REVERSE MORTGAGE FUNDING LLC

Selling HECMs in a Rising Rate Environment

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Agenda

- Explaining the benefits of HECM Closing Costs
- Getting the most proceeds
  - *Principal Limit and the Look up Floor*
- When to Use Higher Margins
- Rate/Price Sheet
  - *Add-ons/Servicing Fees*
  - *Utilization Tiers*
- The Importance of Principal Limit Lock
- How to use a Servicing Fee to benefit YOU and Your Borrower
- What happens when rates increase at Closing
- What happens when rates decrease at Closing
- Review

Introduction

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- Until the beginning of November rates were fairly steady, when a changed occurred, it often meant the 1-month or 1-year LIBOR, or 10 year SWAP decreased, allowing originators to add a higher margin to the index while still maintaining maximum borrower proceeds.
- In turn, originators (both lenders and brokers) were able to pass that additional proceeds onto their clients in the form of reduced or $0 origination fees and/or lender credits.
- After the 2016 election, markets became more volatile. The LIBOR indices grew, reducing the margin that enables maximum proceeds.
- Lender credits shrank and origination fees returned and/or increased.

July 6, 2016

Margin	Expected Rate	Note Rate
3.750%	5.100%	4.985%
3.625%	4.975%	4.860%

November 15, 2016

Margin	Expected Rate	Note Rate
3.750%	5.950%	5.395%
3.625%	5.825%	5.270%
3.500%	5.700%	5.145%
3.375%	5.575%	5.020%
3.250%	5.450%	4.895%
3.125%	5.325%	4.770%
3.000%	5.200%	4.645%
2.875%	5.075%	4.520%
2.75%*	4.950%	4.395%

Closing Costs

When rates are on the rise, originators may not be able to cover as many closing costs as before. When that happens it becoming increasingly important that you understand what those Closing Costs pay for. Closing fees on a HECM are similar to a forward mortgage, HECMs have charges for Title, Appraisal, Settlement Fees, Credit and Flood, etc. Let's look at some fees that are unique to HECMs.

- **MIP** – A great selling point of all HECMs are the non-recourse provision. It means that borrower's or their heirs won't be responsible for the loan balance over the value of the home. When the loan balance is greater than home's value, the MIP fund makes the lender whole. This is a mandatory fee that ALL HECM loans pay. Remember to explain that if Mandatory Obligations are 60% or less, your borrower can save 2% of Max Claim upfront!
- **Origination Fee** – The cost of originating, processing and closing the loan.

How to Get the Most Proceeds

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- Look for products with an Expected Interest Rate at or below 5.06%.
- The partial table below shows the factor used to calculate principal limits for expected rates near 5% for borrowers between 70-80. Rates are rounded to the nearest 1/8%.
- To see the table click HERE.

Illustration

72 year old borrower with a $300,000 max claim

Expected Rate	Principal Limit
5.06%	$177,300
5.25%	$168,000

70	5.000	0.576	5.125	0.560	5.250	0.544	5.375	0.529	5.500	0.513
71	5.000	0.583	5.125	0.568	5.250	0.552	5.375	0.537	5.500	0.521
72	5.000	0.591	5.125	0.575	5.250	0.560	5.375	0.545	5.500	0.529
73	5.000	0.599	5.125	0.583	5.250	0.568	5.375	0.552	5.500	0.537
74	5.000	0.606	5.125	0.591	5.250	0.575	5.375	0.560	5.500	0.545
75	5.000	0.614	5.125	0.598	5.250	0.583	5.375	0.568	5.500	0.553
76	5.000	0.622	5.125	0.607	5.250	0.592	5.375	0.577	5.500	0.562
77	5.000	0.631	5.125	0.616	5.250	0.601	5.375	0.586	5.500	0.571
78	5.000	0.640	5.125	0.625	5.250	0.610	5.375	0.595	5.500	0.580
79	5.000	0.648	5.125	0.633	5.250	0.618	5.375	0.604	5.500	0.589
80	5.000	0.657	5.125	0.642	5.250	0.627	5.375	0.612	5.500	0.598

Is a Lower Margin Always the Best?

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- When a borrower is not in need of max proceeds, why not look at a higher margin.
- A higher margin will allow for higher LOC Growth.
- The unused LOC will grow at a minimum of 4.5%.
- Remember to check our rate sheet for low utilization pricing.

Age of Youngest Borrower:	71	Product Selected:	HECM ARM 3.250
Expected Interest Rate:	5.570%	Initial Property Value:	350,000.00
Maximum Claim Amount:	350,000.00	Beginning Mortgage Balance:	711.95
Initial Principal Limit:	179,900.00	Expected Appreciation:	4.000%
Net Principal Limit:	179,188.05	Initial Line of Credit (Year 1):	107,228.05
Cash From Borrower	0.00	Monthly Payment:	0.00
Cash To Borrower:	0.00	Monthly Servicing Fee:	0.00
Lien Payoffs with Reverse Mortgage:	0.00	Ongoing Mortgage Insurance (MIP)	1.25%
Financed Closing Costs:	711.95	Repair Set Aside:	0.00
Credit Applied:	(5,000.00)		

NOTE: Actual interest charges and property value projections may vary from amounts shown. Available credit will be less than projected if funds withdrawn from line-of-credit. Actual Life Expectancy Set-Aside payments may increase or decrease from the amounts shown based on changes to the property charge costs. The Actual Life Expectancy Set-Aside Balance may very depending on the age of the youngest borrower, the interest rate and changes to the property charge costs. The projections are for illustrative purposes only.

In calculating the numbers included in the columns below entitled Interest + MIP, Home Value, Net HomeValue and Remaining Equity, the following assumptions were made: interest rate of 5.570%, home appreciation rate of 4.000% and selling costs of 7%.

Amounts are rounded to whole dollars.

Year	Age	Remaining Line of Credit	LESA Payment	Cash Advance	Service Fee	Interest + MIP1	LESA Balance	Loan Balance	Home Value	Net Home Value2	Remaining Equity3
1	72	191,798	0	0	0	50	0	762	364,000	338,520	337,758
2	73	205,295	0	0	0	54	0	816	378,560	352,061	351,245
3	74	219,743	0	0	0	57	0	873	393,702	366,143	365,270
4	75	235,206	0	0	0	61	0	935	409,450	380,789	379,854
5	76	251,759	0	0	0	66	0	1,000	425,829	396,021	395,020
6	77	269,475	0	0	0	70	0	1,071	442,862	411,861	410,791
7	78	288,439	0	0	0	75	0	1,146	460,576	428,336	427,190
8	79	308,737	0	0	0	81	0	1,227	478,999	445,469	444,243
9	80	330,464	0	0	0	86	0	1,313	498,159	463,288	461,975
10	81	353,720	0	0	0	92	0	1,405	518,085	481,820	480,414
11	82	378,612	0	0	0	99	0	1,504	538,809	501,092	499,588
12	83	405,256	0	0	0	106	0	1,610	560,361	521,136	519,526
13	84	433,775	0	0	0	113	0	1,723	582,776	541,981	540,258
14	85	464,301	0	0	0	121	0	1,845	606,087	563,661	561,816
15	86	496,975	0	0	0	130	0	1,975	630,330	586,207	584,233
16	87	531,949	0	0	0	139	0	2,114	655,543	609,655	607,542
17	88	569,383	0	0	0	149	0	2,262	681,765	634,042	631,779
18	89	609,452	0	0	0	159	0	2,421	709,036	659,403	656,982
19	90	652,341	0	0	0	170	0	2,592	737,397	685,779	683,188
20	91	698,248	0	0	0	182	0	2,774	766,893	713,211	710,436

Annual ARM 3.25 on 2/14/17 in NJ shown with $0 origination fee and a $5,000 credit.

Price/Rate Sheets – Know It!

- Know what product gets the most Principal Limit.
- Know the Utilization Tiers
- Know all your lender's programs, adds-ons, etc. At RMF we add-ons for Servicing Fees, Ultra-Low Utilization, Broker Quality, Tango use
- Disclose all add-ons

Annual Adjustable Rate HECM

Interest rate is indexed to 1-year LIBOR
Interest rate resets annually
Interest rate capped at 5% above initial rate and a maximum 2% change per year

			Utilization Tier (Price Paid on UPB)				
Margin	Expected Rate	Note Rate	0.01%-20%	20.01%-40%	40.01%-60%	60.01%-80%	80.01%-100%
3.750%	6.060%	5.483%	118.692	118.660	118.127	116.747	114.767
3.625%	5.935%	5.358%	117.312	117.910	117.377	115.997	114.017
3.500%	5.810%	5.233%	117.192	117.160	116.627	115.247	113.267
3.375%	5.685%	5.108%	116.442	116.410	115.877	114.497	112.517
3.250%	5.560%	4.983%	115.692	115.765	115.252	113.747	111.767
3.125%	5.435%	4.858%	115.052	115.022	114.492	113.083	111.077
3.000%	5.310%	4.733%	114.417	114.135	113.602	112.372	110.292
2.875%	5.185%	4.608%	113.727	113.542	113.007	111.705	109.552
2.75%*	5.060%	4.483%	113.192	112.905	112.367	111.042	108.867
2.625%	4.935%	4.358%	112.457	112.187	111.652	110.390	108.177
2.500%	4.810%	4.233%	111.667	111.425	110.892	109.650	107.517
2.375%	4.685%	4.108%	110.927	110.642	110.107	108.980	106.802
2.250%	4.560%	3.983%	110.192	109.905	109.367	108.167	106.117
2.125%	4.435%	3.858%	109.302	109.267	108.752	107.300	105.427
2.000%	4.310%	3.733%	108.567	108.655	108.117	106.542	104.742

**RMF Rate Sheet Shown*

Utilization Tiers

- RMF pays a higher rate of compensation for lower utilized loans; encouraging our partners to originate these loans.
- Loan utilization of 20% or less receive additional compensation outlined below.
- Partners must disclose adequate compensation to cover the utilization tiers and additional compensation.

Pricing add-on for low-utilization loans		
	Utilization Tier	
Principal Limit between	0.01%-10%	10.01%-20%
50,000 to 100,000	$500	$250
100,001 to 200,000	$1,000	$500
> 200,000	$1,500	$750

Annual Adjustable Rate HECM

Interest rate is indexed to 1-year LIBOR
Interest rate resets annually
Interest rate capped at 5% above initial rate and a maximum 2% change per year

			Utilization Tier (Price Paid on UPB)				
Margin	Expected Rate	Note Rate	0.01%-20%	20.01%-40%	40.01%-60%	60.01%-80%	80.01%-100%
3.750%	6.000%	5.452%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.625%	5.875%	5.327%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.500%	5.750%	5.202%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.375%	5.625%	5.077%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.250%	5.500%	4.952%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.125%	5.375%	4.827%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3.000%	5.250%	4.702%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.875%	5.125%	4.577%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.75%*	5.000%	4.452%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.625%	4.875%	4.327%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.500%	4.750%	4.202%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.375%	4.625%	4.077%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.250%	4.500%	3.952%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.125%	4.375%	3.827%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2.000%	4.250%	3.702%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Compensation Decreases

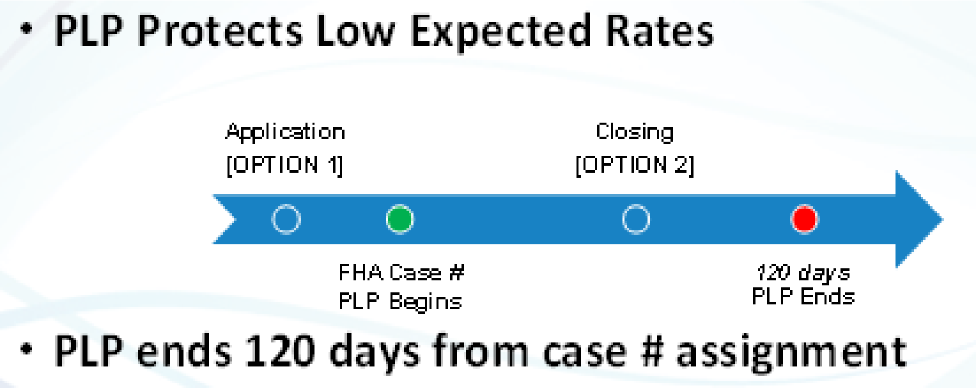
Compensation Decreases

*RMF Rate Sheet Shown

Principal Limit Lock

Get the loan closed in 120 days!

- A PLL allows the borrower to receive the expected rate at application or closing to be used which provides the most money, provided they close within 120 days of FHA Case Number Assignment.



When a margin change is done after application the new margin is used to compare expected rates.

Servicing Set Asides

- HECM loans where a monthly servicing fee (SF) is charged require a Servicing Fee Set Aside. The set aside is subtracted from the Principal Limit.
- As with all HECM funds, there is a growth rate associated with the calculation of the servicing fee set aside. Because of that growth, loans with a higher margin will require a lower set aside.
- The monthly servicing fee does not increase the loan balance until it is applied each month.
- Any unused portion of the servicing fee set aside, at the time the loan balance is paid off, is reflected in equity to the borrower. It is not used to reduce the payoff balance.
- Loans with servicing fees often have lower upfront costs than non servicing fee products with the same margin due to the larger credit or reduced origination fee.

Our Low Cost HECMs are available on all ARM loans with 60% or less mandatory obligations. Annuals have a $30 monthly servicing fees, monthly HECMs have a $35 fee. At RMF, depending on the age of the youngest borrower additional comp ranges from $1200 – $1850. These funds can be used to offset closings costs.

What Can Go Up?

Can Increase

- Origination Fees that are calculated (only when MCA increases)
- Margins/Rate (considered floating until loan lock)
- Lender Credits
- Utilization tiers
- Principal Limit

Cannot Increase*

- Flat Origination Fees
- % of Broker Compensation or dollar amount if disclosed as a flat fee.
- Any zero tolerances fees

* without a VCC

Credits

When a credit (lender or broker) is disclosed as a % of PL or MCA, the dollar amount of that credit may fluctuate but the % must remain constant. When disclosed as a flat dollar amount, the dollar amount cannot decrease*. Tango does not include credits on the GFE.*

Example

Mr. Campbell applied for an Annual 300 on October 12th.

At Application

- Expected Rate: 4.43%
- Max Claim: $400,000
- Principal Limit: $222,000
- UPB: $140,000/ 59%
- Orig. Fee Disclosed: $2,000

At Closing (12/1)

- Expected Rate: 5.18%
- Max Claim: $375,000
- UPB: $160,000/ 76%
- Orig. Fee: $2000 or less

Options

Expected Rate at Closing: 4.43%

Case # less than 120 days

5.18% would give less PL

Origination Fee

Can still charge $2,000 or less since still below the HUD calculation.

Margin

The margin is floating, so it can be changed. Keep in mind, increasing MAY reduce PL.

Broker Compensation

Now based on the higher utilization tier.

Review

As rates increase, partners still have options to ensure a benefit to the borrower while still maintaining profitability.

- **Closing Costs –** Make sure to understand how some of the closing costs BENEFIT the borrower.
- **Higher Rate?–** Borrowers interested in LOC growth may benefit from a higher rate, especially when combined with reduced closing costs. Make sure to disclose the loan properly to benefit from any pricing adds-ons for low utilized loans.
- **Know your rate sheet** – Analyze your company's (or RMF) rate sheet on a daily basis. Know what margin is at the floor each week. Educate yourself on utilization tiers and add-ons for ultra low utilized loans.
- **Principal Limit Lock** – Get loans closed in 120 days from Case Assignment. This ensures your borrower will receives the expected rate that is best for them (application or closing)
- **Servicing Fees** - When MOs are under 60% try a Servicing Fee. The additional compensation can even be passed along to your borrower as a broker credit.
- **Disclose correctly** – No matter what system you use to disclose your loans, make sure you are disclosing all possible add-ons (Welcome/Welcome Back, Broker Quality Compensation, Servicing Fee Set Aside, Ultra Low UPB)

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