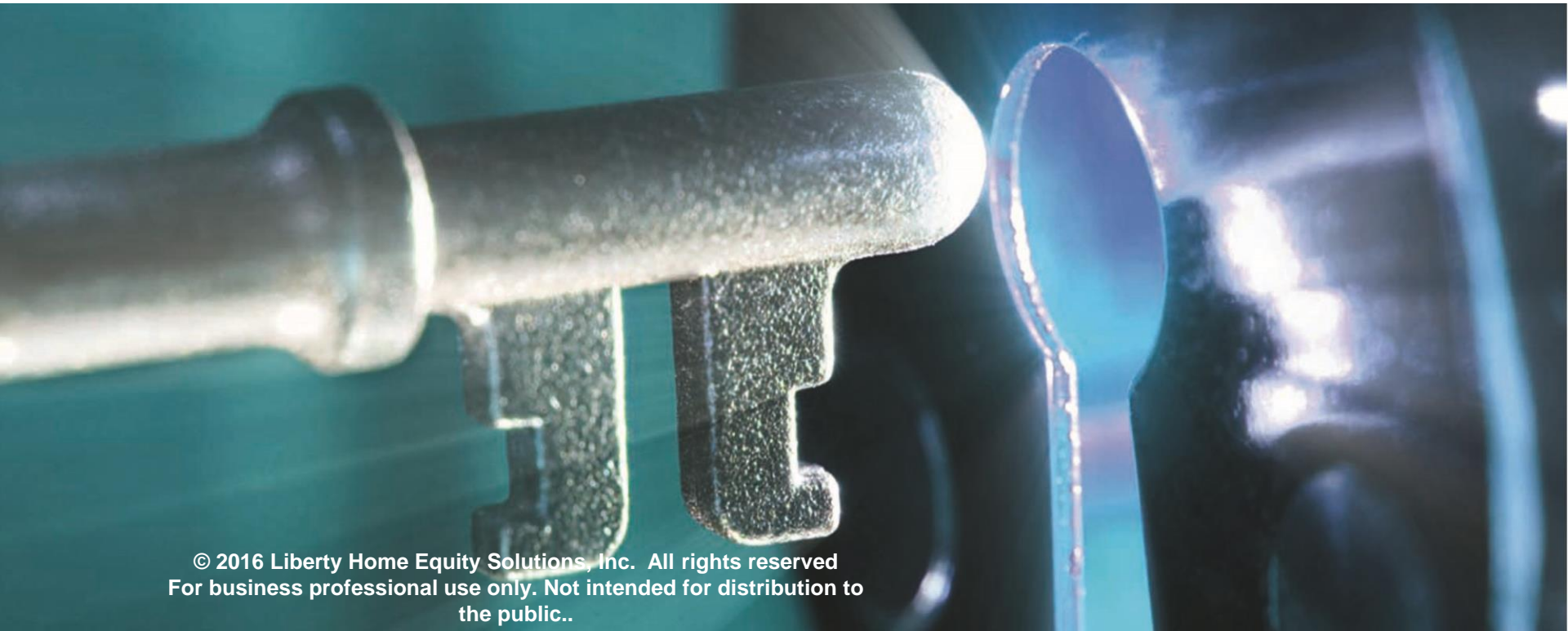




Securing A Better Retirement with Reverse Mortgages

Updated 9 15 2016



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Agenda

HECM Basics

Borrower Protections

Fees/Costs

Product Misconceptions

Loan Amounts

Accessing Funds

Retirement Strategies

Right-Sizing the Home

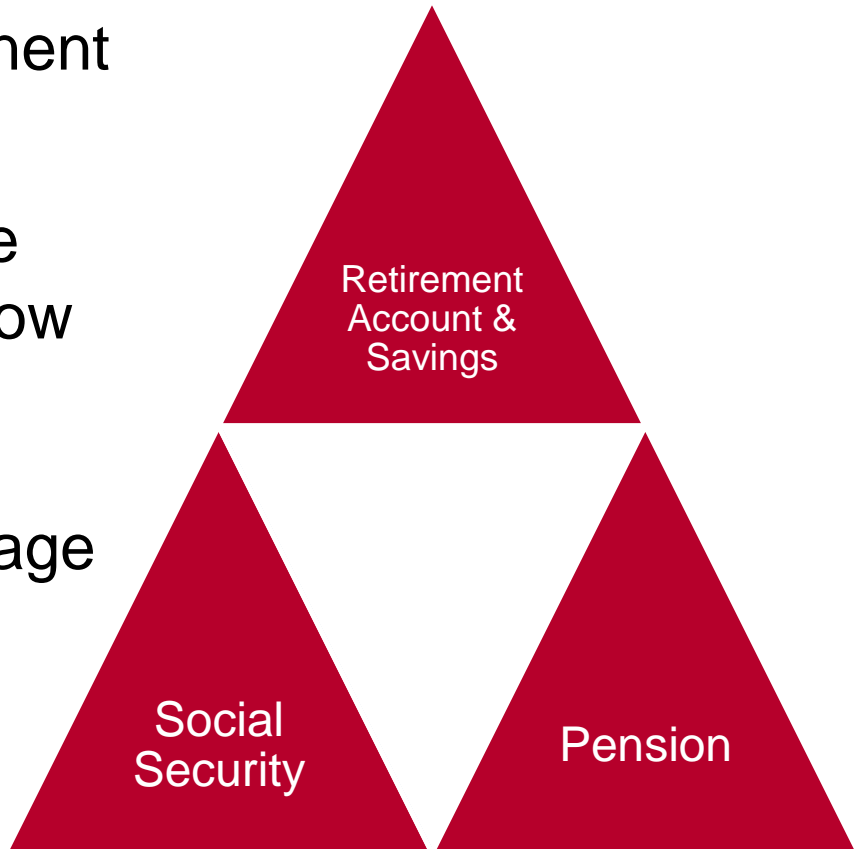


Retirement Planning Using Home Equity

Home Equity: The 4th component

Using home equity can help supplement retirement income and provide increased cash flow

- Provides tax-free cash*
- Requires no monthly mortgage payments**
- Homeowners stay in their home & retain title



*Homeowners should consult their tax advisor

**Homeowners continue to pay property taxes, homeowner's insurance, keep up home maintenance. Although there are no monthly mortgage payments, interest does accrue on the portion of the loan amount disbursed.

HECM Basics



What is a HECM?

A **Home Equity Conversion Mortgage**, HECM, is a loan that an individual can take using the equity that they have built up in their home.

Program Features:

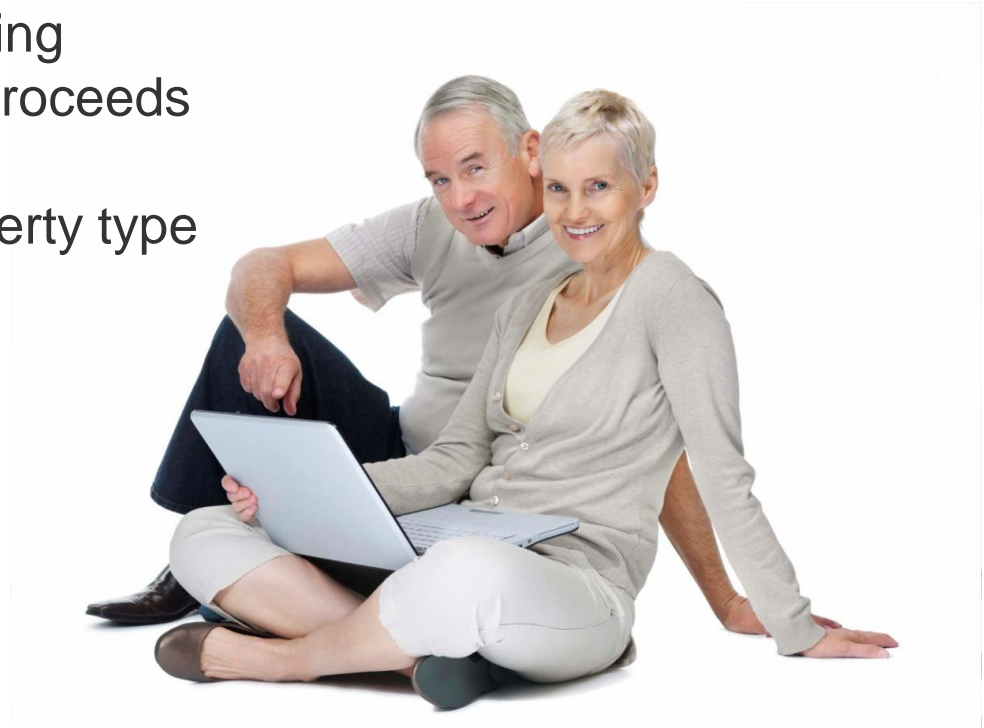
- Improves monthly cash flow by eliminating debt
- No monthly mortgage payments due¹
- Loan proceeds are tax-free²
- Heirs inherit any remaining equity
- Net proceeds can be accessed in multiple ways
- Interest may be tax deductible when HECM is repaid³



¹ Homeowners continue to pay property taxes, homeowner's insurance, keep up home maintenance. Although there are no monthly mortgage payments, interest does accrue on the portion of the loan amount disbursed. ² Homeowners should consult their tax advisor. ³ IRS Website - <http://www.irs.gov/publications/p936/ar02.html>

Eligibility

- Youngest borrower must be at least 62+ years of age
- Homeowner must live in home as primary residence
- Must be able to pay off their existing mortgage using the HECM loan proceeds
- Property must be an eligible property type
- Must qualify under new HUD Guidelines for Financial Assessment



Borrower Protections

Non-recourse loan

3rd party counseling

Lien-holder not added to title

Property satisfies lien

Anti-steering regulations

Right of rescission



Program Protections – Repayment Events

No payments are required until a repayment event occurs.
Repayment events regulated by HUD guidelines



1. Fails to pay taxes/insurance
2. Borrower no longer lives in/sells property
3. Fails to keep home up to FHA standards

Loan Fees

Reverse mortgages have many of the same fee types as a traditional forward mortgage:

Loan Origination Fee

Calculation to determine amount
\$6,000 maximum

3rd Party Closing Costs Examples

Appraisal, flood certification, title insurance, notary, courier, recording, etc.

3rd Party Closing Costs

Varies, depending on state/county



Reverse Mortgage Specific Fees

There are two types of reverse mortgage specific fees, counseling and mortgage insurance premium (MIP):

Counseling

\$125 average fee

HUD provides grant support making it possible to get for free

Ongoing Mortgage Insurance Premium

1.25% of loan balance annually

Upfront Mortgage Insurance Premium

.5% or 2.5% of max claim amount
(depending on mandatory obligations)

Program Misconceptions

Myth # 1: The lender owns the home

Reality: Borrower retains title to home, no one is added

Myth #2: The home must be free and clear of existing liens

Reality: HECM is designed to pay off existing liens

Myth #3: Loan proceeds are taxed

Reality: HECM proceeds are not income, therefore not taxed

Myth #4: There are restrictions on how to use proceeds

Reality: Any proceeds remaining after paying off liens can be used however the borrower wants with no restrictions

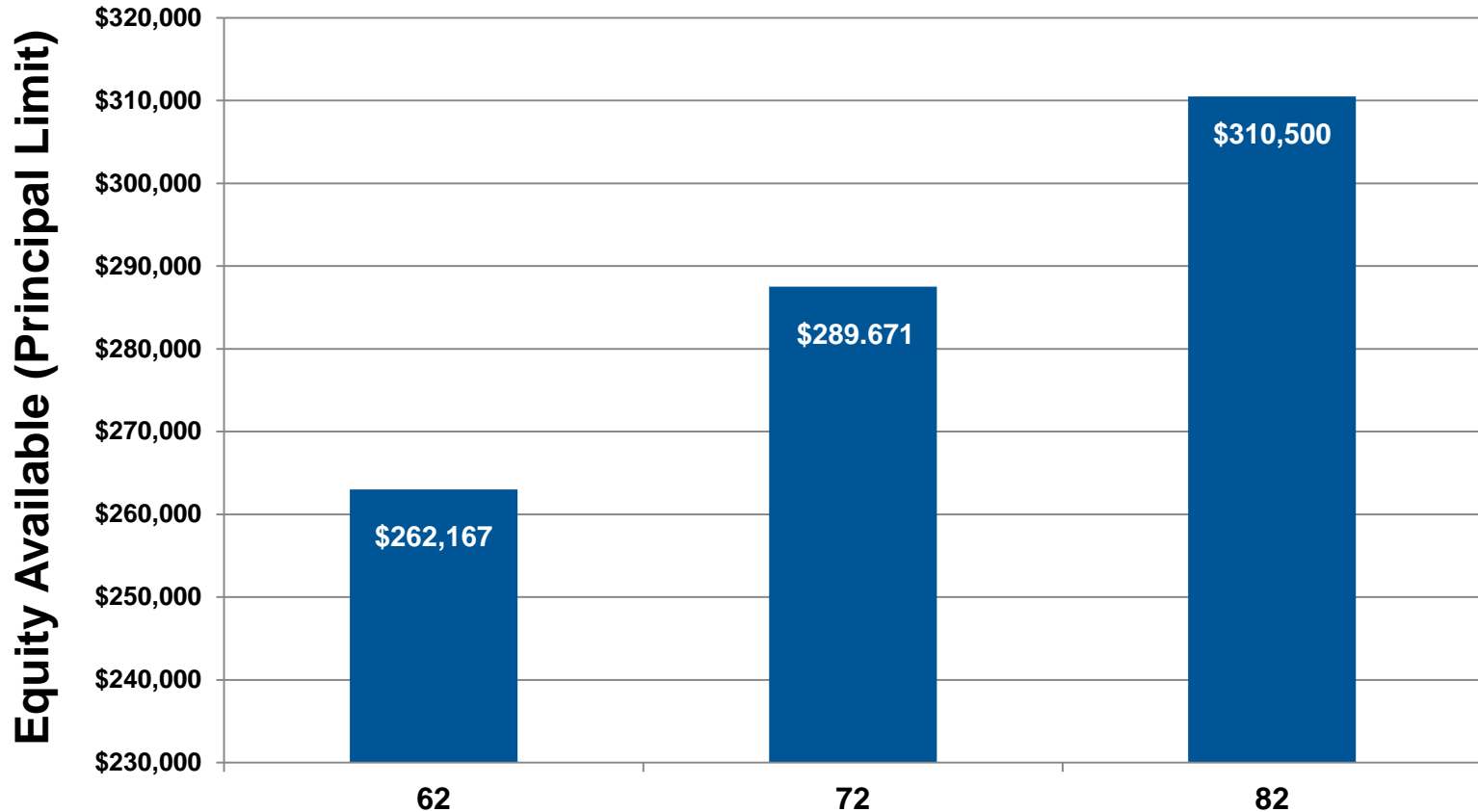
Myth #5: Only poor people need HECMs

Reality: HECMs provide an opportunity to diversify a portfolio and help ensure against overdrawing existing retirement assets



HECM Loan Amounts – Net Proceeds

**Example: \$500,000 Home Value
At Age 62, 72 & 82**



Source: Liberty Home Equity Solutions, Inc., Quote Packages May 26, 2016.

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Accessing Funds

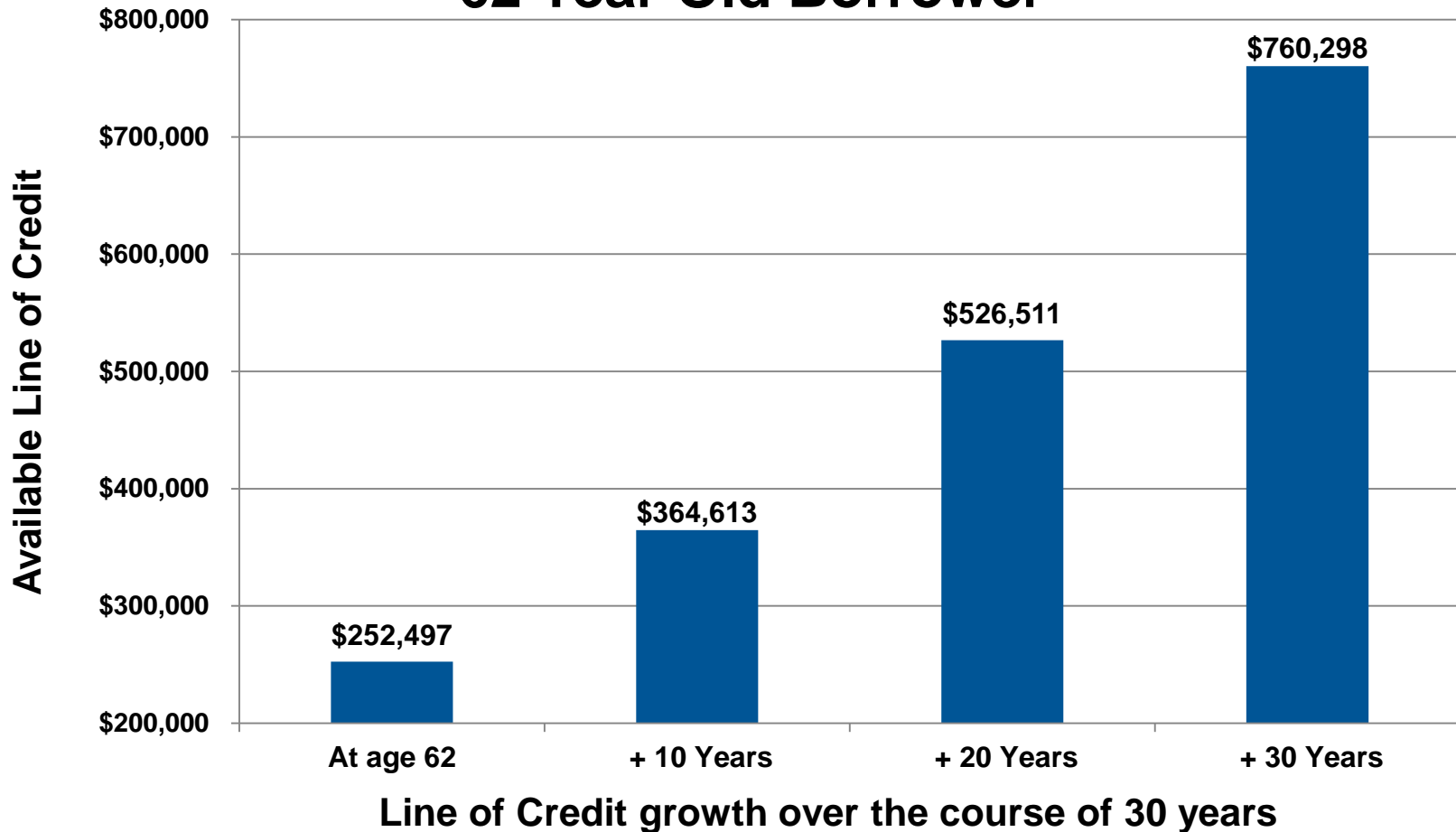
Disbursement Options - ARM

- Lump Sum:** Draw some of the available cash at closing*
- Credit Line:** Access money when the Borrower needs it.
Does not add to loan balance until used.
Available amount of borrowing power can grow.*
- Monthly Disbursements:** Guaranteed monthly disbursements.
Disbursements set for a specific period of time (**Term**) or for the life of the loan (**Tenure**). **Does not add to loan balance until used.***
- Combination:** Choose 1, 2 or all 3 options simultaneously*
(changing disbursement options also available)

*HUD limits amount of first year withdrawal to 60% of the principal limit or the borrowers mandatory obligations + 10%, whichever is greater.

LIBOR Disbursement – Line of Credit

**Example: \$500,000 Home Value
62 Year Old Borrower**



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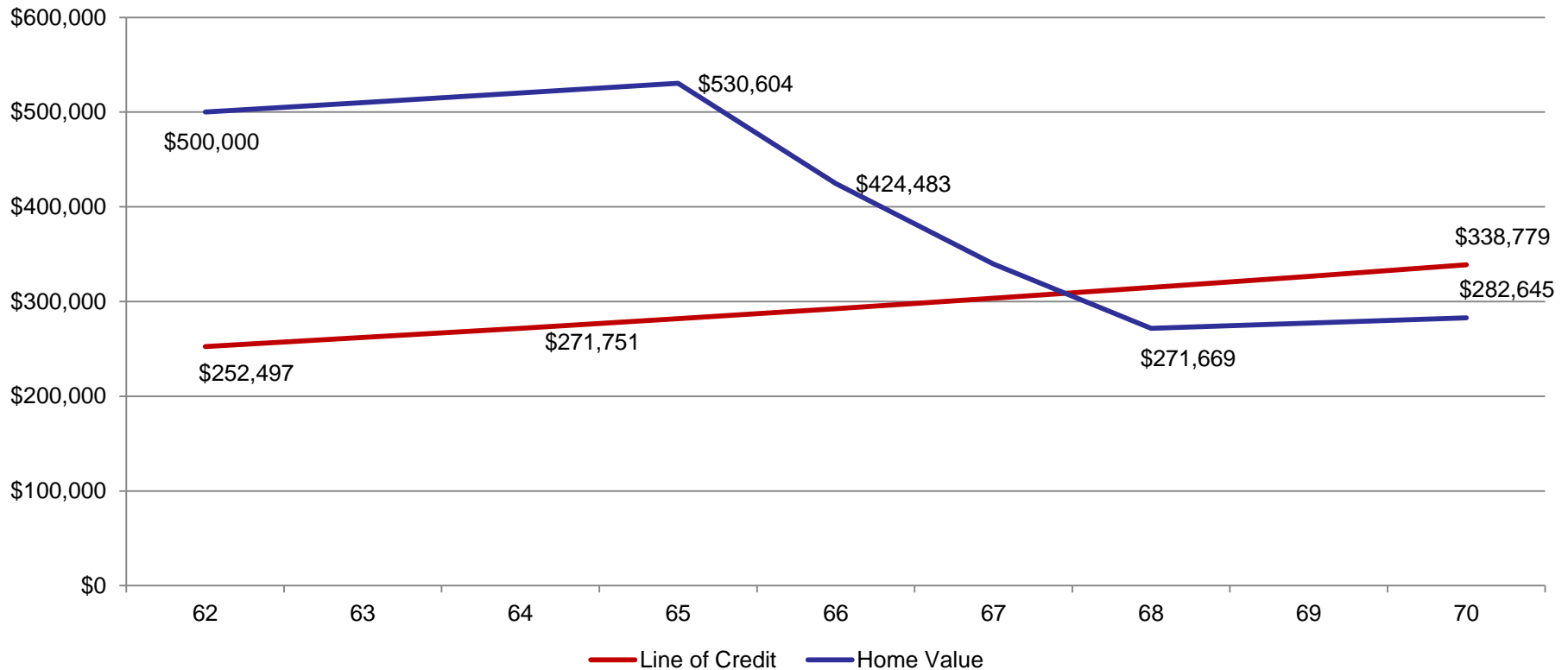


HECM Strategies for Retirement

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Hedge Against Home Declines

Impact on HECM LOC in declining housing market



Amount available dependent on home value

No monthly mortgage payments required

Available LOC balance will continue to grow if no draws are taken, regardless of home value

Source (LOC): Liberty Home Equity Solutions, Inc., Quote Packages May 26, 2016.

Source (Home Values): No supporting documentation available. Declining home values are based on assumptions due to the economic climate in recent years.

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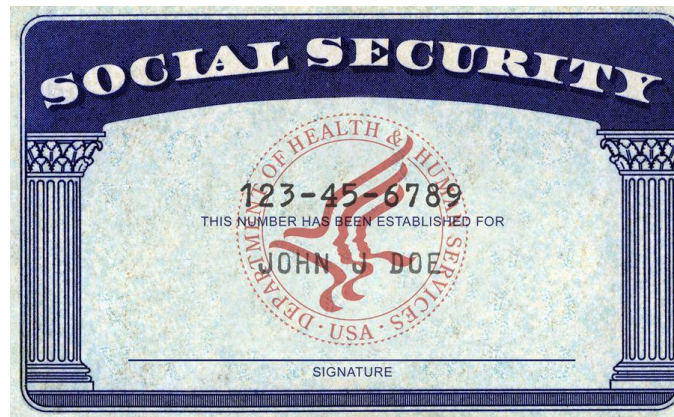
Case Study - Deferring Social Security

Client Facts:

62 year-old clients need to retire due to health issues. \$200,000 in retirement account, relying on social security. Claiming social security now will not provide enough income. Home value is \$500,000. No current mortgage.

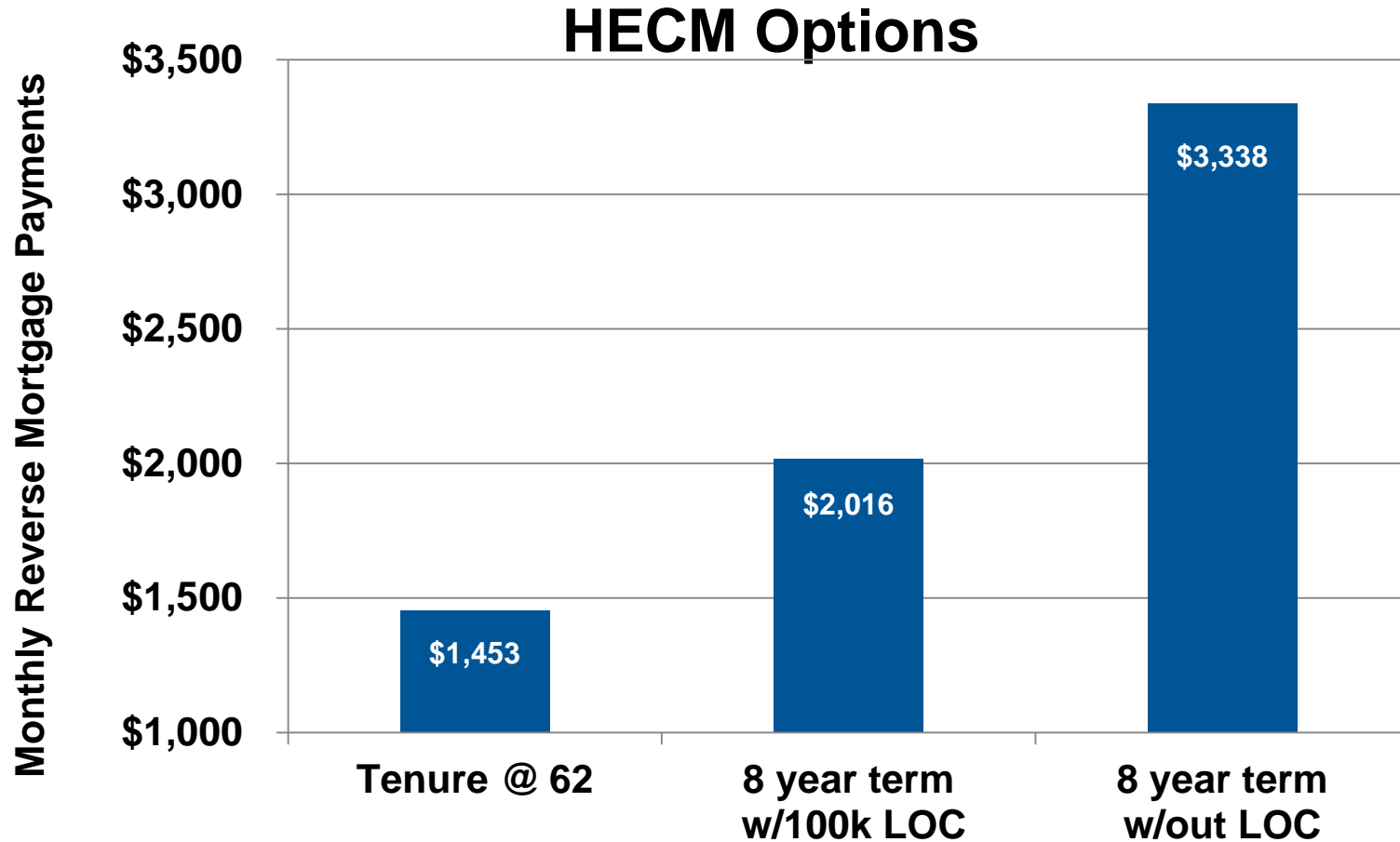
Solution:

Use a HECM to increase cash flow to a sufficient amount to allow them to retire now, but wait until age 70 to claim social security.



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Deferring Social Security



SS = \$1958/Month @ age 62

SS = \$3447/Month @ age 70

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Case Study – Stretching Retirement Account

Client Facts: 62 year-old clients, \$500k retirement account, home value \$500k, current mortgage \$0.

Assumptions: Need \$40k (plus SS) in first year, 3% annual cost of living inflation, 15% tax bracket, S&P 500 annual returns (1985 – 2015) used for ROI

Solution: Use HECM funds to offset increase cost of living expenses to extend portfolio.

RIGHT-SIZING THE HOUSE

Right-Sizing the Home Example

Client Facts:

70 years-old

\$500,000 current home

\$0 existing mortgage

\$350,000 new home

Does not want any monthly mortgage payment with new home



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Right-Sizing the Home Example – No HECM

Sales price existing home:	\$500,000
Selling costs (commission, fees etc.):	\$40,000
Net proceeds:	\$460,000
New home price:	\$350,000
Remaining funds:	\$110,000

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Right-Sizing the Home Example – HECM

Net proceeds from home sale: **\$460,000**

New home price: **\$350,000**

HECM for Purchase funds: **\$201,600**

Borrower funds to complete purchase: **\$164,046**
(includes loan closing costs)

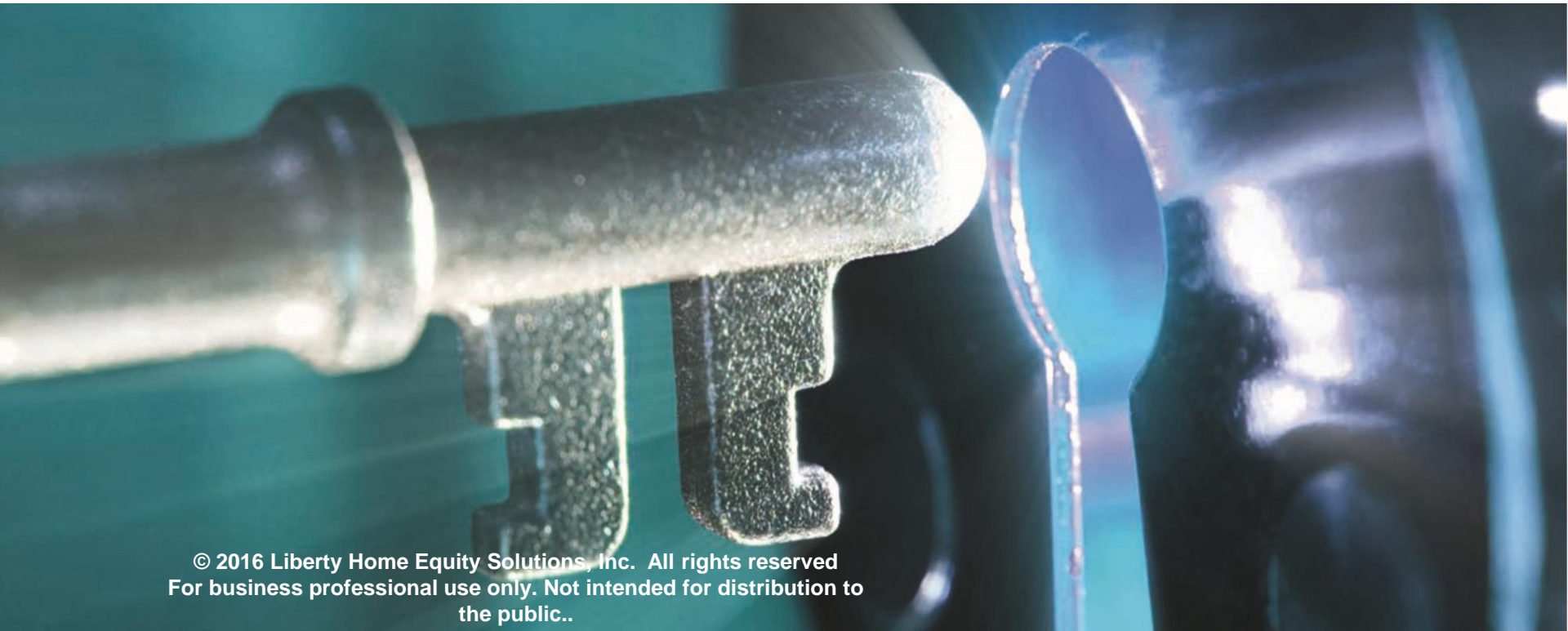
Remaining funds: **\$295,954**

Source: Liberty Home Equity Solutions, Inc., Quote Packages May 23, 2016.

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Retail Originator Program



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Program Overview

- This is a program that enlists eligible institutions to partner with Liberty to originate reverse mortgage loans.
- Partner will perform certain duties to comply with RESPA and other relevant regulations.
- After Partner performs required duties (see handout) Liberty will take over origination, processing, underwriting, closing and funding.
- Compensation to Partner is disclosed per Federal regulations on all relevant disclosures.
- Great way to leverage your institution's time and effort.

Why Use This Program?

- Boost your revenue by working with a trusted local partner that is not your competitor in any way.
- Serve the needs of your 62+ active adult demographic with a trusted GNMA HMBS issuer.
- Great way to “test drive” a new product without additional overhead.
- It is similar to the “Broker-In” program which was popular several years ago and has been used in the past for niche products.

Thank you for your time.

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