

HOME PURCHASE FINANCING FOR YOUR SENIOR CLIENTS



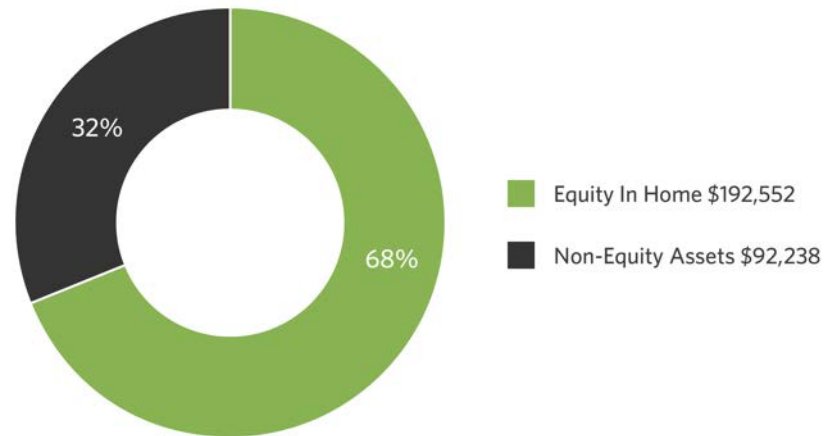
Meet your clients' needs by positioning
the housing asset in retirement





Why is the House Important for Retirement?

- Source of security and comfort
- Connection to family and friends
- Likely the largest asset



U.S. Census Bureau, Survey of Income and Program Participation, Wealth Tables 2011, Table 1. Median Value of Assets for Households 2011.



On the Move

Over 20% of all U.S. home purchases consist of Baby Boomers.

(National Association of Realtors)

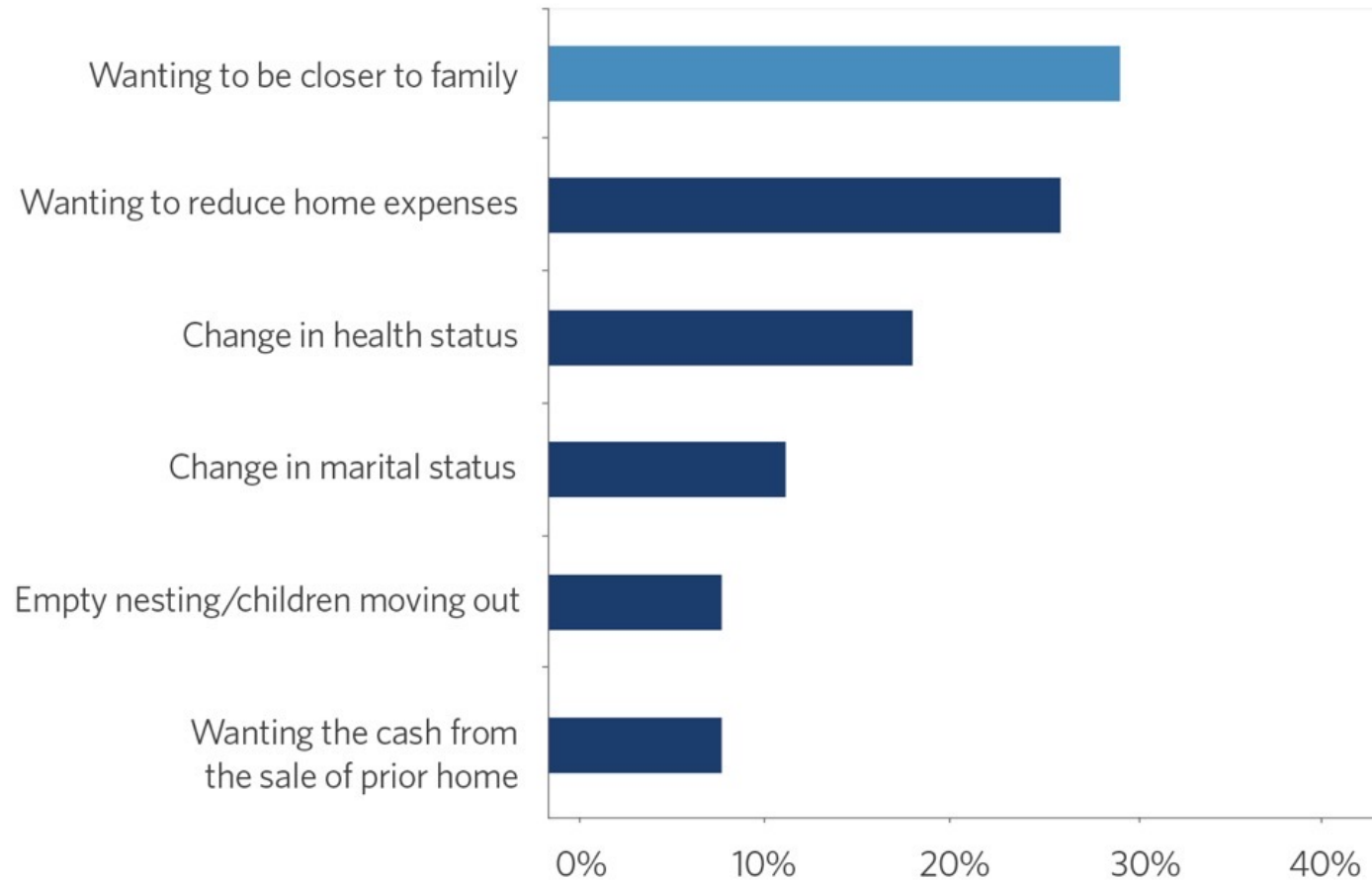


Reasons for Moving

- Too much maintenance
- Silver divorce
- Large house consumes too many assets
- Home not fitted for debilities/health issues
- High property taxes
- Neighborhood decline
- Looking for new experiences, aka lifestyle
- Prefer to be near children/grandchildren

LIFESTYLE CHOICE

#1 Reason to Move



Base: Age 50+ retirees who have moved since retiring



Yet Moving is Not Without Challenges

- Attachment to things
- Reluctance to open home to brokers/appraisal
- Cost of new home may be higher in other part of the country
- New property taxes could be higher
- Acclimated to living without a mortgage payment
- Dangerous to use retirement assets for a cash purchase
- Making a new house a home is expensive



Fidelity Report Should You Move in Retirement

To overcome high transaction costs, aim to downsize by 25% or more if you are moving to improve your finances.



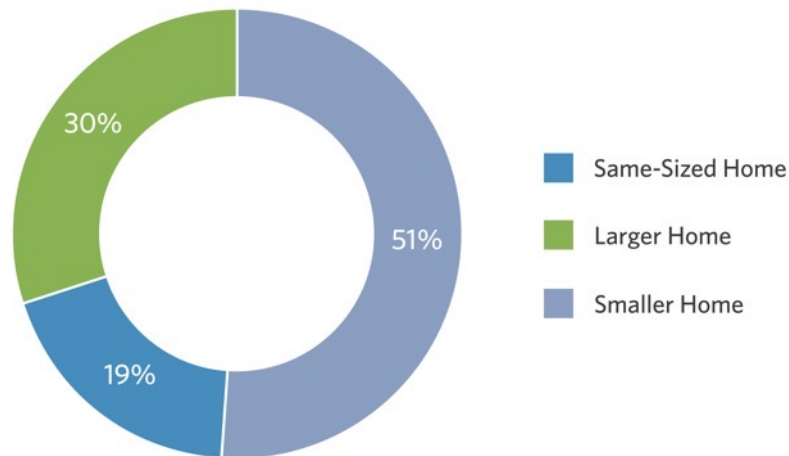
Selling the House?

The Home Equity Conversion Mortgage (HECM) for Purchase, or H4P, provides assistance to help your clients weather the cost and buy the home they want.

Just Downsize May Not Be the Advice Your Client is Seeking

- Many people assume that once they retire, they will downsize their home. Their children have moved out, they need less space, they don't want the maintenance hassles of a larger home, and moving to a smaller home might free up cash. In fact, many pre-retirees assume they will downsize to help pay for their retirement.
- However, pre-retirees who expect to downsize when they retire may be surprised to learn that half (49%) of retirees didn't downsize in their last move. In fact, three in ten upsized into a larger home.

Figure 12: Retirees' most recent move was into a...

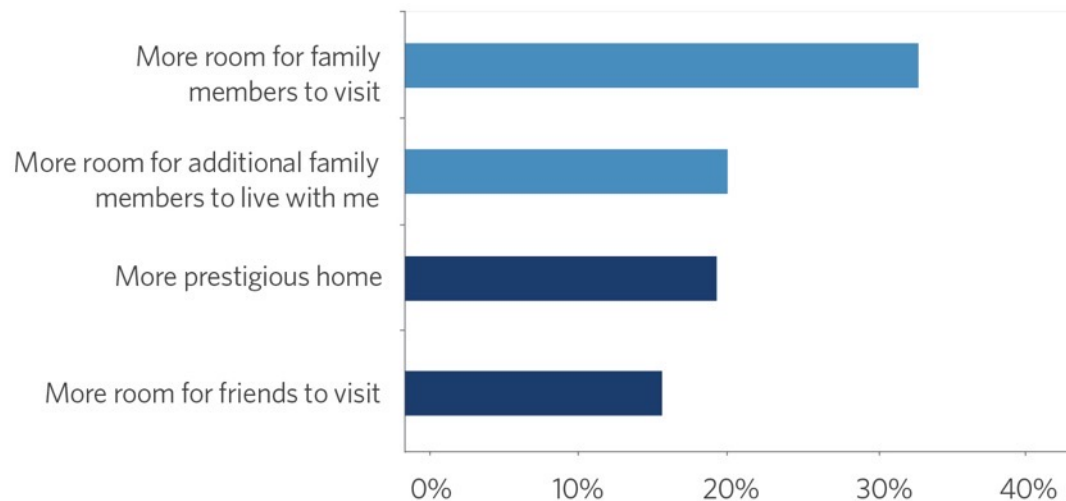


Base: Age 50+ retirees who have moved since retiring. Age Wave/Merrill Lynch: Home in Retirement.

Senior Homeowners are Just as Aspirational in Real Estate Choices as Anyone Else

After our kids left home, we got an even bigger house. We have kids and grandkids all over the country and wanted space for them to visit.

Figure 13: The main motivations for upsizing in retirement



Base: Age 50+ retirees who have moved since retiring. Age Wave/Merrill Lynch: Home in Retirement.

**IF MOVING AND DOWNSIZING IS NOT
THE ANSWER FOR A CLIENT, WHAT IS?**



Is There a Home Finance Product That...

H4P provides assistance to help your clients whether the cost and buy the home they want.

- Is uniquely suited to the distribution phase?
- Reduces the impact of moving costs?
- Reduces cash investment in the new home?
- Reduces exposure to adverse Sequence of Returns?
- Improves cash flow?
- Makes possible the purchase of the home your client wants?

HECM FOR PURCHASE



The H4P Potential Revolution

Financing Real Estate In Retirement Years

- Beginning January 1, 2009
- FHA allows the reverse mortgage to be used as a primary financing tool for home purchase
- HECM no longer limited to refinancing of existing residence



What Does This Mean?

Seniors 62 or over are able to purchase real estate by combining a down payment with a reverse mortgage at the closing table and have no monthly mortgage payments.*

*Borrower must occupy home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees.



**DEPARTURE HOUSE IS NOT
PART OF THE TRANSACTION**



In Simplest Language

This is How it Works

$$\begin{aligned} & \text{(New Home Purchase Price)} \\ - & \text{(Loan Lump Sum)} \\ \hline = & \text{Down Payment needed} \end{aligned}$$



Select New Home

Find Listing Price

HECM Lump Sum is Calculated on the new home.



Easy to Determine How Much Available in H4P Funds

<https://mutualreverse.com/calculator/hecm-for-purchase-calculator/>



Easy to Determine How Much Available in H4P Funds

<https://mutualreverse.com/calculator/hecm-for-purchase-calculator/>

Zip Code (required) Age (required) Home Value (required)

97202 65 \$400,000

Calculate

Your Estimated Down Payment

\$256,800

Or call us at (877) 721-3847

In this case study, the client will bring \$256,800 to the closing table. The remaining \$143,200 (45%) is provided by an H4P lump sum.

*Other property obligations such as tax and insurance must be met, no different than any homeowner. No principal or interest payments are due until the last homeowner dies, moves or sells.

Example shown is for illustrative purposes only. Actual down payment amounts may vary based on interest rate, borrower age and other factors. This range assumes closing costs will be financed into the loan. Closing costs include an up-front mortgage premium of 2% of the property value as well as other closing costs such as an origination fee, title insurance, appraisal fee, credit report fee and recording costs. Typical closing costs including initial MIP range between \$10,000 to \$40,000. Please check with your HECM for Purchase Specialist for actual figures.





Remember: Must Use

Age of Younger Borrower

- Amount of money will be based on younger homeowner.
- Your estimate will come up short on down payment needed if this step is ignored.



What Happened?

Listing Price

\$ 400,000

Cash Available

\$143,200

$$\begin{array}{r} \$400,000 \text{ (New Home Purchase Price)} \\ - \$143,200 \text{ (Cash Available from the HECM for Purchase)} \\ \hline = \$256,800 \text{ (Down Payment needed)} \end{array}$$

For illustrative purposes only.

Other Examples Of Remaining Cash

Jim and Sally Hudson want to sell their present home and purchase one closer to their daughter in another city. They are both 75 years of age. They can now purchase a new home using the HECM for Purchase!

If they decide to: **Downsize** or **Upsize**

Cash after sale	\$400,000	\$400,000
Cost of new home	\$300,000	\$600,000
HECM proceeds*	\$111,800	\$233,600

Cash needed to close	\$188,200	\$366,400
Cash remaining After purchase	\$211,800	\$33,600

Now living in a new home, Jim and Sally have no monthly mortgage payments and a significant amount of cash is left over for future expenses. The HECM for Purchase provides opportunities and options for today's older homebuyers. This is exciting news.

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Other Examples Of Remaining Cash

Jim and Sally Hudson want to sell their present home and purchase one closer to their daughter in another city. They are both 75 years of age with proceeds from the sale of their departure residence of \$700,000.

If they decide to: **Downsize** or **Upsize**

Cash after sale	\$700,000	\$700,000
Cost of new home	\$500,000	\$800,000
HECM proceeds*	\$193,000	\$314,800
Cash needed to close	\$307,000	\$485,200
<hr/>		
Cash remaining After purchase	\$393,000	\$214,800

Now living in a new home, Jim and Sally have no monthly mortgage payments* and a significant amount of cash is left over for future expenses, or to buffer their retirement fund.

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Case Study

- Mr. Miller lives in Sacramento
- He is a recent widower
- Wants to move to be near children/grandchildren
- Houses in Bay Area very expensive
- Does not want a mortgage payment again/paid off his house long ago
- Aware of dangers of a cash purchase for retirement resilience
- Planner seeks solution that will provide the housing his client wants while preserving assets



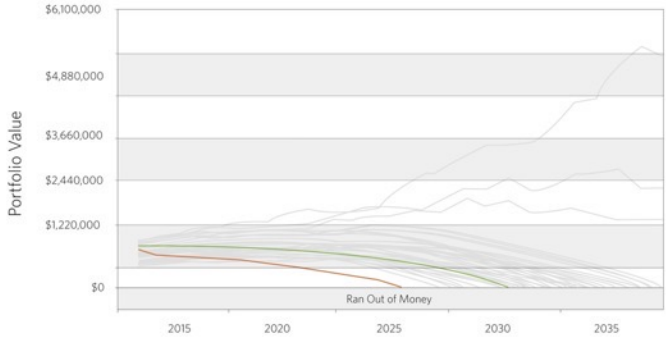
Without HECM Financing	
Sales Price for Departure Home	\$500,000
Less Selling Costs (Commission, Fees)	\$40,000
Net Proceeds from Departure Home	\$460,000
New Home Price, Paid in Cash	\$700,000
Withdrawal from Assets to Accomplish Cash Sale	\$(240,000)

With HECM Financing	
Sales Price for Departure Home	\$500,000
Less Selling Costs (Commission, Fees)	\$40,000
Net Proceeds from Departure Home	\$460,000
New Home Price	\$700,000
Financing Available from HECM Saver	\$300,000
Cash Required from Net Proceeds (Yields + \$60k from Departure Home)	\$400,000
Liberated Funds Remaining for Retirement Needs	\$300,000

Upsizing Purchase Money HECM

How Cash Retention Affects Retirement Outcome

Inside the Numbers - Final Result for Balanced 2



- The graph below shows the results for a Sample of 100 Monte Carlo Trials, but that is not enough Trials to determine your Probability of Success
- Your Probability of Success, as shown by the meter, uses a mathematical simulation, equivalent to 10,000 trials to calculate your Final Result
- Your Probability of Success represents the percentage of 10,000 Trials in which you could expect to attain all your Goals

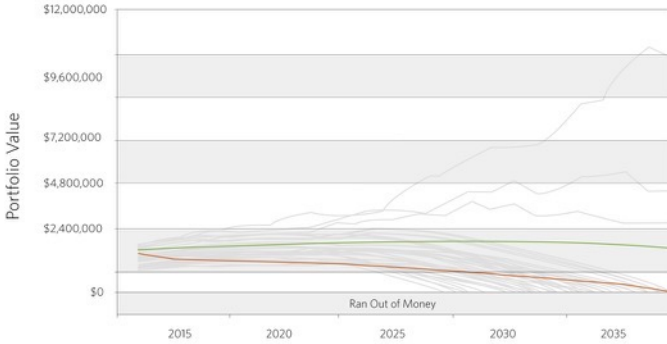
Safety Margin
\$5,023,057



Probability of Success < 40%
Below Confidence Zone (75% - 90%)

Balanced 2 Only Average Risk Tolerance Low Probability

Inside the Numbers - Final Result for BII with HECM 300000



- The graph below shows the results for a Sample of 100 Monte Carlo Trials, but that is not enough Trials to determine your Probability of Success
- Your Probability of Success, as shown by the meter, uses a mathematical simulation, equivalent to 10,000 Trials to calculate your Final Result
- Your Probability of Success represents the percentage of 10,000 Trials in which you could expect to attain all your Goals

Safety Margin
\$9,840,378



Probability of Success 68%
Below Confidence Zone (75% - 90%)

\$700,000 Purchase
\$400,000 Down Payment
\$300,000 Purchase Money HECM

Retain \$300,000
Lowers Probability of Portfolio Exhaustion

Reassure The Client That the H4P is Safe

- H4P is a version of an FHA-insured reverse mortgage, Home Equity Conversion Mortgage
- It's a non-recourse loan
- It's available to those 62 + for whom the product is suitable
- Although no principal/interest payments required, voluntary payments may be made
- Just like any homeowner, property taxes must be kept current
- Just like any mortgage holder, property insurance must be kept current

The 4 Misconceptions*

The Bank Gets the House	You Can Owe More Than the House is Worth	You May Have to Move	You Can't Make Payments
The borrower retains title and the bank does not "get the house" unless a default event occurs.	When the loan becomes due, the homeowner does not owe more than the home's value. Any remaining equity beyond the loan balance belongs to the estate. Heirs may retain the home by paying the lesser of the loan balance or 95% of the appraised value of the home.	Some mistakenly believe that once the money is used up, the loan is due. Actually the loan is in effect as long a participant uses the home as a primary residence and does not default on the loan.	You are not required to make a payment on the principal or interest until the last participant dies, moves or sells the property provided obligations are met and property tax and insurance payments are current. You can make monthly mortgage payments if you desire.

*The loan is in effect until the last homeowner or eligible spouse dies, moves or sell, property obligations are met and tax and insurance payments are current. Borrower must occupy home as primary residence.



Just Like Any Financial Product, The HECM Has Evolved

Recent changes by Congress and FHA

- Reduced the loan upfront FHA mortgage insurance premium by 50 bps
- Reduced the ongoing FHA mortgage insurance premium by 75 bps
- Reduced the LTV (Principal Limit) floor as to create fierce interest rate margin competition
- Provided protections to (younger) non-borrowing spouses
- Provided underwriting guidelines that safeguard the consumer if loan is not a sustainable solution
- Provided guardrails that discourage plundering the home asset (60/40)

RESEARCH CONFIRMS H4P BENEFITS TO RETIREMENT SECURITY

Wade PFAU, PHD, CFA

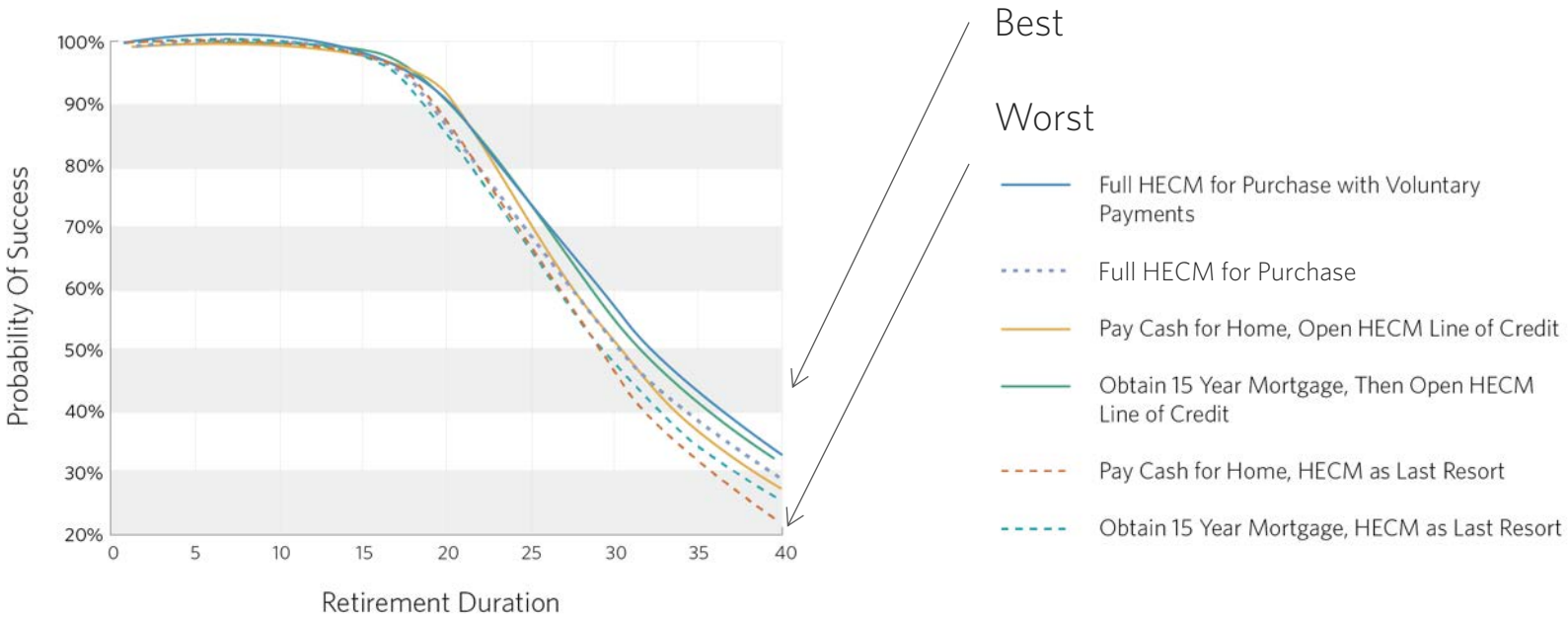
Best Result

HECM for Purchase/Coordinated Strategy Voluntary payments except in years following Bear Market.

Worst Result

Paying cash or take out a 15 year mortgage.

\$300,000 house - 65 years old:
 For a 15 year mortgage, this requires \$60,000 upfront and payments of \$20,838 (3.5% rate).
 Or... take out a HECM for Purchase for \$137,700.





Wade PFAU, PHD, CFA

In retirement, you must plan for your client living beyond life expectancy. Volatility makes distribution decisions difficult.

The fewer fixed expenses, the better able to your client withstand sequence of returns risk.

Reverse Mortgages, How to Use a Reverse Mortgage to Secure Your Retirement, 2nd Edition

ADDENDUM



What Funds Are Allowed for Borrower Down Payment?

- Cash from sale of departure home
- Withdrawals from retirement accounts
- Borrower savings confirmed by 3-month bank statement
- Gift according to FHA Gift Policy, which cannot include those with financial tie to transaction, such as builder
- Absolutely no Seller or Builder Concessions Allowed



Other Underwriting Considerations: Eligibility

New Construction: Don't take application until Certificate of Occupancy has been issued.

- Borrowers with existing FHA financing must satisfy that lien no later than at closing the Lifestyle Home Loan
- Borrowers must occupy within 60 days of closing
- Borrower may retain Departure Home, but will be required to provide a Schedule of Real Estate Owned. Income and assets verified to ensure there is sufficient income to support departure home as well as TI of new house



But Wait

Client Already Provided \$50,000 in Earnest Money

Purchase Price
- Lump Sum Cash Available

= Required Investment (Down Payment)

Required Investment
- Earnest Money

= Total Funds from Borrower (At Closing)

\$600,000
- \$258,200

= \$341,800
- \$50,000

= \$291,800 (At Closing)



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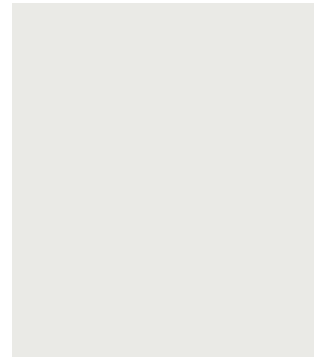
Conclusions about H4P

- Allows client to afford both the move and the house they want
- Reduces fixed monthly mortgage expenses to withstand SORR
- Improves cash flow where labor income is no longer available
- Improves retention of investable assets
- Is flexible and allows voluntary payments at client's discretion
- Is safe, backed by the full faith and credit of the U.S. Government
- Gives you the power to solve your client's housing challenges



Thank you!

For more information, please call:



First Lastname | NMLS: 000000
Reverse Mortgage Specialist
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3131 Camino Del Rio N., Suite 1100
San Diego, CA 92108



Borrower must occupy home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees.

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