Unlocking the Power of Home

The Surprising Secret Weapon In Today's Retirement Planning Toolkit

Becky Bell, VP

Who Is Longbridge Financial, LLC?

Longbridge Financial, LLC

The power of home.™

- We are a national reverse-only lender focused on making HECM loans a strategic, transparent and affordable part of mainstream financial planning
- We focus on educating the financial planning community to responsibly, ethically and compliantly using home equity to improve retirement results.
- With a highly experienced team coming from companies like GE, Genworth and MetLife, we know how to make it easy for you and your clients to consider home equity.

WE DO THINGS DIFFERENTLY

How Can A HECM Improve Retirement Planning?

Strategy	Benefit to Clients
Eliminate monthly mortgage payments	Create cash flow to fund premiums or other expenses
Establish a guaranteed, growing credit line	Provide funds for elimination period or costs above policy limits Create a reserve for potential premium increases
Increase retirement cash flow while reducing taxable income	Use tax savings to cover LTC insurance premiums or reduce Medicare premiums Help uninsurable clients fund care needed to age in place

A HECM Can Improve Retirement Quality –
Even When Clients Don't "Need" The Money

What Is Different Today?

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

- Financial Assessment eliminates the "desperate" borrower
- Non-borrowing spouse rule change provides added spousal protection
- First year draw limits slow the depletion of equity
- It is the only loan with mandatory FHA counseling

Research and Press Support HECM Strategies

"A key theme is that there is great value for clients to open a reverse mortgage line of credit at the earliest possible age."

Incorporating Home Equity into a Retirement Income Strategy
Wade D. Pfau, Ph.D., CFA – *Journal of Financial Planning* 4/16/16

***The Wall Street Journal, 2/13/17* – "New Thinking About Reverse Mortgages"**

***Time, Inc. – Money 5/11/16* – "Why a Reverse Mortgage Could Be Right For You"**

***NBC Nightly News 4/22/16* – "Could Getting A Reverse Mortgage Help You Save Money?"**

***Forbes 3/29/16* – "Improving Retirement Income Efficiency Using Reverse Mortgages"**

***Kiplinger, 3/7/16* – "Reverse Mortgages Get a Makeover"**

***TIME 2/11/2016* – "Retirees' Biggest Asset May Be Hiding In Plain Sight"**

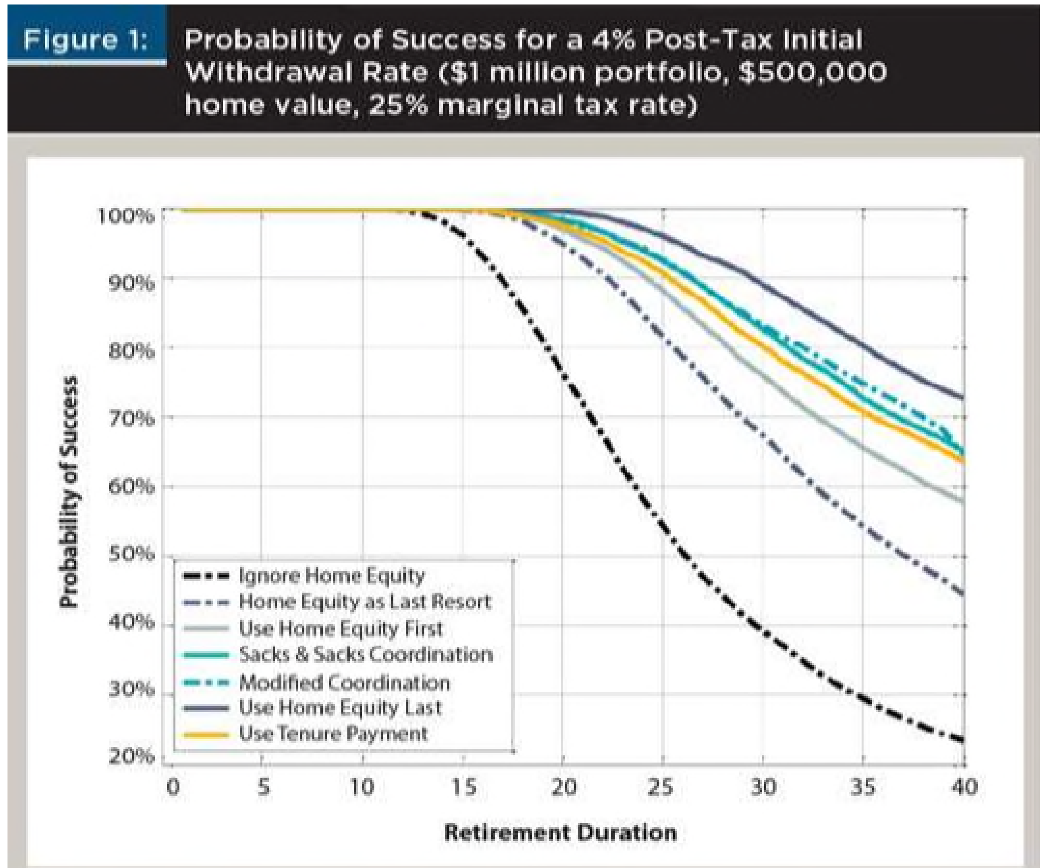
Research Shows Home Equity Greatly Improves Probability of Long Term Success

At 25 Years

- ***With*** **home equity = 80-95%**
- ***Without*** **home equity = 55%**

At 35 years

- ***With*** **home equity = 55-80%**
- ***Without*** **home equity = 30%**



Pfau, Wade D. 2016. "Incorporating Home Equity into a Retirement Income Strategy", *Journal of Financial Planning* 29 (4): 41-49.

Least Successful – Ignore Home Equity or Use It As A Last Resort

Home Equity Significantly Improves Combined Legacy In Longer Retirements

Best Long Term Outcome

Tenure payment (monthly income)

Worst Outcome

"Last Resort" thinking (use portfolio first)

What's the Difference?

*25 years – **over $100K loss***

*30 years – **over $300K loss***

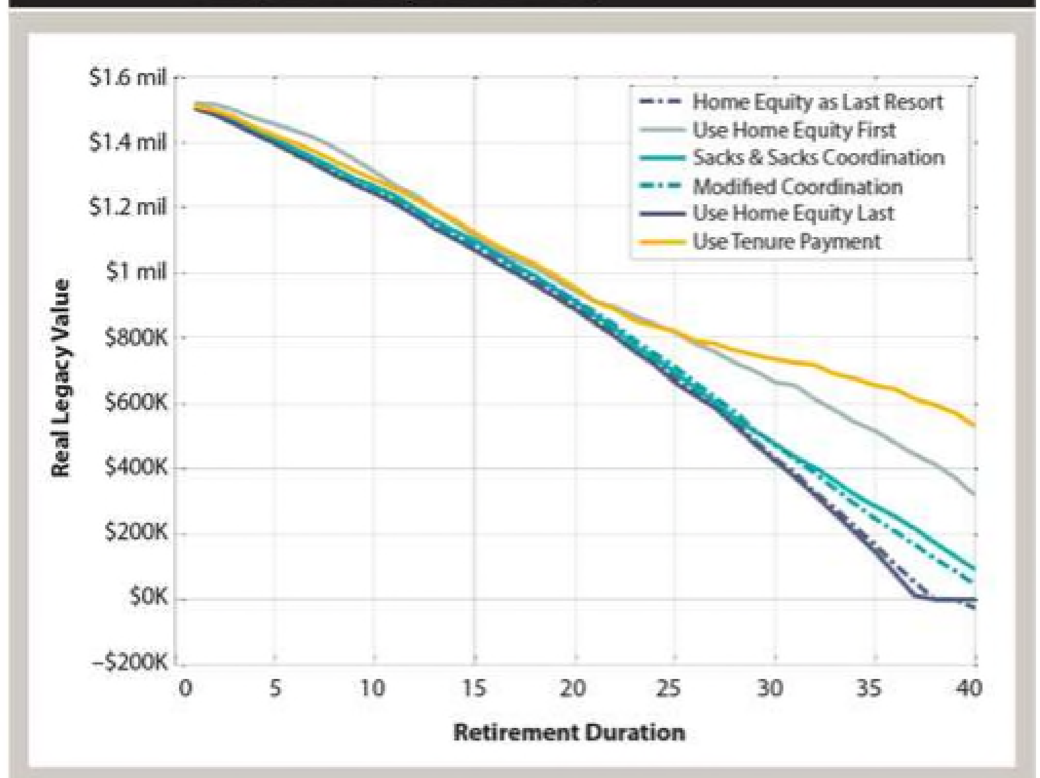


Figure 2: Median Real Legacy Value for a 4% Post-Tax Initial Withdrawal Rate ($1 million portfolio, $500,000 home value, 25% marginal tax rate)

Pfau, Wade D. 2016. "Incorporating Home Equity into a Retirement Income Strategy", *Journal of Financial Planning* 29 (4): 41-49.

"Last Resort" Thinking *<u>Significantly</u>* Reduces Legacy

(Faster Portfolio Depletion Means Less Asset Growth)

HECM Basics
(Home Equity Conversion Mortgage)

- A loan allowing those **age 62+** to age in place by accessing **at least 50%** of their equity

- Lender makes **income tax-free payments** available to homeowner

- FHA insured, **non-recourse** loan (no liability above home value)

- Repayment is **deferred** until home is vacated or sold

HECM Basics – 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

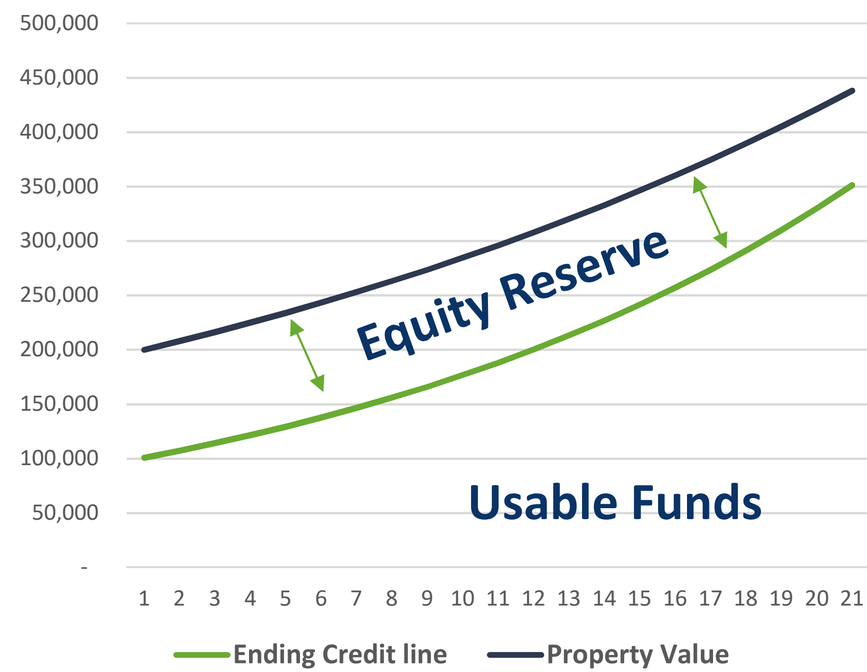
Homeowners Keep Title, Ownership And Control
A HECM Is *Just A Mortgage*

How Can Equity Be Used?

Choose Between Four Distribution Options:

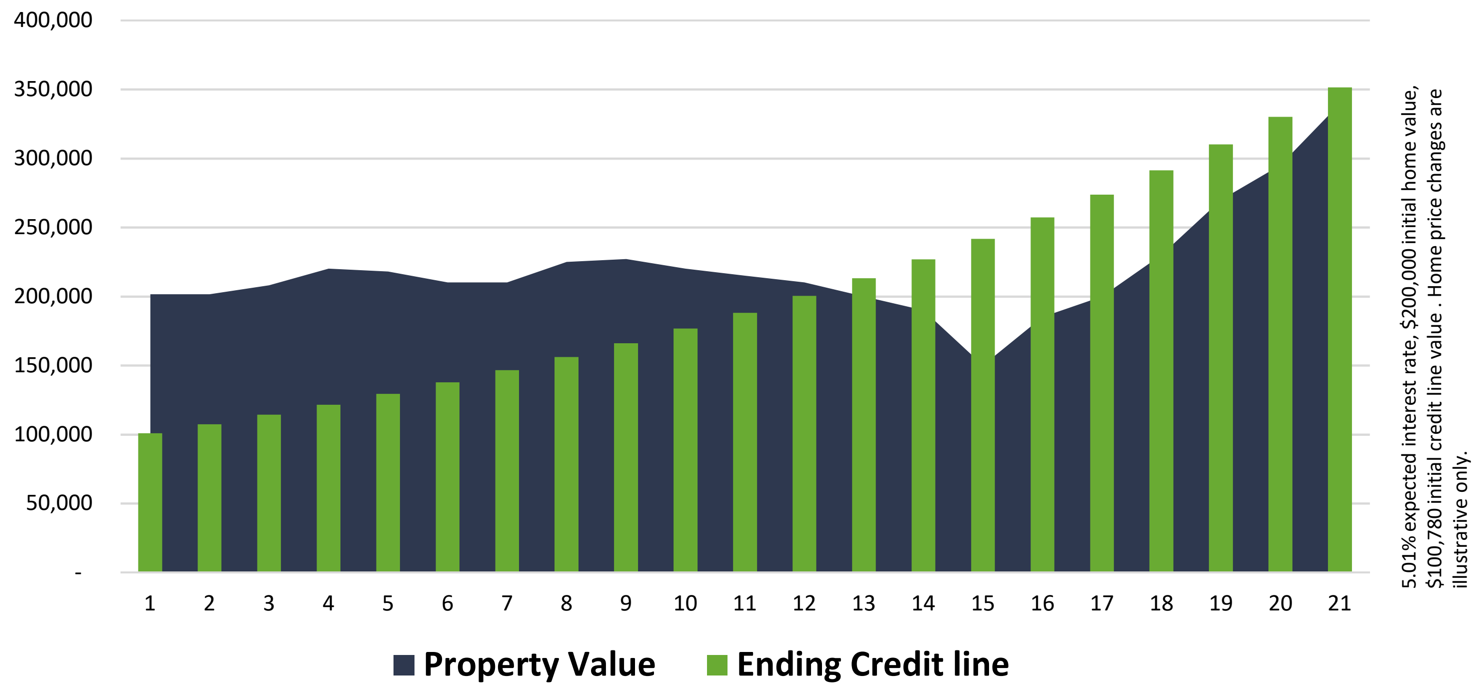
1. Line of credit that grows over time
2. Monthly cash flow for the life of the loan(tenure) or a set period of time (term)
3. Single lump sum distribution
4. Combination

Credit Line Grows by Interest Rate + 1.25%



5.01% expected interest rate, 4% annual home price growth, $200,000 home value, $100,780 initial credit line value

Credit Line Grows Regardless of Home Value



Guaranteed Growth Rate Helps Preserve Value During Unstable Housing Markets

Costs Can Vary Significantly by Lender

<u>Example</u>: Client has $150,000 mortgage on a $350,000 home

Costs	Max Cost	Our "Gold" Pricing
Origination Fee	$5,500.00	$0.00
FHA IMIP	$8,750.00	$8,750.00
Third Party Costs	$2,728.95	$2,728.95
Lender Credits	$0.00	-$8,100.00
Total Costs	**$16,978.95**	**$3,378.95**
Potential Savings		**$13,600.00**

Gold pricing may require financial qualification

What Happens When The Loan Ends?

Three options when the loan becomes due and payable (last borrower sells, permanently moves out, passes away or fails to meet the terms of the loan)

Same options as any other Mortgage

1. **Repay the loan** and keep the house
2. **Sell the house,** repay the balance and keep remaining equity

Unique to HECM

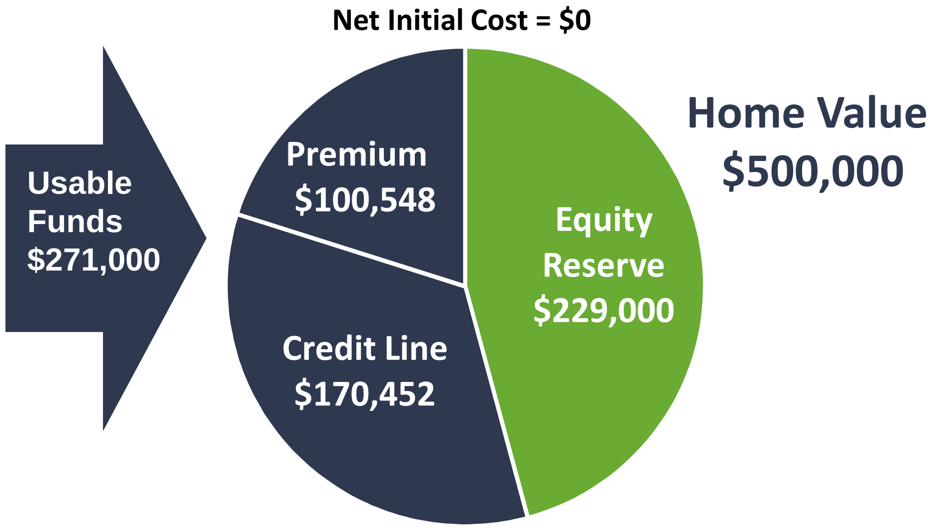
3. **Deed the home to the lender,** if the loan balance exceeds the home's value. No repayment beyond the home's value is required.

Heirs have 6 months from death to settle, can request up to three 90-day extensions and can purchase for lesser of loan balance or 95% of appraised value

Strategy #1 Tax Efficient Life/LTC Funding

Woman age 65, $500,000 home, $750,000 in her IRA and no mortgage. She would like to buy an asset based Life/LTC policy with a premium of $100,548 but is concerned about tax consequences if she withdraws qualified funds. She also wants to keep her IRA invested for growth for as long as possible.

- Not withdrawing from IRA **– *maintains deferral of over $15K income tax and preserves growing assets for estate***
- If she dies without an LTC claim – ***family gets $128,914 death benefit***
- If she needs LTC – ***she has a monthly benefit of $5157 ($170/day)***
- If she changes her mind in the future without claim– ***full return of premium***
- Credit line can offer ***continued access to funds if needed***



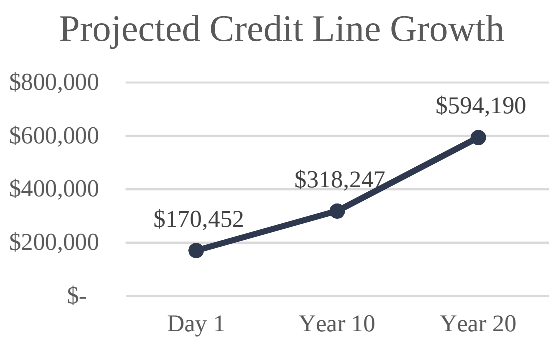
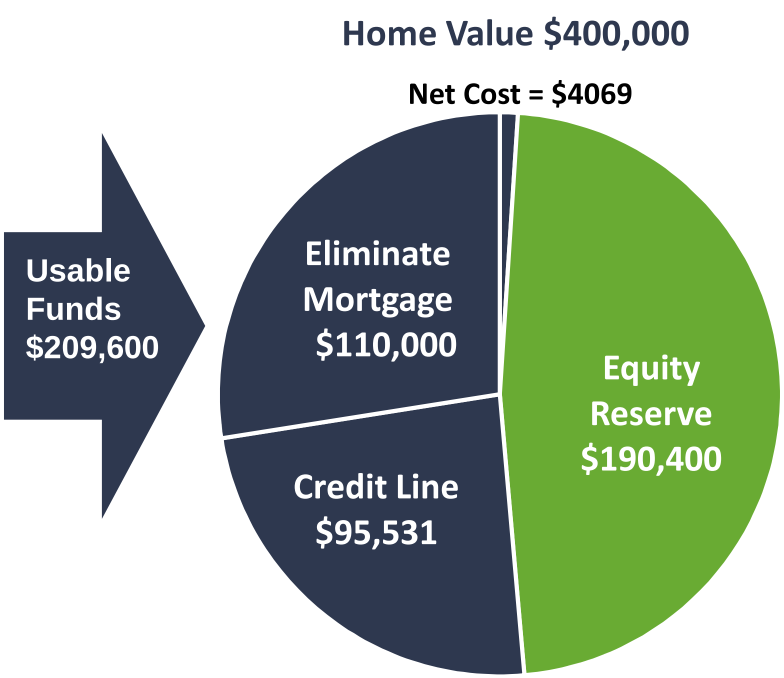
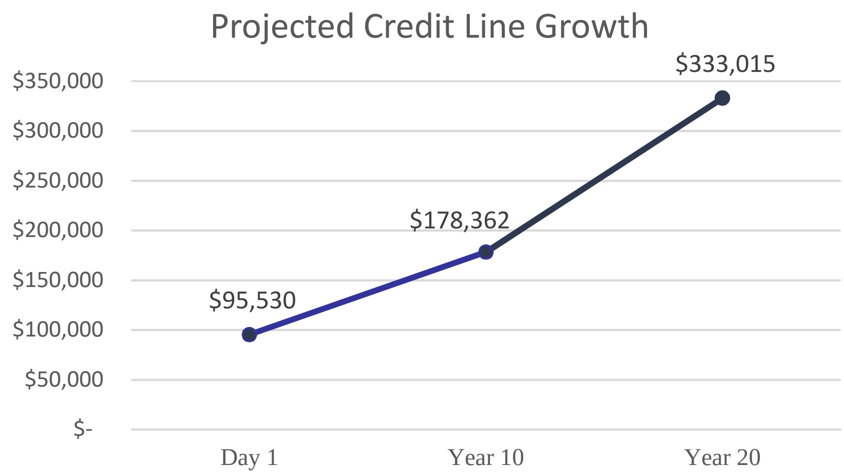


Illustration uses State Life Asset-Care I LTC product, 4.318% initial interest, 5.01% expected rate, NJ client

Strategy #2 Use A HECM To Boost Cash Flow Now ***and*** Pay For Potential Care Later

Couple, age 62, has a $400,000 home, $5500/mo income. They are paying $1800/mo on their traditional mortgage, with a balance of $110,000. They cannot qualify for Long Term Care Insurance but want to plan for care needs.





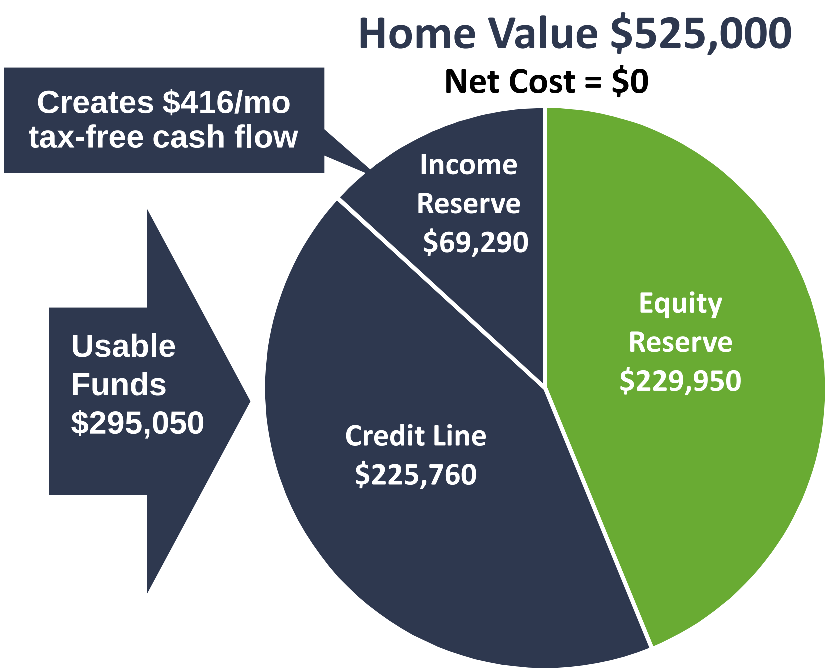
ARM rate 4.318%, Longbridge Financial Gold pricing, TX. All examples are fictional characters shown for illustrative purposes.

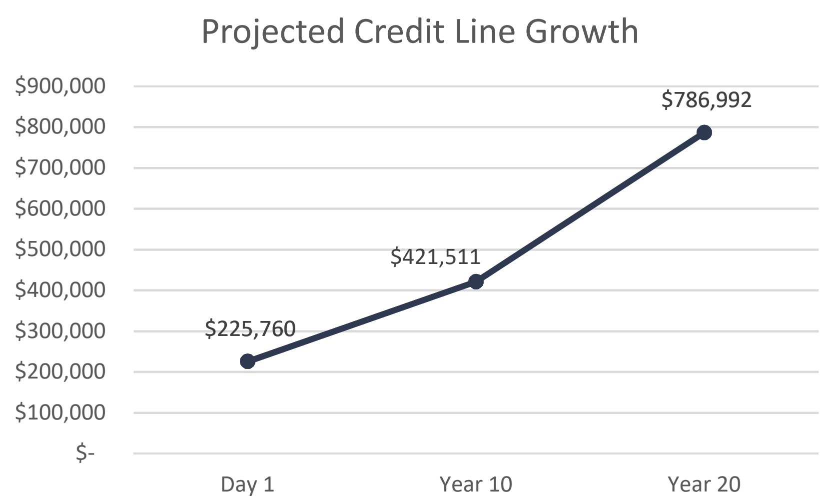
Annual Funds Now Available (former mortgage payment) = $ 21,600

Available Credit Line at age 82 = $333,015

Strategy #3 Use HECM Income To Help Pay Rising LTCI Premium Costs

Couple, age 68, has a $525,000 home with no mortgage. Their LTC insurance premiums have risen to $5000/year ($416/mo) and they are concerned about keeping their policies after recurring price increases.





ARM rate 4.318%, expected rate 5.01%, 4% home price appreciation, Gold pricing, NJ

$5000/year Tax-free Cash Flow Saves LTC Insurance Policy, while Increasing Credit Line Can Fund Future Expenses

Why NOW Is The Best Time To Get Started

- When interest rates rise or home prices fall, funds available decrease
- Available funds cannot be reduced in the future if home values or homeowner credit quality declines (big advantage over a HELOC)
- Research shows credit line growth is most beneficial when started as early as possible – and unused funds in a credit line incur no costs
- FHA changes have reduced the percentage available 3 times and raised the cost of insurance twice in last 10 years

"…the retiree's net worth (portfolio plus home equity) after 30 years is about twice as likely to be greater when an active strategy is used than when the conventional strategy is used"

Sacks, Barry H., and Stephen R. Sacks, 2012. "Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income", *Journal of Financial Planning* 25 (2): 43-52.

Compliance Considerations

- You are not part of the loan transaction – make a referral just as for any other professional service. HECMs require mortgage licensing
- It is a RESPA violation for a lender to pay you for referrals <u>or</u> for you to accept payment for referrals
- Never use home equity to fund investments or annuities. Instead, use it 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
- In CA – insurance regulations prohibit receiving compensation on any financial product purchased with HECM proceeds

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

Note: Consult your compliance team for specific guidance

Tips for Advisors

CAN

- Identify a need
- Discuss the concept
- Provide reference materials
- Refer to a specialist
- Include the family in discussions

CAN'T

- Request or accept compensation
- Invest loan proceeds, fund annuities
- Require a reverse mortgage
- Conduct activity that requires a license

When is a HECM Not a Good Choice?

- Client expects to remain in the home less than 3 years
- Home maintenance, insurance and taxes are not affordable
- Home is not suitable to age in place
- Heirs need to live in the home but there are no other financial resources available to pay off the loan at the last borrower's death
- If home equity is a client's only asset, we do not recommend using it to fund insurance products.

Questions?
Clients to Discuss?

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Appendix

Common Misperceptions

Misperception	Fact
Lender owns the home	Borrower owns the home
Borrower can get kicked out of their home	Loan lasts indefinitely as long as borrower lives there, pays taxes, insurance and assessments and maintains the home
Interest rates are high	Interest rates are comparable to other mortgages
Costs are very high	Costs have come down and vary by lender and product
There is nothing left for heirs	Heirs inherit the home and decide how to repay the loan, just like any other mortgaged property would require. Any remaining equity is theirs to keep.
This a last resort for desperate people	This is financial planning tool, “desperate” borrowers often can’t qualify
It’s very different from any other mortgage	It’s very SIMILAR to any other mortgage, but you don’t have to make mortgage payments and the balance rises over time

How Does a HECM Compare to Other Mortgages?

Just like traditional mortgages:

- Borrower “owns” and controls the home, lender holds a lien
- Borrower is responsible for taxes, insurance and maintenance

KEY DIFFERENCES	Traditional Mortgage/ HELOC	HECM
Foreclosure risk due to nonpayment[1]	*Monthly payment*, tax and insurance defaults	Limited to tax and insurance defaults
Loan Balance	Payments decrease balance	Interest accrues and increases balance
Future credit line availability[1]	May be cut or suspended	Guaranteed, increases
Heirs can be required to repay more than home is worth	YES	NO

1. *CFPB Report to Congress on Reverse Mortgages, June 2012. Note: Credit line is only available on Adjustable Rate HECM products*

Clients can also BUY a home with a HECM

Example: Clients in NJ, age 65/67, plan to purchase with cash to avoid a mortgage payment. They sell their current home, clearing $350,000.

Traditional Purchase	
Proceeds– old home	$350,000
Purchase price-new home	$350,000
Cash required	$350,000
Monthly mortgage payment	$0
Remaining proceeds - old home	**$0**

HECM for Purchase (H4P)	
Proceeds– old home	$350,000
Purchase price-new home	$350,000
Cash required	$171,759
Monthly mortgage payment	$0
Remaining proceeds - old home	**$178,241**

Loan Process

- Producers introduce the concept to client
- Producers submit a quote request, or have client call us
- We provide a quote to the client/producer
- Client completes FHA required counseling
- We take an application, order appraisal, underwrite file
- Loan closing is scheduled
- Borrower receives funds

Typical Turn Time = 30 - 60 days