.597	0.589	0.582	0.576	0.569	0.562	0.555	0.549	0.542	0.536	0.530	0.523
80	0.642	0.634	0.627	0.620	0.613	0.606	0.599	0.592	0.585	0.578	0.572	0.565	0.559	0.553	0.546	0.540	0.534

Credit Line Grows Regardless of Home Appreciation

Example: Unpredictable Home Price Growth



5% expected interest rate, $200,000 initial home value . Home price changes are illustrative only. Additional limitations may apply.

Guaranteed Line Growth Helps Preserve Value During Unstable Housing Markets

Longbridge Financial, LLC

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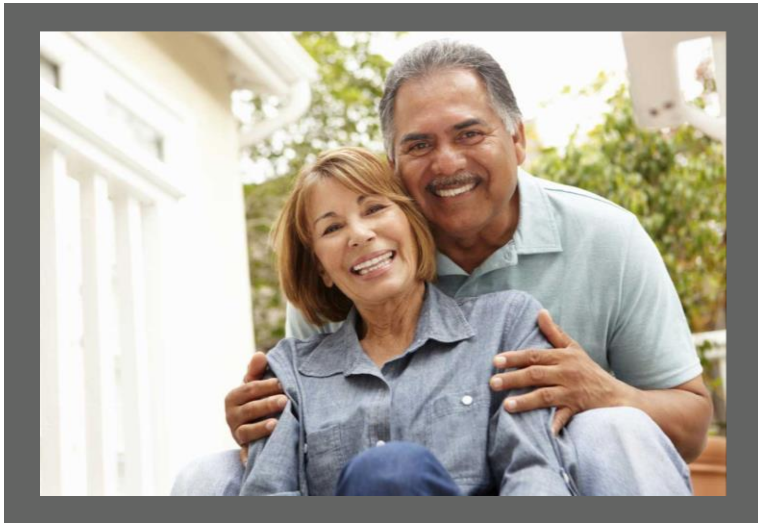
Case Study 1 – Funding Longevity with a HECM Line of Credit

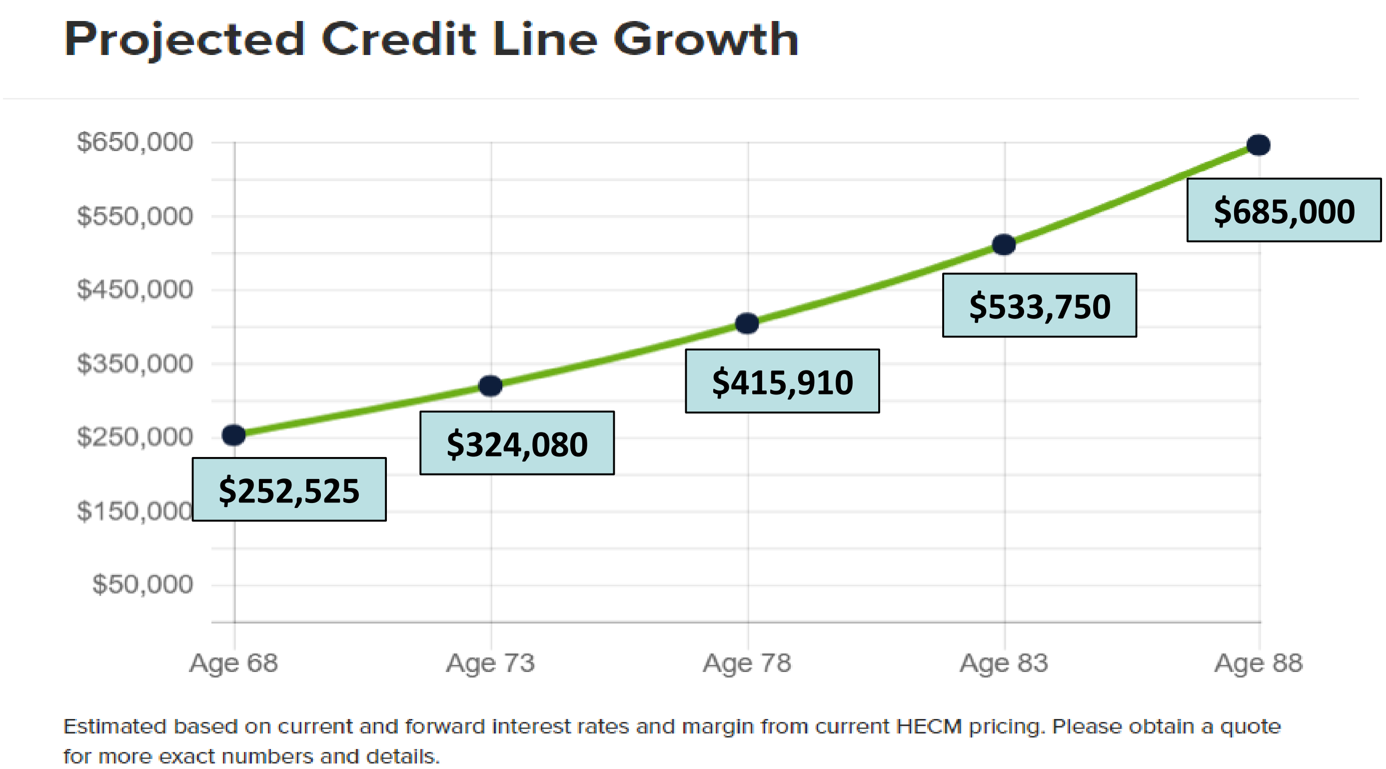


Client:

The Reyes couple, both age 68, have a $525,000 home with no mortgage. They have a pension and $500,000 in portfolio assets

How can a reverse mortgage help the Reyes better achieve their retirement goals?

Case Study 1 – Funding Longevity



Solution – Establish a HECM Credit Line

- Projected credit line would grow to $645,634 by age 88
- Funds could be drawn for home care or any other purpose
- No additional income taxes on HECM funds used

Cost of Waiting

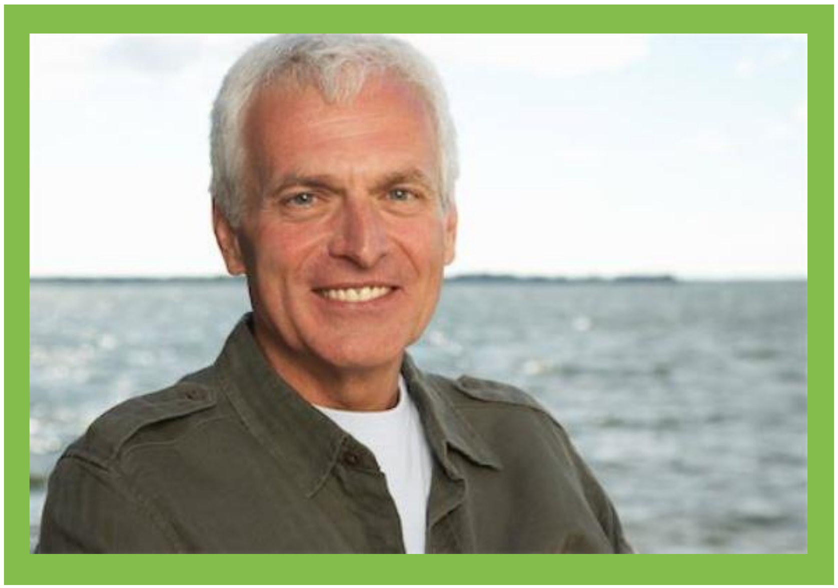
Clients can usually access more home equity by applying earlier

Example: Wait 10 years to take out HECM; Home value increases 20% & rates increase by 0.5%			
Age at origination:	63	73	Lower Proceeds From Waiting
Home Value:	$500,000	$600,000	
Interest Rate:	4.00%	4.5%	
Available at 63:	$238,500	$0	N/A
Available at 68:	$298,550	$0	N/A
Available at 73:	$373,725	$301,800	$71,925
Available at 78:	$467,830	$387,320	$80,510
Available at 83:	$585,625	$497,070	$88,555
Available at 88:	$733,080	$637,920	$95,160

- **Guaranteed to grow over time even if home values depreciate**
- **Reduce interest rate risk in a rising rate environment**
- **Remove regulatory risk due to potential HECM changes**


JAMIE HOPKINS
PROFESSOR OF TAXATION, THE AMERICAN COLLEGE

Case Study 2 – Eliminate Mortgage Payments For an Easier Path to Retirement



Client:

Bill, age 62 and single, has a $600,000 home with a $265,000 mortgage. He will need to make **mortgage payments of $2,200 per month for 13 years**, well into his intended retirement. He is still working full-time.

Challenge:

Bill plans to retire at 67 but is concerned about making his mortgage payment from retirement income. He has saved but has not been able to max out his 401K contribution. Bill would also like to have more liquid funds available for contingencies. He would like to find a way to make retirement work without extending his planned retirement date.

Case Study 2 – Eliminate Mortgage Payments

Solution:

- **Eliminate monthly mortgage payments** by replacing his traditional mortgage with a payment-optional HECM
- **Shift $2,200/month ($26,400/year) toward savings**, increasing his deductible 401k contribution and maximizing income deferral/matching funds
- After paying off the mortgage, **Bill has $93,000 available credit line from his HECM**.
- **Bill saves $342,200 in mortgage payments over the 13 years** remaining on his mortgage that can be used for other retirement goals.

Case Study 3 - Buying a Home With a HECM to Improve Retirement Liquidity

Client:

This NJ couple age 65 and 67, plan to purchase a new home closer to family with cash to avoid a mortgage payment.

Challenge:

The couple plans to sell their current home, clearing $350,000 and buy a new home with a total cost of $350,000. However, they also want to improve their retirement liquidity, is there a better option?

All examples are fictional characters shown for illustrative purposes.

Case Study 3 - Buying a Home With a HECM to Improve Retirement Liquidity

Traditional Purchase	
Proceeds– old home	$350,000
Purchase price-new home	$350,000
Cash paid by homeowner	$350,000
Monthly mortgage payment	$0
Client's remaining proceeds from old home sale	**$0**

HECM for Purchase (H4P)	
Proceeds– old home	$350,000
Purchase price-new home	$350,000
Cash paid by homeowner Reverse Mortgage Pays	$160,300 $189,700
Monthly mortgage payment	$0
Client's remaining proceeds from old home sale	**$189,700**

Expected rate 4.25%, Longbridge Financial.
All examples are fictional characters shown for illustrative purposes.

Financial Terms for Reverse Mortgage Programs

	HECM	Proprietary
Home Values	Up to $765,600	At least $400,000
Max Proceeds	$574,200	$4,000,000
Up-Front Fee and Insurance	2% of qualifying home value plus up to $6,000	0 to 0.2% of qualifying home value
Title & closing costs	Varies by State	Varies by State
Type of Loan	ARM & Fixed	Fixed

Lender credits available depending on loan terms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Identifying Clients Who Could Benefit from Additional Liquidity

- →Not enough savings for lifestyle
- →High mortgage payments
- →Purchase second home
- →New, tax-efficient strategies
- →Sudden loss or change in income
- →Protect against market declines or need for LTC

Most Common Objections

1. **MYTH: The Bank Gets My Home**

   FACT: Title stays with the home owner. This is just a loan.

2. **MYTH: Legacy for Their Children**

   FACT: Research* has shown that net combined legacy can be significantly larger when using a coordinated strategy.

3. **MYTH: My Children will be Responsible For Repayment**

   FACT: This is a non-recourse loan.

4. **MYTH: Too Expensive**

   FACT: Significant discounts are available.

*Source: Reverse Mortgages, The Retirement Researcher's Guide Series; Wade Pfau, Ph.D., CFA

Compliance Considerations

- HECMs require mortgage licensing. You should make a referral and let the lender do the rest.
- No lender should pay you for referrals nor should you accept payment for referrals.
- Use home equity as a part of a broader financial plan that puts the client's best interest first.
- Never require financial product sales as a condition of obtaining a HECM, or vice versa.
- HECM is not recommended for spouses under 62 or if a separated spouse is not living in the home

Do the right thing for your clients with affordable, suitable recommendations.

Note: Consult your compliance team for specific guidance

Check out our Advisor Website

Estimator & Home Equity Engine

Reverse Mortgage Estimator

A simple way to get a quick, online estimate

- Learn how much cash your clients may receive
- Get results instantly
- Run as many scenarios as you wish
- Offer as much or as little information as you like

GET ESTIMATE

Home Equity Engine

A unique reverse mortgage modeling tool

- See how it would impact your client's plan
- Run sophisticated simulations in minutes
- Get easy-to-read results
- Print simple reports to share with clients
- No registration or software license needed

Methodology provided by Dr. Wade Pfau

GET ANALYSIS

Getting Started is EASY!

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How We Help

- ✓ One-On-One Attention
- ✓ Free In-Depth Quotes
- ✓ Special Pricing
- ✓ Educational Resources
- ✓ Online Tools