



NRMLA EAST
The Business of Reverse: From Markets to Marketing

**NRMLA's
2018 EASTERN
REGIONAL MEETING**
May 21-22, 2018
InterContinental New York Times Square
New York, NY



Selling HECM as a Solution

Presented by Craig Barnes, Reverse Mortgage Funding LLC

Learning Objectives



List the premium features of a HECM.

Identify new ways to solve client's needs using a HECM.

Discuss how a HECM can help plan for retirement.

Recognize the importance of the HECM Purchase market

Introduction

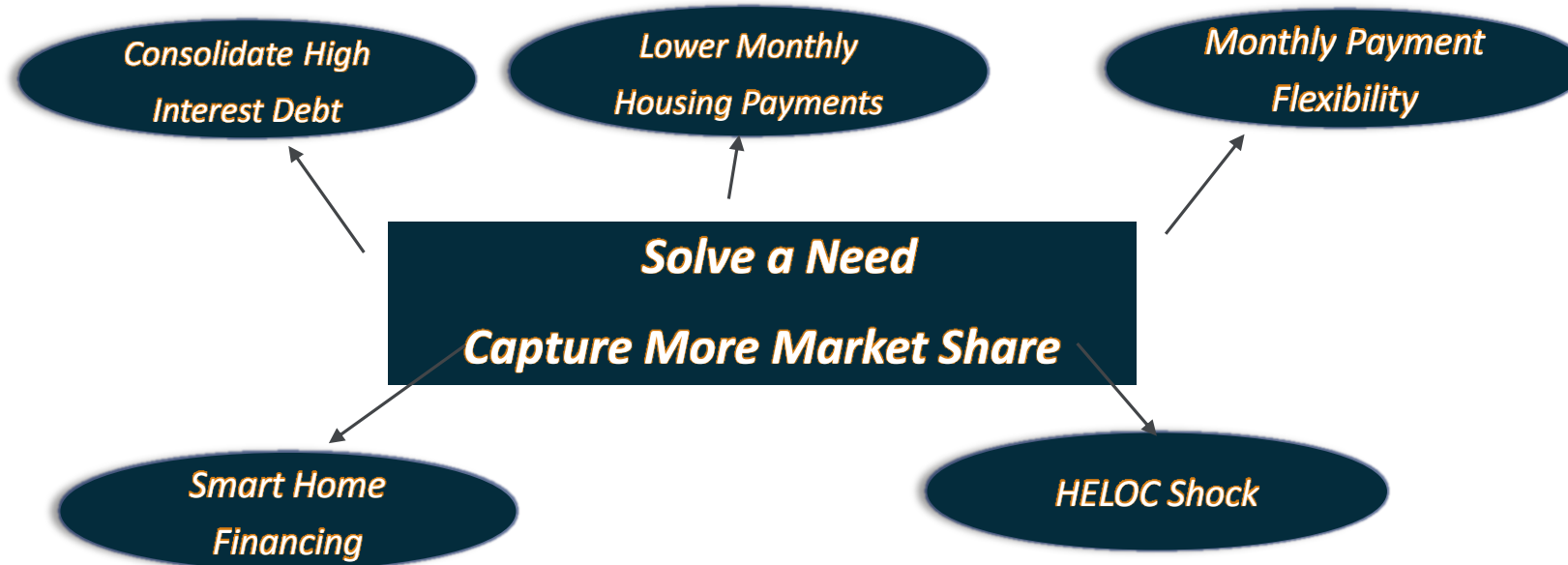
We all spend money for things we need.

- A home to provide shelter
- A car to provide transportation
- TVs, stereo and other electronics to provide entertainment
- Insurance to protect from loss

A HECM's unique benefits can fulfill those needs and much more.

- Fund longevity
- Improved quality of life
- Home improvements or right-sizing
- Loss of future income
- Medical/caregiving needs
- Unexpected expenses

Selling HECMs as a Solution - Agenda



HECMs are a Premium Product

Everyday we pay more for items we consider better.

- Better clothes, better cars, better food or better cell phones and more. We pay more because we perceive more value in those items.

Do you ever think of paying more for a mortgage?

	HECM	Traditional Mortgage
Monthly P&I Payments Not Required	✓	
Never Pay Back More than the Home Value	✓	
Line of Credit Growth	✓	
Government Insured	✓	

Why Not?



The Biggest Needs

Not enough assets

The average working household has virtually no retirement savings. When all households are included— not just households with retirement accounts—the median retirement account balance is \$2,500 for all working-age households and **\$14,500 for near-retirement households.** Furthermore, **62 percent of working households age 55-64 have retirement savings less than one times their annual income,** which is far below what they will need to maintain their standard of living in retirement.

▪ Source: *The Continuing Retirement Savings Crisis*, Nari Rhee, Ph.D., and Ilana Boivie, National Institute for Retirement Security, March 2015

No safety net? Not able to retire?

- Setup a Line of Credit for future use
- Line of Credit grows
- Borrowers can even pay most of the closing to keep the loan balance as low as \$1.00



The Biggest Needs

Too much month at the end of your money?

Age	Average Credit Card Debt
Less than 35 years	\$5,808
35 to 44 years	\$8,235
45 to 54 years	\$9,096
55 to 64 years	\$8,158
65 to 69 years	\$6,876
70 to 74 years	\$6,465
75 and over	\$5,638

Source: ValuePenquin.com, Average Credit Card Debt in America: 2017 Facts & Figures

Lack of monthly income?

- The average American senior has over \$6,000 in credit card debt.
- Unlike their parents, baby boomers are more comfortable with debt (mortgages, refinancing, installments and revolving)
- Cash out and/or tenure payments



High Interest Credit Cards

Paying the minimum, at 19.8% interest, a \$2,800 balance will take 14 years to pay off

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	14 years	\$6,258
\$103	3 years	\$3,699 (Savings=\$2,559)

This \$4,100 balance will take 3 years to payoff, that's paying 3x the minimum

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Minimum Payment	17 Years	\$9,198
\$145	3 Years	\$5,210
Estimated savings if balance is paid off in about 3 years: \$3,988		

It would cost \$870 per month to pay this \$6,000 balance off in 3 years

Transaction Fees	
• Balance transfer	Either \$5 or 3% of the amount of the transaction, whichever is greater (maximum fee: \$100)
• Cash advance	Either \$5 or 3% of the amount of each cash advance, whichever is greater
• Foreign transaction	2% of each transaction in U.S. dollars
Penalty Fees	
• Late payment	\$29 if balance is less than or equal to \$1,000; \$35 if balance is more than \$1,000
• Over-the credit limit	\$29
• Returned payment	\$35

Don't forget about the fees

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Minimum Payment	21 Years	\$12,348
\$ 870	3 Years	\$6,598
Estimated savings if balance is paid off in about 3 years: \$5,750		



Consolidate Debt

USE THE CREDIT REPORT

This is a financial transaction. Chances are your client has applied for a credit card, car loan or mortgage in the past. They are expecting credit to be run. Use the credit report to show how a HECM can free up needed cash.

FOEA	WHOSE	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
				DLA	ACCT TYPE	TERMS						SOURCE
M B		HYUNDAI CAPITAL AMER [REDACTED] AUTO LEASE	09/15	08/15 09/15	\$10359 AUTO	\$9801 036 \$288	\$0	2	0	0	0	l1 XP/TU/EF
B B		SYNCB/QVC [REDACTED]	10/15	05/02 10/15	\$6600 REV	\$6586 MIN \$206	\$0	99	0	0	0	R1 XP/TU/EF
B B		SYNCB/CARE CREDIT [REDACTED]	11/15	04/11 10/15	\$6000 REV	\$3843 MIN \$125	\$0	56	0	0	0	R1 XP/TU/EF
B B		SUN CREDIT [REDACTED] UNSECURED	10/15	02/14 10/15	\$5000 INST	\$3046 \$133	\$0	20	0	0	0	l1 EF
B B		ALLY FINANCIAL [REDACTED] AUTO LEASE	11/15	05/13 10/15	\$13962 AUTO	\$2701 039 \$358	\$0	30	0	0	0	l1 XP/TU/EF
B B		CHASE CARD [REDACTED]	10/15	09/11 10/15	\$5700 REV	\$2428 MIN \$48	\$0	49	0	0	0	R1 XP/TU/EF
B B		BK OF AMER [REDACTED]	10/15	12/97 10/15	\$3500 REV	\$1329 MIN \$25	\$0	62	0	0	0	R1 XP/TU/EF

Total Balances	\$29,743
Total Monthly Payments	\$1,183
Est. Closing Costs	\$11,300
Recoup Closing Costs	9.5 months



Lower Monthly Payments or Eliminate Them?

Original Mortgage	Traditional Refinance	
\$240,000	\$195,000	<i>Only the loan balance, no cash out</i>
360 months	180 months	<i>Age 87 when refinance paid off</i>
6.0%	3.875%	
2007	2017	<i>15 more years of payments</i>
\$1495 (P&I)	\$1430 (P&I)	<i>Only \$65 monthly savings</i>

HECM – The Premium Choice

4.375% ER = \$200,800 PL*
 Short to Close = **\$11,900**

Months to Recoup Closing Costs: 8

\$1495 (or make payments when you want in any amount)

* 72 year old borrower with \$400,000 MCA using full origination fees and other closing costs estimated to be \$3700.



HELOC Shock

This borrower has been paying \$87 per month on their HELOC. If the payments terms were resetting today, the payments would be

\$212 – 10 years

\$385 – 5 years

Payoff Amount Calculations	
Principal Balance as of 04/01/17	\$20,742.07
Interest from 04/01/17 to 05/16/17 at 3.375%	87.11
Recording Fee	18.00
Reconveyance Fee	45.00
<i>Total Secured by Mortgage</i>	<i>20,892.18</i>
Payoff Statement Fee	30.00
Total to Pay Loan in Full	\$20,922.18
<hr/>	
Interest per diem at 3.375%: \$1.92	

- Monthly payment required when using a HECM to payoff the balance?

\$0



Four Needs; One HECM

72 year old with a \$300,000 home wanted to eliminate her P&I, payoff her credit cards, get supplemental monthly income and set up a nest egg. A HECM did it all!

Paid off \$50,000 mortgage: **\$700**

\$8,000 cash-out to pay credit cards: **\$200**

Setup monthly payments for the life of the loan: **\$300**

Nest Egg: **\$26K** and growing!

MONTHLY CASH INCREASE: \$1200

Age of Youngest Borrower:	72	Product Selected:	HECM ARM 2.000
Expected Interest Rate:	4.130%	Initial Property Value:	300,000.00
Maximum Claim Amount:	300,000.00	Beginning Mortgage Balance:	72,672.45
Initial Principal Limit:	154,800.00	Expected Appreciation:	4.000%
Net Principal Limit:	82,127.55	Initial Line of Credit (Year 1):	16,607.55
Cash From Borrower:	0.00	Monthly Payment:	300.00
Cash To Borrower:	8,000.00	Monthly Servicing Fee:	0.00
Lien Payoffs with Reverse Mortgage:	50,000.00	Ongoing Mortgage Insurance (MIP)	0.5%
Financed Closing Costs:	0.00	Repair Set Aside:	0.00
Credit Applied:	(0.00)		

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 vary 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 Home Value and Remaining Equity, the following assumptions were made: interest rate of 4.130%, 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 + MIP ¹	LESA Balance	Loan Balance	Home Value	Net Home Value ²	Remaining Equity ³
1	73	26,681	0	3,600	0	3,529	0	79,801	312,000	290,160	210,359
2	74	27,943	0	3,600	0	3,866	0	87,267	324,480	301,766	214,500
3	75	29,264	0	3,600	0	4,219	0	95,086	337,459	313,837	218,751
4	76	30,648	0	3,600	0	4,589	0	103,274	350,958	326,391	223,116
5	77	32,098	0	3,600	0	4,976	0	111,850	364,996	339,446	227,596
6	78	33,616	0	3,600	0	5,382	0	120,832	379,596	353,024	232,192
7	79	35,206	0	3,600	0	5,806	0	130,238	394,780	367,145	236,907
8	80	36,871	0	3,600	0	6,251	0	140,090	410,571	381,831	241,741
9	81	38,615	0	3,600	0	6,717	0	150,407	426,994	397,104	246,697
10	82	40,441	0	3,600	0	7,205	0	161,212	444,073	412,988	251,776

Ready to Retire or at least Semi-Retire?

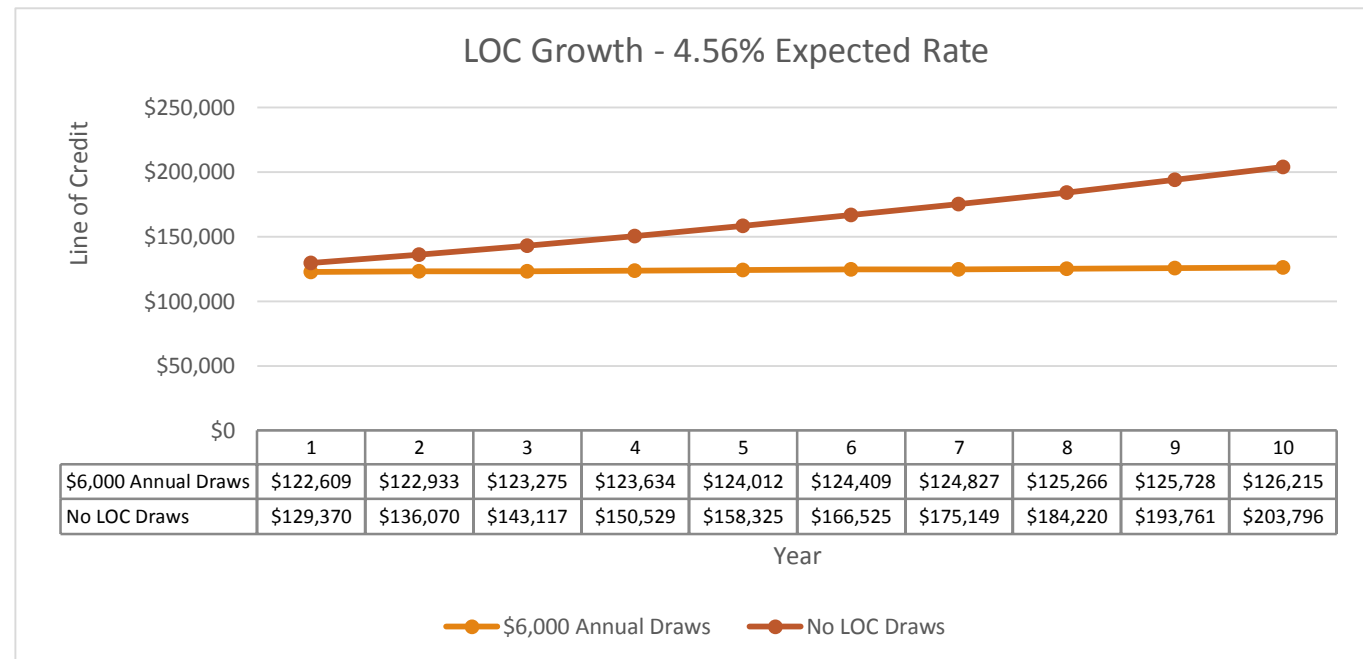


Using a LOC in Retirement

65 year old client, no mortgage with a \$300,000 home and a beginning LOC of \$123,000.

Two options:

- Let the line of credit grow: Over \$200K in 10 years
- Get monthly payments or take a LOC draw to pay taxes or other needs. \$6,000 annually still has a LOC of \$126,215 in year 10

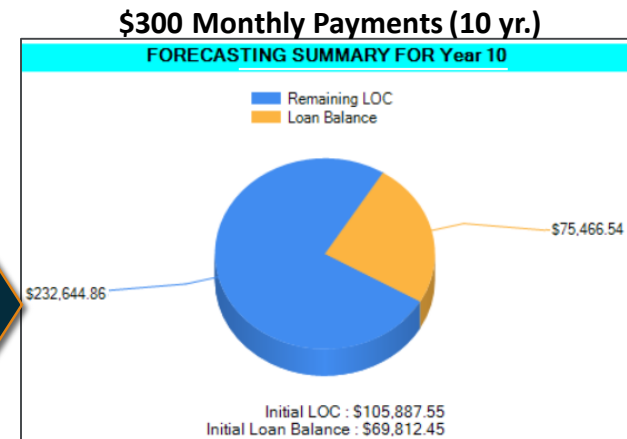
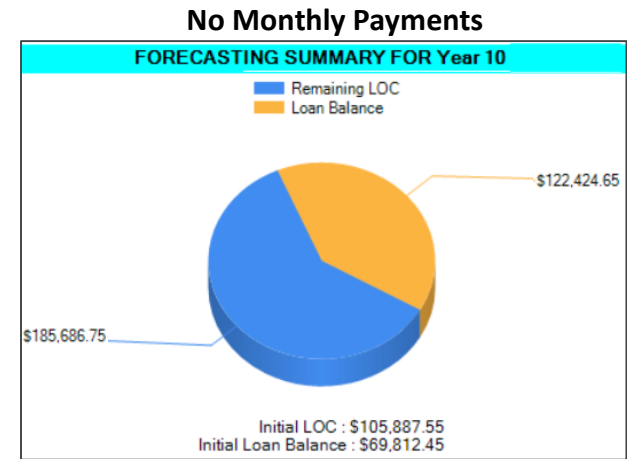


Flexible Payments

You know that no monthly payments are required on HECMs, some think that is too good to be true. The fact is, while no payments are made, prepayments can be made at anytime, in any amount, and will increase the borrower's LOC (ARM loans only) dollar for dollar.

Remember, interest and ongoing MIP is charged on the outstanding loan balance, so since partial prepays lower the loan balance, less interest and ongoing MIP is charged too.

Subtracting \$36,000 in total payment, still gives the borrower an additional \$10,958 in LOC.

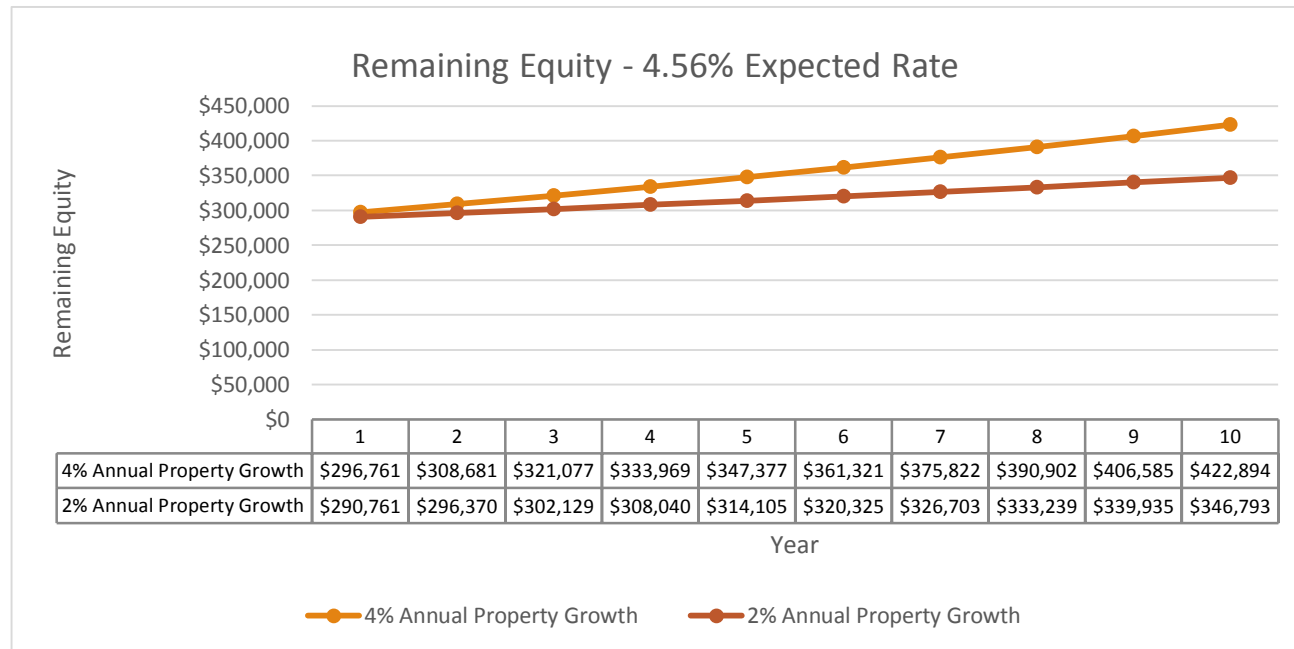


Great door-opener when talking to a financial planner!

Equity for the Heirs

Many clients are concerned with having no equity in their home to leave to your children.

A \$300,000 home, a 65 year old borrower with a \$14K beginning loan balance has over \$300k of equity in 10 years, even with 2% property appreciation.

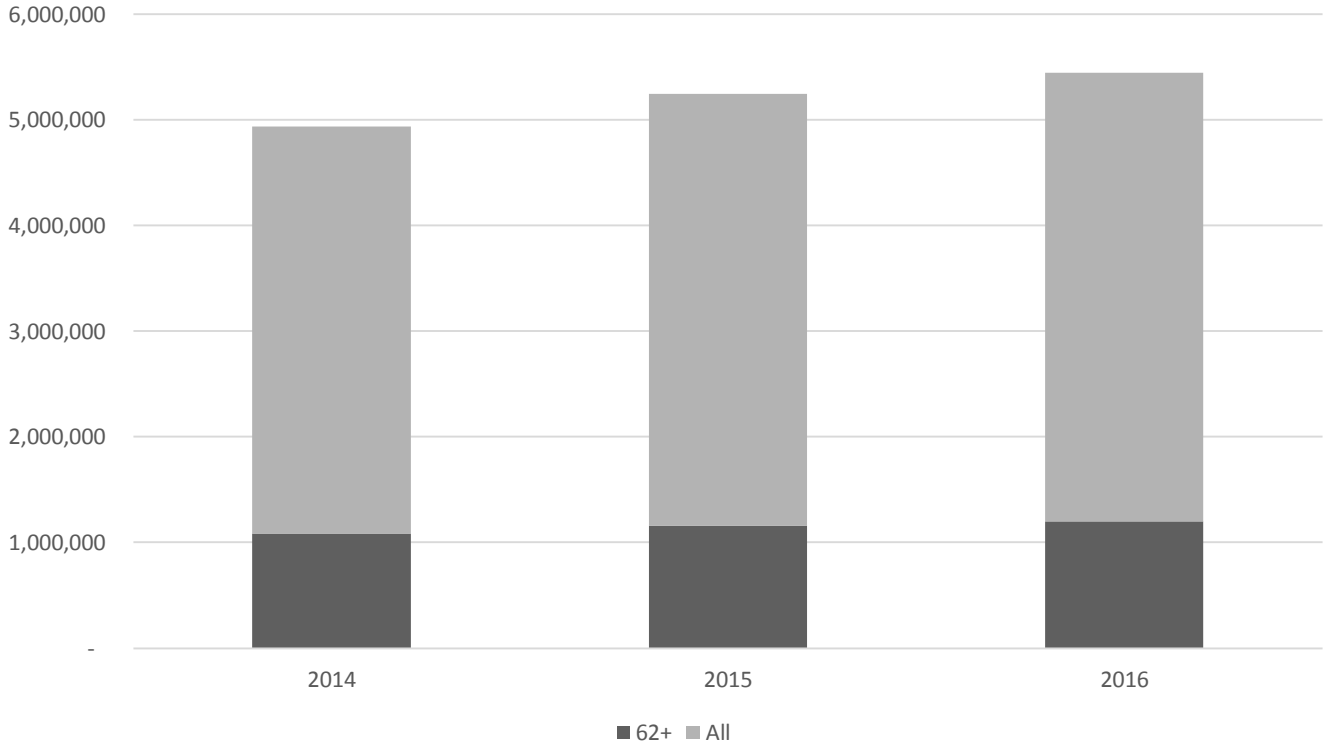


Get the Right House at a Price you can afford



HECM For Purchase Market

Estimated H4P Opportunity



NATIONAL ASSOCIATION OF REALTORS®

H4P Market Potential

- Every day, over 10,000 U.S. Baby Boomers turn 65.¹ That's roughly 300,000 people per month, 3,600,000 per year.
- New homes forecast for 55-74 year old buyers
 - 2016: 230,000 units
 - 2020: 248,000 units
 - 2025 to 2030: 252,000 units annually
- That's more than a decade (2016–2030) in which about 20% of all new homes will be built for or bought by people 55 and older²

¹Pew Research Center, *Baby Boomers Retire*, December 29, 2010

²50+ Housing Market and Economic Forecast by National Association of Home Builders 2014



HECM For Purchase

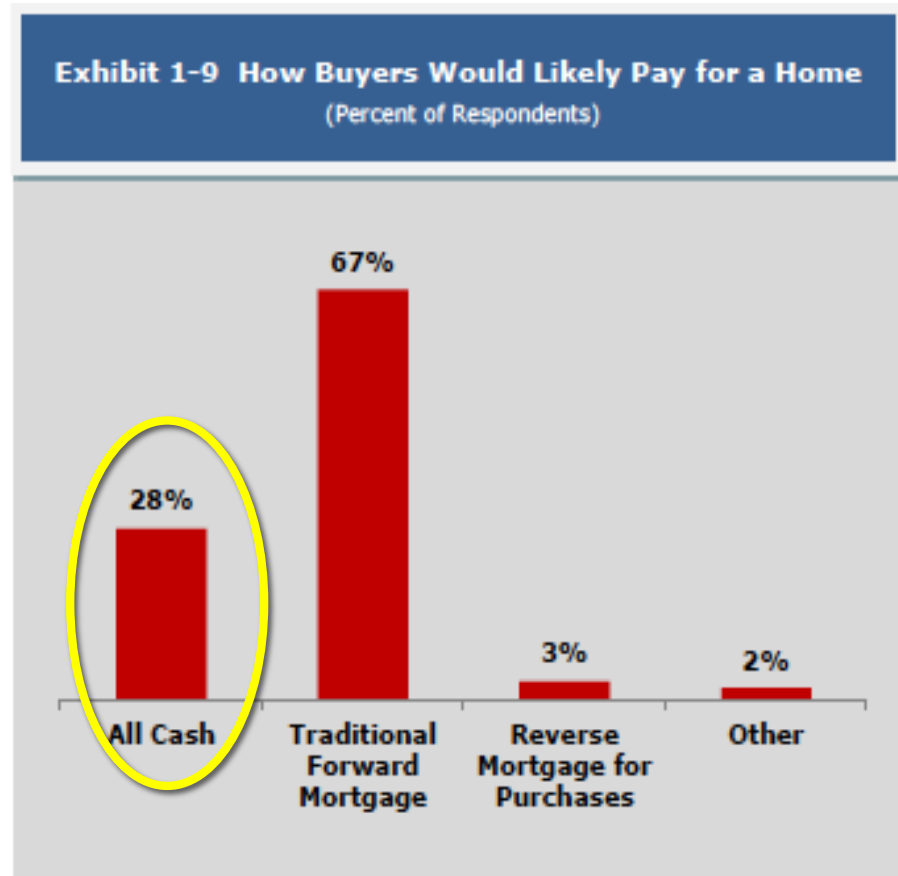
Most home buyers aren't even aware of H4P.

Many typical seniors are all cash buyers.

- More house for less money
- Retain more assets

Traditional loans maybe harder to qualify for when on a fixed income. Monthly P&I payments may limit the market.

Source: National Association of Home Builders



An H4P Gets You More House

Additional spending power

H4P buyers are more likely to have increased purchasing power and can pick desired upgrades or to purchase a higher end home (i.e. pick premium lot, more square footage, etc.)

Purchase the home you want – and conserve cash

Because the H4P eliminates the need to make regular monthly principal and interest mortgage payments to the lender*, buyers who opt for an H4P retain funds for retirement and cash flow.

*Borrower is responsible for taxes, insurance, monthly assessments and maintenance of the subject property. A reverse mortgage is a home-secured debt payable upon default or a maturity event

Recent Changes Make H4P Even Better

Since the HECM For Purchase product was launched by FHA in 2009, its growth has been slow; but recent changes to program guidelines have removed some obstacles that have hindered growth.

Certificate of Occupancy – A C/O can now be issued anytime. FHA Info #17-44 states: *“The Certificate of Occupancy is required to be included in the case binder. Mortgagees may obtain the Certificate of Occupancy at any time prior to submission for endorsement.”*

Seller Concessions – Sellers can now pay for fees that are reasonable and customary for the market and typically include:

- Fees required to be paid under State or local law
- Fees typically paid by a seller in that locale
- Purchase of a home warranty policy by the seller

Lower Fees – Since H4P loans are typically full-draw transactions, lower upfront and ongoing MIP as well as lower interest rates will mean lower loan balances over time.

Home Financing

The majority of H4P buyers might likely be all-cash. The chart below illustrates how much more house a buyer can get using a HECM, and with recent changes, seller's can even pay closing costs that are reasonable and customary for their market.

Purchase Price		\$350,000	\$400,000	\$450,000	\$500,000
		Cash required*	Cash required*	Cash required*	Cash required*
Age	62	\$210,242	\$239,392	\$268,437	\$297,087
	67	\$198,342	\$225,792	\$253,137	\$280,087
	71	\$191,692	\$218,192	\$244,587	\$270,587
	75	\$182,592	\$207,792	\$232,887	\$257,587

* Expected Rate of 4.310% with full origination fee and Closing Costs



Review

HECMs can be the solution to many needs that face older Americans. Today we spoke about just a few. These loans do come with costs, but they also come with premium features.

- Safety Net
- Flexible payments; none required
- Fund retirement
- Reduce or eliminate monthly payments
 - Mortgages
 - HELOCs and installments
 - Credit Cards
- Buy the “right” home



Q & A

Thank you for attending
