May-June 2014
Volume 7, No. 3

Reverse Mortgage

The official magazine of the National Reverse Mortgage Lenders Association

Preparing – FOR – FINANCIAL ASSESSMENT

NRMLA

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Contents

PUBLISHER
Peter Bell
pbell@dworbell.com

EDITOR
Marty Bell
mbell@dworbell.com

ASSOCIATE EDITOR
Darryl Hicks
dhicks@dworbell.com

STAFF WRITER
Mark Olshaker

EXECUTIVE VICE PRESIDENT
Stephen Irwin

NRMLA EXECUTIVE COMMITTEE CO-CHAIRS
George Lopez, James B. Nutter & Co.
Joe DeMarkey, Reverse Mortgage Funding

DESIGNER
Lisa Toji-Blank, Toji Design

ADVERTISING SALES
Sarah Aaronson
sarahaaronson@comcast.net

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Association & Subscription Contact:
National Reverse Mortgage Lenders Association
1400 16th St., NW, Suite 420
Washington, DC 20036
202-939-1760
llatimore@dworbell.com
Industry: www.nrmlaonline.org
Consumers: www.reversemortgage.org

Advertising & Editorial Contact:
National Reverse Mortgage Lenders Association
1400 16th St., NW, Suite 420
Washington, DC 20036
202-939-1760
mbell@dworbell.com

NRMLA

The New Reverse Mortgage:

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Meet This Month's Contributors

Carl Friedrich

(The Reverse Mortgage as an Estate Preservation Tool,* p. 23*)

Carl Friedrich

Carl is a Director with FCE Group in Great Neck, New York. He has an extensive background in financial planning and portfolio management, and specializes in scenario analysis modelling and portfolio hedging. Carl has 20 years of financial industry experience, and holds a Bachelor of Science in Economics from the Wharton School at the University of Pennsylvania. He has earned theFinancial Risk Manager (FRM) designation from the GlobalAssociation of Risk Professionals, and is a CERTFIED FINANCIAL PLANNER™ Professional (CFP®). Carl spends his free time chasing his five children around Long Island, and is passionate about education, having served as trustee for his local School District.

Shannon Ozanich

(How Financial Assessment Improves Servicing,* p. 20*)

Shannon Ozanich

Shannon is Vice President of the Tax and Insurance Department at Celink. She has held several positions since May 2002, including Senior Management of the Default Department (forward side) before promotion to her current position in October 2011. Shannon has two daughters, enjoys spending time with family, traveling, and amusement parks. She is an advocate for all misunderstood dog breeds and visited the Villalobos Pitbull Rescue Center during her NRMLA conference attendance in New Orleans last year.

Dan Hultquist

(Rollin' in the Changes—A Trainer's Perspective,* p. 14*)

Dan Hultquist

Dan is in his fifth year at Generation Mortgage Company. He is a graduate of Penn State University and has an MBA from Kennesaw State University. As the Director of Training, his experience in sales, coaching, housing counseling, business development, and reverse mortgages gives him a unique perspective. Dan lives outside of Atlanta with his wife and two children. His other interests include writing, tennis, billiards, and late 70's rock.

Looking Forward and Looking Back

"What's past is prologue."
– William Shakespeare, *The Tempest*

IN THIS ISSUE, WE LOOK BOTH BACK AND FORWARD.

In an era in which things seem to move in a flash ("Nanoseconds," according to Michael Lewis's new bestseller *Flash Boys*), we can sometimes lose our grip on the laying of the foundations that got us here and, frankly, still affect everything we do.

Recalling the early days at Seattle Mortgage, Ken Keranen says in these pages, "The target and the profile were essentially widows in their mid-seventies to eighties. It was really an educational process to realize there were a lot of other things that could be done with reverse mortgages."

The warm story of Ken and his former wife, Katharine Klicka, both of whom now have their own reverse mortgages, is this month's *Borrower's Chronicle* (p. 5).

Ken is just one of two industry pioneers we hear from this month. The other is Jim Mahoney, who pretty much modeled the whole business in his tenure as CEO of Financial Freedom and started NRMLA along with Jeff Taylor. But this pioneer is pulling on his boots once again. After a six year hiatus, Jim returns to our ranks as Executive Chairman of Celink and we welcome him back. He has always been one of the industry's more insightful thinkers and Darryl Hick's interview with him in this month's *Talking Heads* column is a chance to both reevaluate the past and peek at the future. (p. 8)

We've been looking ahead at the HECM changes for the past few months in our New Reverse Mortgage sections and this month we asked staff writer Mark Olshaker to survey people playing different roles in the industry on how preparing for financial assessment is altering their work. (*Preparing for Financial Assessment*, p. 18) And in this month's *CRMP: Across the Kitchen Table* (p. 14), Generation Mortgage trainer Dan Hultquist looks at the new training the new reverse mortgage will demand.

Continuing a new trend developing within these pages, we take a look at another financial planner, Carl Friedrich, and his ideas about how to use a reverse mortgage as an Estate Preservation Tool. (p.23)

They say you can't in go both directions, forward and back, at once. But you can in one hour. So curl up on a good chair and enjoy this month's two-way journey.

Marty Bell, *Editor*

Balanced Viewpoint

Eliminating the Flack

By Peter Bell, President of NRMLA

IN EARLIER DAYS OF THE REVERSE MORTGAGE industry, back when Jeff Taylor, Jim Mahoney and Pat McEnerney were chairmen of NRMLA, we often discussed that with demographic trends being what they were, the business was sure to grow – provided we could overcome the adverse headlines and negative perceptions of our product.

Unfortunately, every time the problematic headlines subsided for a little while, some activity sprung up -- pairing HECMs with inappropriate annuities or other investment and insurance products, suggesting borrowers remove the younger spouse from title to get larger loans, jamming borrowers into fixed-rate, full draw loans even if not the best option for them, foreclosure and eviction of elderly homeowners who could no longer keep up with paying taxes and insurance -- that re-ignited hurtful press coverage.

Now, as we embark on a major public relations, consumer education and advertising effort – referred to internally as Extreme Summit – we are hoping to avoid falling prey to journalists and critics who are quick to harp on the limited instances of problematic cases, while failing to report on the high degree of satisfaction amongst most reverse mortgage borrowers.

Back in those old days, we felt that if we could just keep the industry on the straight and narrow, doing the right thing in all cases, we would grow past the negative coverage and arrive at our day in the sun. We tried to accomplish this through professional education for the industry, our Code of Ethics & Professional Responsibility, the Certified Reverse Mortgage Professional designation and other tactics. But we were also realistic enough to understand that sometimes we must rely upon our regulator, HUD/FHA, to keep us on the right track. Accordingly, we were often supportive of the Department's initiatives in further refining the HECM program.

Peter Bell

HUD currently has two important initiatives in the works that, I believe, will help further the objective of getting rid of practices that harm the overall impression of the HECM program and reverse mortgages in general.

Financial assessment should help us identify and avoid making loans to homeowners who are less likely to be successful in maintaining their obligations to pay taxes, insurance and keep up their properties. This should help neutralize one source of negative press.

Policy on non-borrowing spouses should also help us steer clear of situations where a widowed spouse finds her or himself with a due and payable notice, an inability to repay and the need to vacate the home. Whether HUD addresses this by disallowing loans to one spouse entirely or by issuing principal limit factors that consider the age of the younger spouse, even if a non-borrower, doesn't matter. What does matter is that the negative headlines and lawsuits emerging from this issue should be put to rest.

These two policy issues, once finally resolved by HUD, should help neutralize some disparaging headlines and give the industry a break from the negative publicity that deters homeowners who could benefit from a HECM from ever even considering one. Once that happens, we should be able to reverse the downward trajectory of HECM origination volume and find growth again.

The demographics are there to support our growth. The need increases all the time. HUD cannot act soon enough to resolve these hanging issues once and for all. RM

His and Hers

By Mark Olshaker

KEN KERANEN, ONE OF THE PIONEERS OF THE reverse mortgage industry, always knew he'd eventually get one for himself.

It was more than 20 years ago that Ken, working in commercial real estate in Seattle, saw an article in the AARP magazine about this new financial product being introduced by HUD. He said to himself, *This sounds like a good idea*. "It made an awful lot of sense that you could take money out of your home and finance your retirement."

He was so enthusiastic about the potential that he switched careers and went "all-in" to the field. "I think I was the first full-time HECM loan officer on the West Coast," he says, adding, "There was nothing to guide us in those days. We had to take every loan down to the FHA office in downtown Seattle and go through with them loan by loan."

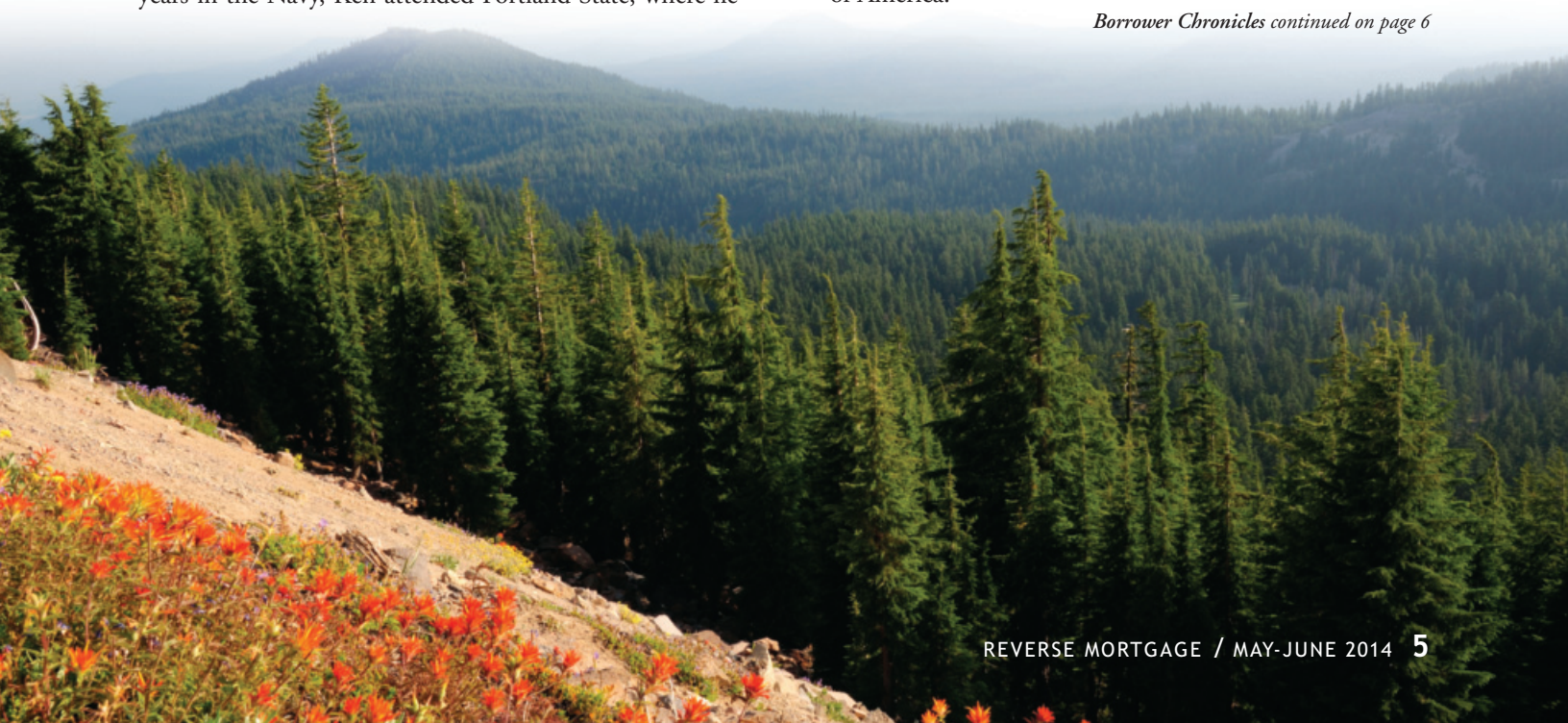
As one of the earliest adopters, Ken was on NRMLA's founding board of directors. "Those were exciting times," he recalls, "trying to figure it all out from a blank sheet of paper." He remained active, and Ken's work last appeared in the July-August issue of *Reverse Mortgage* in an article entitled, "Winning Over Builders."

The Vancouver, Washington, native has done just about everything in the fields of sales and marketing. After four years in the Navy, Ken attended Portland State, where he studied market research and met his first wife. They moved to Seattle, where he took a job in special projects with Freightliner Corporation. His first major assignment was to study, visit and analyze all of the White Freightliner truck dealerships in the United States and Canada.

Ken Keranen

After that he owned his own Ford dealership in a lumber town on the Washington coast, where he could indulge his passion for salmon fishing. Further experience in insurance, real estate and a stint with the dealership program at ADP Security, led up to his venture into loan origination in Seattle in 1993 with a Bank of New York subsidiary. Two years later, Seattle Mortgage Company hired him to set up a reverse mortgage division. The company was a community-based business established in 1944 to help returning World War II veterans buy their first homes, and Ken realized a service on the other end of the home ownership spectrum would be a good complement. It turned out to be, and the division eventually sold to Bank of America.

***Borrower Chronicles** continued on page 6*



Borrower Chronicles continued from page 5

The early years were largely an effort to educate the marketplace, Ken explains. "Very few people, even financial advisors, understood the financial component. All of the advertising was directed at house-rich, cash-poor borrowers. The target and the profile were essentially widows in their mid-seventies to eighties. It was really an educational process to realize there were a lot of other things that could be done with reverse mortgages."

By the time Ken moved down to San Diego to head Seattle Mortgage's HECM operation there, he had two sons and his marriage was over. But among the loan processors working for him was a woman named Katharine Klicka, a single mother with one son. A native San Diegan, Katharine had been the business manager for a successful engineering firm. But when she hit the "glass ceiling" and they hired a CFO over her with whom she didn't see eye-to-eye, she left. She and Ken fell in love, married, and continued working together, excited about improving the lifestyles of seniors through reverse mortgages.

Using a self-directed IRA, they bought a luxurious cabin in Big Bear and turned it into a rental property. Over a three-year period, they paid the taxes and owned it outright. The area was perfect for Ken's twin pursuits: fishing and skiing.

Life was fine until retirement loomed on the horizon, at which point, according to Ken, "We had a major disagreement about lifestyles."

While still doing reverse mortgages part-time, they sold the house they had been living in in Carlsbad and moved into a 40-foot Allegro motor home and travelled "all over." But it was when Ken decided to drive up to Oregon, to be near his 96-year old mother and become a campground host from May to September that Katherine put her foot down.

"I didn't want to live in the cabin full time," she says, "And the motor home – that was not my idea of retirement."

The solution turned out to be a separation and divorce, though Ken and Katharine remain on good terms and even work together from time to time. The solution to how to maintain two comfortable lifestyles turned out to be a reverse mortgage. "I always knew from the very start I would do one some day," he says.

Or rather, two reverse mortgages.

"Fortunately, we remained friendly and were able to work it out," Katharine adds.

When Katharine and Ken divorced, he wanted to remain in their home in the mountains and she wanted to live closer to the sea. So Ken took out a reverse mortgage and used proceeds to buy her out of her share of their house.

Katharine then used her proceeds from her share of the house and a HECM for Purchase and settled into an active 55+ development of 223 units in Carlsbad, where she has a view of the Pacific.

"The biggest thing for me is that based on my somewhat modest income, it really afforded me a better house and a nicer style of living, without enough money to fix the house up." Her engineer son helped her renovate, and her home has become a regular gathering place for her friends. Her son, daughter-in-law and year-old granddaughter visit regularly.

Katharine sums up, "I can travel, entertain and have a lifestyle I enjoy. I couldn't have that without a reverse mortgage." RM

Katharine Klicka

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The Pioneer Returns

Jim Mahoney, Celink By Darryl Hicks

BY THE LATE 90s, JIM MAHONEY HAD BECOME ONE of the most powerful voices in the reverse mortgage industry. The soft-spoken, highly gifted entrepreneur built Financial Freedom Senior Funding Corporation, based in Irvine, CA, into the nation's largest reverse mortgage lender and servicer, at one point accounting for two-thirds of the industry's production.

Mahoney's first passion wasn't finance, but science. He was born in Los Angeles and grew up further south in Orange County. He earned a degree in biological sciences at UC-Irvine, but couldn't get into medical school. There were a lot of opportunities in real estate at the time, so he chose that as his next career path and eventually rose to become CEO of a commercial development firm.

When the Southern California real estate market crashed in 1990, Mahoney looked for new prospects and discovered reverse mortgages. He co-founded Freedom Home Equity Partners (later renamed Financial Freedom) in 1991.

At that time, FHA's Home Equity Conversion Mortgage program was so small, only a few thousand loans were getting done each year. Mahoney felt the best way to build Financial Freedom's market share was to acquire its best and brightest competitors. These acquisitions helped Financial Freedom build a sizable retail sales force, but soon the bulk of its production was coming through its wholesale broker channel. IndyMac Bank, the largest savings and loan in Los Angeles and fourth overall in the country, took notice of Financial Freedom's success and acquired the company in 2004. Mahoney stayed on for a few years, but left the business for good in 2008 just when it was peaking. He got married, built a vacation home in Hawaii, and enjoyed the fruits of his labors for a change.

Jim Mahoney

Most people would have been content to stay retired, but not Mahoney. In 2012, he formed a new investment company, Peer Advisors, LLC, with Jason McNamara, a marketing and technology specialist, and Al Benedetti, former Chief Financial Officer at Financial Freedom. In August 2013, Peer Advisors announced that it was acquiring Celink, the largest third-party servicer of reverse mortgages—thus, creating a new chapter in Mahoney's life. *Reverse Mortgage* magazine recently interviewed Mahoney to discuss his return and future plans.

Reverse Mortgage: ***You have been semi-retired for the past 6 years. What made you get back into the reverse mortgage business?***

Jim Mahoney: It started four years ago when I met Jason (McNamara) through a mutual friend. Jason had some ideas for creating home equity conversion products and I was asked to step in and look at them. I told him his ideas were more closely aligned with the reverse mortgage space and seniors, rather than a younger consumer market. We tried to raise capital, but the investment market for mortgages generally was pretty dire after the last recession, so we shelved Jason's ideas and started thinking about other ways to be a part of the industry. Once you are in this business, it gets into your blood. You see the tremendous financial

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pressures on seniors and we all know that reverse mortgages provide the best possible security blanket for them.

***RM:** What attracted you to Celink?*

Mahoney: John and Ryan LaRose built a great platform, and servicing offers a more consistent revenue stream compared to the origination business, so we felt it was a place where we could do well and create an opportunity for future growth. Servicing is one of our core competencies. It is very complex and requires a heavy IT investment, but our team has a tremendous amount of success in that area, dating back to 1999 when we acquired Transamerica Home First. By the time I left Financial Freedom, we were servicing 150,000 loans.

***RM:** What roles do you, Jason and Al play in Celink?*

Mahoney: I am the Executive Chairman of Celink, so I provide strategic direction and I do what I can to help the industry through my participation in NRMLA and the Board of Directors. Jason is the CEO, so he works with Ryan on a daily basis to grow the business. Jason has a background in technology and marketing, so we are utilizing those strengths to enhance the value proposition to our customer partners. And then Al is Executive Vice President of Finance, so he ensures that Celink continues being a first-rate financial institution and helps guide the utilization of our balance sheet, so that our shareholders get a solid return on their investment.

***RM:** Recently, there has been a lot of news coverage concerning the loan termination process and the challenges that heirs face paying back their parents' loans. What needs to happen to help overcome these obstacles?*

Mahoney: Most of us can quote chapter and verse what the HUD servicing guidelines say, and they make perfect sense intellectually, but I went through the loan termination process last year when my mother suddenly passed away. She was 89 and had gotten a reverse mortgage with my father from Financial Freedom. It's amazing how much goes on when the last parent dies. We had to deal with personal effects – she had been in the home for 38 years and so my brother and I had to figure out what to do with all that accumulated stuff – while dealing with the grief of losing a parent. I timely notified Financial Freedom and put in writing what we wanted to do with the house to repay the loan, but timeframes came more quickly than we anticipated. My brother and I are both retired and dealing with the estate became a full-time job. I can't imagine for someone who has a full time job and is inexperienced trying to juggle all that is going on – the loan repayment, dealing with the grief, and trying to sort out the estate. The heirs have 60 days to decide what they are going to do to repay the loan, and if the servicer doesn't hear from them, they are supposed to immediately begin foreclosure proceedings. I think that's just too quick. There's a lot going on for the heirs and I think the timeframes creep up too fast.

***RM:** I don't know how practical an idea this is, but should HUD mandate that family members be involved in helping their parents get a reverse mortgage? At least the heirs will then understand their responsibilities.*

Mahoney: I understand what you're getting at, but there are a lot of seniors who don't want to involve their kids. Some seniors don't think their children manage money well, or they are embarrassed to admit that they need or want a reverse mortgage. If the borrowers have one child, that's just one opinion, but if they have five children, now you have five opinions and there's bound to be one child who doesn't want mom and dad spending his or her inheritance. The last piece to consider is that when someone who is 75 gets a reverse mortgage, that person could live another 13 to 20 years, and by the time they pass away, everyone in the family will have forgotten what was discussed. It can get very complex if we try to mandate family involvement, but to the extent we can persuade the borrowers to involve the children at the time of originating the loan, or develop informative education materials that can be given to the kids to help them understand the loan termination process, then it could help reduce the delays and time frames for repayment when the surviving borrower dies.

***RM:** Is Peer Advisors looking to acquire more reverse mortgage companies much like you did with Financial Freedom?*

Mahoney: We are always going to look at ways to leverage our core competencies. We acquired Celink to do that, but

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we have opted not to compete with our customers on the origination side. We think there is a lot of innovation on the servicing side – data analysis, market research – that brings value to our clients and the industry. And we also look forward to offering proprietary loan products to our servicing clients.

***RM:** Celink has always serviced loans on behalf of its clients, but have you ever thought about acquiring servicing rights?*

Mahoney: One area of growth that we have investigated involves clients who are, or may be thinking about becoming Ginnie Mae issuers, and whether there is an opportunity for Celink to own servicing rights, acquired upfront or in bulk. We would see that as a partnering or an adjunct with the lenders, as opposed to being in direct competition.

***RM:** When Financial Freedom and the national banks exited the industry, it created a power vacuum. The industry was left with several independent voices helping to guide it, much like when NRMLA was first formed. How does that impact the future of the industry and the association?*

Mahoney: Things are dramatically different from the early 2000s when Financial Freedom had the largest market share by volume in a small industry, but you also had institutions, like Wells Fargo and Bank of America, that brought instant credibility to the product. In today's environment, I think what is more important is that these independent voices unite into one voice. It's important to have diversity in thought and viewpoints. From what I have observed on the Board of Directors over past years, everyone works more collegially. There can be varying opinions, but the leaders realize that the best way to move the industry forward is to find consensus and unite behind one voice from NRMLA.

***RM:** Looking back over the past 20 years you've spent in and out of the business, what one thing would you have done differently?*

Mahoney: As an industry, I think one of the biggest mistakes we all made was when volumes started increasing in 2005 and 2006, the primary servicers at the time were col-

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lecting $15 for every loan originated on the retail and wholesale side and channeling those funds to NRMLA for a national PR campaign. Then the originators said they had so much business they did not want to pay that money anymore. After one servicer stopped collecting assessments, then we all did. Ironically, I believe it was the contributions paid to NRMLA that got us to those volumes in the first place. While the industry volumes were helped by high home values and low interest rates, the truth is that the negative stories had decreased and acceptability of the product increased because of NRMLA's PR efforts funded by that $15 per loan contribution. So if I could change one thing it would have been to continue the PR campaign, because once it ended, so did the media outreach and positive image building.

***RM:** I agree that was unfortunate, but then you must be excited about the "Extreme Summit" consumer education campaign, which is much more extensive than anything we've ever done?*

Mahoney: Extreme Summit is a great project. The money behind it is something we never had in the early days, so I applaud the companies that are sponsoring this effort. The degree of success is yet to be demonstrated, but to the extent that we can extrapolate those results into big successes would be fabulous.

***RM:** Is there anything else we can be doing to grow this business?*

Mahoney: This business has been, and always will be, an education process. The reverse mortgage is a simple concept, but a very complex product in a very complex industry, which is heavily regulated. In light of the fact that there is very little private capital for proprietary products, consumers do not have the plethora of options like they do with annuities and insurance products. To gain greater acceptance, we need to educate all constituencies and continue getting in front of the gate keepers. If you look at the financial planning articles that have been published in recent years, they have all been positive and they all have been helpful in explaining the product. Ken Harney may still be writing for *The Washington Post*, and is the same guy he was 20 years ago, but in today's age there are probably 100 to 1000 other people who have a blog or write for an online audience who we need to educate. It's really an extensive effort to nail down anything that's negative, snuff it out, and get the good articles out.

***RM:** You and Jeff Taylor were instrumental in forming NRMLA. What do you think has been the association's biggest accomplishments thus far?*

Mahoney: First and foremost, we can't thank Jeff Taylor enough for his contributions and leadership over the years. And of course Peter Bell has been masterful in guiding the association and raising our credibility everywhere.

I think there are four areas that NRMLA played a direct role that should be noted. First, NRMLA reshaped Congress' perception of reverse mortgages, which led to important legislation being passed to help the industry grow, while at the same time protecting consumers. Second, NRMLA established a trust and strong working relationship with HUD. In the early days, it was a "me versus you" relationship. Not intentionally, but I think HUD was concerned that if a lender was coming to visit, the lender must want something and HUD looked negatively on the request. Over the years, NRMLA has become sensitive to the political pressures that HUD faces, understands their perspective and finds solutions that both sides can live with. Third, if you think about media coverage and the negativity that we occasionally see, NRMLA provides a voice for this industry. The association stays on message and it gets things back on track. And then fourth, the Code of Ethics and Best Practices and high standards of customer care are hallmarks of the Association. They allow us to differentiate ourselves from people who don't share the same values and they convey a message that if you want to be a part of the industry and this association, you have to have a high standard of customer care. It's not all about you. It's about the care of our senior clients first, and maintaining the integrity of our industry that is so important. NRMLA has established that from the early years and those are serious accomplishments that Peter and his team should be proud of. RM

The NRMLA File

A recap of news from the past two months

Government:

FHA Commissioner:
MMI Fund Won't Need Appropriation

FHA Commissioner Carol Galante said that the President's fiscal year 2015 budget anticipates the Mutual Mortgage Insurance Fund will conclude the current fiscal year (September 30, 2014) with a positive capital reserve account balance of approximately $7.8 billion.

"This means the budget does not anticipate the need for a mandatory appropriation from the U.S. Treasury this year," said Commissioner Galante.

GNMA Clarifies Eligibility Guidelines
For HMBS Securities

Ginnie Mae placed a temporary moratorium on the pooling of fixed rate HECMs that allow homeowners to take future draws, either from a line of credit or monthly payments, until it and FHA have additional time to study these newer product variations.

An All Participant Memorandum (APM) said Ginnie Mae will cease guaranteeing HECM Mortgage-Backed Securities containing fixed rate HECMs, other than fixed rate HECMs with a Single Disbursement Lump Sum Payment plan option, beginning on June 1.

AARP Sues HUD Again Over Non-Borrower Spouse Issue

The AARP Foundation Litigation group, on behalf of four additional non-borrowing surviving spouses, has sued HUD, again, in the U. S. District Court in the District of Columbia (Plunkett v Donovan, filed February 27, 2014). This lawsuit follows its successful suit against HUD, in this same court, in Bennett v Donovan (Case No. 11-498, September 30, 2013).

Industry:

RMMI: Senior Home Equity Surges By $83.5B

Driven by a $83.5 billion increase in senior home equity, the NRMLA/RiskSpan Reverse Mortgage Market Index (RMMI) rose in Q4 2013 by 2.4% to 169.8, its highest level since Q1 2008.

The rise in senior home equity resulted from an estimated $84.1 billion increase in the aggregate value of senior housing, slightly offset by a $600 million increase in mortgage debt held by seniors.

Large New York Conference Gathering Looks at
New and Improved HECM

Almost 300 NRMLA members, non-members and interested investors gathered at the Intercontinental Times Square Hotel in New York in March for an energetic and forward looking Eastern Regional Meeting & Finance and Investor Forum, entitled "New HECM, New York." The focus throughout the two-day event—the largest attended NRMLA regional meeting in recent years—was utilizing recent changes to the HECM program to expand the base of potential borrowers and to be able to present them with a better product and more secure future.

Extreme Summit—Action!

On a sunny Friday in March at the foot of rolling hills 30 miles northeast of Los Angeles, 22 people near or over retirement age celebrated a life well led—thus far. The occasion was the shooting of a television commercial for an educational campaign about new reverse mortgages, nicknamed within the industry as the Extreme Summit.

The spot will be the centerpiece of a three-city pilot for the educational campaign scheduled to be launched in Philadelphia, Denver and Seattle in the late spring. It will be aired on television in those markets as well as featured on a website, newreversemortgage.org, especially constructed for the effort. Spreading the message will also include print ads and a comprehensive boots-on-the-ground public relations effort in each market administrated by NRMLA and aimed at engaging local press and influencers and, as a result, consumers.

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Press:

Academics: Weakened Retirement Tools Make Reverses Important Option

Current and future retirees need to re-examine their views and consider including a reverse mortgage as a part of their retirement plan, because the three legs of the traditional retirement "stool" – Social Security benefits, pensions, and personal savings – have been considerably weakened, according to an article in the March edition of the *Journal of Financial Planning*.

University of Wisconsin associate professors, David W. Johnson, Ph.D. and Zamira S. Simkins, Ph.D. state in their article "Retirement Trends, Current Monetary Policy, and the Reverse Mortgage Market" that the recent recession has eroded retirement portfolio values and increased retirees' dependence on Social Security.

WSJ: Tighter Regulations Should Make Reverse Mortgages Safer

Recent programmatic changes to the reverse mortgage program will make it more difficult for some people to get a reverse mortgage, but most financial advisors believe that's a good thing, according to an article in the Sunday edition of *The Wall Street Journal*.

In his article, "A Kindler, Gentler Reverse Mortgage," reporter Tom Lauricella explains how reverse mortgages, when used wisely, enable older adults to tap the value of their homes without having to uproot themselves and sell.

The States:

California. Introduced by Assemblyman Jose Medina, Assembly Bill 1700 would impose a seven-day cooling off period after counseling, during which time a lender could not take an application or assess any fees. It would also require a counselor and the prospective borrower to sign a worksheet that addresses and discloses certain issues that the borrower is advised to consider and discuss with the counselor. Status: The Committee on Banking and Finance scheduled a public hearing on Monday, April 21. RM

Roll with the changes — A trainer's perspective

By Dan Hultquist, CRMP, Director of Training, Generation Mortgage Company

THE HECM WORLD IS CHANGING, AND NAVIGATING these changes requires a lot of work. We have to learn new terms, concepts, strategies, and talking points. In fact, with so many changes, I sometimes forget how different we are from the rest of the financial world.

For example, I had a neighbor ask, "Dan, how are mortgage rates today?" Without thinking, I instinctively mentioned something about the one-month LIBOR hitting an all-time low of 0.152%, but that the 10-Year SWAP is a little high, causing a principal limit reduction for applicants with a margin over 2.125%. I could tell by his facial expression that this was clearly NOT what he was asking. I quickly smiled and said, *"Oh, you mean the 30-year fixed… well, I have absolutely no idea."* This opened the door, though, to discuss EXACTLY what it is that we do at Generation Mortgage Company and the important function of the Home Equity Conversion Mortgage. Incidentally, it also resulted in a potential HECM-for-Purchase loan for his godmother.

This illustration highlights the different mentality for those who live and breathe HECMs, as well as the challenge for those who don't. Training conversion mortgage program requirements is nothing like training traditional mortgage requirements. There is little overlap between the two. In fact, the recent HECM guideline changes in September created additional challenges for industry trainers.

In 2014, we must fully understand and be able to communicate these concepts:

- Initial Disbursement Limits
- Mandatory Obligations
- High IMIP vs. Low IMIP
- The 60% Principal Limit Usage Threshold
- The Single Disbursement Lump-Sum Payment option
- Reserved Principal Limit (available after year one), and of course
- Pending Financial Assessment

So, how can a reverse mortgage professional stay up to date, roll with the changes, and thrive in this current environment? The following is a suggested list of tips from a trainer's perspective.

Make Sure You are Grounded in the Basics

It is not uncommon for experienced industry professionals to take the basics classes repeatedly. For example, there are only so many ways you can explain the non-recourse feature. However, this concept is at the heart of the reverse mortgage program and requires that originators and counselors explain it very well. It might be helpful to hear it explained in as many ways as possible.

Read the Mortgagee Letters

I suggest adding the link to the Mortgagee Letter page of HUD.GOV as a favorite on your browser. In addition, you should print, read, and highlight Mortgagee Letter 2013-27, titled *Changes to the Home Equity Conversion Mortgage Program Requirements*.

Subscribe to Industry Publications

Because you are already reading this article, this may not be relevant advice; however, the articles published here

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are for your benefit and should serve to enhance your effectiveness, whether your job is to counsel, manage, originate, process, underwrite, close, or service HECM loans.

Find a Reverse Mortgage Support Group

It is important to have individuals with whom you can consult. Finding other professionals who are willing to share different perspectives will broaden your education on industry topics.

Understand the Financial Planning Advantages of a HECM-ARM

There are no regulations stating that you can't make payments to reduce the unpaid principal balance of a HECM. In fact, when a client or financial planner sees the potential impact that a prepayment can have on line-of-credit growth, the interest savings on the unpaid principal balance becomes a secondary benefit. Generation's nu62℠ Income Optionality Strategy demonstrates this quite effectively.

Learn the Key Features of the HECM for Purchase

Training courses are available to bring you up to speed on the HECM for Purchase option. However, the program has not begun to see its full potential because originators need to bring the realtors and builders up to speed as well. When realtors fully understand that this program can have positive influence on their listings AND sales, they should want to be the first HECM experts in their offices to capitalize on the wave of 55-and-over communities.

It is unlikely you will need to discuss *Current Expected Rates and Their Bearing on Principal Limit Protection Locks* with your neighbors on a regular basis, but as reverse mortgage professionals, we must be prepared for these conversations. We work through the changes because it is rewarding to assist seniors in maintaining their independence and helping them plan for a better financial future. So, keep on rollin'. RM

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Preparing for Financial Assessment

A Flexible Industry Faces Major Change

By Mark Olshaker

IF THERE'S ONE THING REVERSE MORTGAGE PROFES-sionals have had to learn it's flexibility. Change has been as frequent in the industry as Christmas, but not always as festive. For Baby Boomers considering HECM's, and the industry professionals working with them, the incoming HUD financial assessment rules mean the times are definitely a-changin' once again throughout the reverse mortgage marketplace.

Listening to veterans in various positions throughout the industry, there is a consensus that they know how to deal with this. These changes, though not yet totally defined, are already being perceived and calibrated.

Reza Jahangiri, founder of American Advisors Group, told the NRMLA Eastern Regional Meeting in New York in March, "Prior to September 30 [when the HUD-mandated 60% first-year withdrawal limit went into effect], you could sell the borrower a bag of cash. Now we are selling a long-term need and a true planning tool."

"We think these are critical, very, very good long-term changes for headwinds being removed from the industry. The utilization restrictions are good protection for both lenders and borrowers. But with that, there's obviously an economic impact to players in the space."

Like some of the other leaders in the HECM market, AAG had already begun adapting. As Jahangiri characterizes it, "There's a bit of a paradigm shift in the way you approach the borrower. And we've put our focus on this prior to the changes, to really dig into the need – not what people can do with the cash Day One, but longevity and how to make the proceeds of the reverse mortgage last a long time and be a true retirement planning tool over the years. And good or bad, that is not how a lot of the transactions were sold across the board in the industry."

Karen Hill, senior policy advisor to HUD's Deputy Assistant Secretary for Single Family Housing, stressed the importance of the program to HUD at the same New York conference and agreed that the changes – both the first year limitation and the financial assessment requirements – are designed to assure that

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borrowers have access to equity over the life of the loan.

"We don't want the program to be a crisis management tool," she said. "We can't be bailing people out when it is not a sustainable solution."

Interestingly, the term that comes up repeatedly in conversations with industry leaders is "sustainable," and refers equally to the effectiveness of the loan to the borrower, and to the HECM program itself.

Christopher Mayer, chief executive officer of Longbridge Financial, LLC, in Mahwah, New Jersey, heartily concurs with Hill: "The key thing is, no one is better off in a situation that is not sustainable financially. If we learned anything from the [2008-2009] crisis, for mortgages, when the homeowner is put in a situation where he can't afford his house, everybody loses. And if the reverse mortgage is not able to put someone in a position where he's able to maintain home ownership for the longer term, then they should really look for a different option. This [the financial assessment requirement] is a way of insuring that people who take out reverse mortgages will be in sustainable circumstances."

"We're waiting for clarification on some of the issues," Mayer comments, "But what they've released is very positive. The program looks pretty good to me."

One reason might be that Mayer's company has largely been ahead of the anticipated assessment requirements in everyday practice. In addition to his CEO duties, Mayer is the Paul Milstein Professor of Real Estate, Finance and Economics at Columbia University Business School, currently on leave. According to *Bloomberg News*, "[he] was writing academic papers as early as the 1990's advocating properly structured reverse mortgages to reduce poverty among the elderly."

"From Longbridge's perspective," he says, "since the company was started we've always been a believer that it's important to have financial assessments for borrowers, and if HUD weren't doing it, we would be doing it on our own. That doesn't mean there won't be individual things our company does above and beyond those rules to make sure we're working with people who can sustain home ownership."

On the loan origination side, Alain Valles, president of Direct Finance Corporation, reverse mortgage brokers in Norwell, Massachusetts, sees the new rules as both a challenge and an opportunity. He says he is proclaiming to his sales force, "Good news! The rules are changing. We are embracing these changes; the competition may not. The HECM is now becoming more like a traditional VA loan and there may be casualties among people who have never done one."

Valles echoes Jahangiri and Mayer in calling the changes a matter of "common sense," both for the program and for the borrower. "You want to make sure people can not only own a home, but afford it for the long term. So with the financial assessment test, there will be a fundamental shift.

And like many industry and non-industry thought leaders, he says the Fusion's greatest strength rests in its potential to make the HECM

We will have to provide more information up front and ask more questions." In that vein, Valles has always tried to find the best solution for each client, beginning with the question, "What are your long-term goals?"

"When I start talking to clients about their retirement plans, I say, 'My goal is to help you make the right choice. If the reverse mortgage doesn't work out, what is your Plan B?' Most clients will say they have no plan, which is the worst plan."

It will be a different sales cycle, Valles concedes. "There will be longer presentations and more education necessary. There will be an additional processing burden and it will be cumbersome for us all to get up to speed. Up until now, we were mainly serving the needs-based borrowers, because they were in a position to make a faster and easier decision. The higher net worth person has what I call 'the tyranny of choice.'

"That becomes a challenge of showing such potential borrowers how a HECM can work for them. Our presentations will have to go through the pros and cons and dispel the myths. And for the person who already has a retirement strategy, it will often mean going through a financial advisor, an insurance agent, an attorney, or all three.

"I will say to a client, 'I would love to talk to your advisors, and if they have a better idea than what I'm offering you, I've served you well, because my goal is to help you come up

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How Financial Assessment Improves Servicing

By Shannon Ozanich

FOR GENERATIONS, FINANCIAL ASSESSMENT tools have served as a means of ensuring success for the institution offering the loan and the borrower(s) taking on the loan obligation. There's no need to remind mortgage professionals of the consequences the nation suffered as a result of scurrilous or hastily made loan qualifications. The approval of reverse mortgages based solely on borrower age and property value delayed the inevitable for many borrowers already facing default and set some borrowers up for failure as they did not have the means to maintain their property from the onset.

The foreclosure crisis of the past few years has unique reverberations on the reverse industry. While the overall tax and insurance delinquency percentage for the industry has been reported as approximately 10% of all HECMs outstanding, for our borrowers, the loss of their home is a devastating blow and threat of the highest order. Too often, there is simply not enough time to start over again or rebuild broken finances.

Servicing a loan where there was little or no review of borrower financial situation(s) caused challenges and confusion on the part of borrowers to maintain property charge responsibilities and difficulty for customer service agents to explain that the money for these expenses could have been set aside early on to prevent a shortfall in funds. When a borrower's first or second tax or insurance bill became due a year or so after both were paid from closing, borrowers faced difficulty paying for these expenses and had a challenging time understanding why they had to be paid in a timely manner; that non-payment would place their reverse mortgage loan in default.

A lack of financial assessment resulted in the need for a deeper level of counseling after the default occurred and made it difficult for the borrower to repay a default balance, as well as plan for future tax and insurance expenses. The loans that arrive in the Tax & Insurance default department are generated by borrowers that paid delinquent taxes and insurance at closing (raising a red flag that could have been detected early on), a T&I set-aside was not established, and within 12 to 24 months after closing, borrowers were delinquent on taxes again or had lapsed on their voluntary insurance policy.

Financial assessment provides education for borrowers and compels servicers and loan originators to take the long view when assisting the borrower in making the most out of their reverse mortgage. Typically, servicers do not review the borrower's financial situation until after something happens, whether it is a default or a life-changing event (death of spouse, addition of a dependent, loss of job or income, unforeseen medical expense, etc.). By having these conversations and setting aside funds before these events occur, we are all knowledgeable and prepared to handle them together.

Financial assessment will be beneficial for borrowers particularly because their loan officer is the person the borrower communicates with and trusts most throughout the reverse mortgage application and approval process. Educated conversations with their loan officer up-front will prepare borrowers not only for future T&I charges, but for those unexpected life events that everyone should plan for at any age.

Our clients will likely have challenges surrounding the origination process and the difficulty of potentially denying borrowers that may truly benefit from the relief a reverse mortgage can provide. In the end, it will be beneficial to the industry, as borrowers will be more successful long-term with their reverse mortgage. This leads to increased trust/faith in their lender, and by extension, their servicer.

Celink welcomes financial assessment and readily acknowledges that loan volumes will likely be impacted in the short term. The implementation of these changes will be extremely challenging for originators, but crucial for the industry to demonstrate the real benefits of the reverse mortgage product. Financial assessment gives borrowers the tools up-front to plan for all aspects of their future, short and long term, whether paying property taxes and insurance – or planning for unexpected life events that cause decreased income and increased expenses. RM

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with a housing solution, not sell you a reverse mortgage.'"

Anthony Lopes, of Cambridge Credit Counseling Corporation, sees long counseling sessions with more information discussed. That, combined with the fact that there will be more attrition between application and closing, points to possible higher costs to consumers.

"Every lender has different underwriting policies, so there will be more confusion on the counseling side and more need for interpretation. Counseling agencies will have to do their own due diligence."

Until the changes are fully implemented and the new directives are published – and specific timing remains anybody's guess - the industry remains in limbo. "We're actually using it as a reason to call our referral sources to keep them up to date," says Alain Valles. "I've had a senior on the fence for two years. I said to him, 'If you have any interest, now is the time to talk!' We call that 'a friendly nudge.'"

Tony Lopes also sees the need for more upfront information during the selling process. "If the counselor is bringing up information that the loan officer didn't provide, it can turn off the borrower."

Lopes thinks knowledge gained during the transitional period until the new written marching orders come down can be useful in improving the counseling program, and therefore making the entire HECM process more efficient. "HUD wants feedback from counselors, so that by the time the new protocols are released, they're not based on assumption, but real world experience."

His advice to counselors during this time: "Share as much information as possible," because, he acknowledges, "More people will not be qualified when the application hits underwriting."

Many industry professionals acknowledge that with fewer potential borrowers qualifying and therefore lower revenues, at least in the short term, the process itself will have to become more efficient. Alain Valles poses it, "How do we politely say 'No' to a lead much quicker?"

In this respect, Tracy Milligan, Vice President of Operations at One Reverse Mortgage in San Diego, sees the new rules as a positive. "They give us the tools to disqualify people who are being set up to fail."

Though she says, "some questions are still up in the air," and that "our current business will go down a bit," she sees a huge potential going forward. "The HECM market has barely been penetrated for eligible clients."

Milligan, who was on the NRMLA Working Group that studied the financial assessment issues, agrees, "They were definitely needed for the longevity of the program." She concedes that, "It will be more work from an operations perspective," but says, "In general, it doesn't change things. The objective is still to keep seniors in their homes. We're still looking for almost the same client."

She notes that, "Financial assessment is not a pass-fail. Unlike in the forward mortgage market, it doesn't cause denial. It simply determines whether a set-aside is needed."

Longbridge's Christopher Mayer is not concerned about declining business. "I don't think it's going to have a huge impact on the market," he states. "The best data we have suggests that the financial assessment is going to affect under five percent of the loans we are originating today."

In terms of loan volume, Mayer thinks last September's changes have already accounted for most of the reduction the industry is likely to see. "The changes that HUD made last year have had a more profound effect, in practice. If you're limited with the amount of money you can take out up front anyway, that leaves a lot of resources to pay property taxes and insurance. So the changes HUD made are overlapping, to some extent, with the financial assessment rules that are coming."

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In Mayer's view, one factor that will largely determine the new assessment protocol's success or failure is how the implementation itself is carried out by the industry. "The implementation is obviously the key issue we're working on. As long as companies have a process to manage the rules that HUD finalizes, then I think this will be fine. Everybody's concern is that the implementation is too time-consuming and bureaucratic, that it may just discourage 'good' borrowers from taking out a reverse mortgage, and so that's why it's important to get the implementation right.

"Everybody's got to understand that when they apply for any loan, there's an application process to make sure you're able to afford the credit you're taking. But in the forward mortgage market, that process has become incredibly bureaucratic and paper-intense, and we need to make sure that we implement it as an industry in a way that does not fully mirror forward mortgages, where the paperwork has become overwhelming. We have to find the right balance."

On that score, one of the New York panels suggested that the Financial Assessment Worksheet a borrower has to complete might actually help him or her understand the process better, and what a HECM can accomplish. In others words, it can be a sales tool to help sell the benefits of a reverse mortgage.

Mayer believes the new rules can help protect all of the companies and individuals in the industry whose first concern is the right solution for each client, from the few bad actors. "There's always going to be somebody who pushes the rules, even if the vast majority of companies are doing things that are really well-intentioned. Everybody realizes that you don't want a few bad companies that are trying to make every loan possible. We don't want those loans to get made. Sometimes you need someone to come in and set some standards just to make sure there aren't a few people who do things that create harm for the vast majority. So as an industry and as individual companies, we have to be sure that that takes place. And sometimes it's important to have regulators step in to make sure that happens across the board."

One of the significant and gratifying aspects of the industry the financial assessment requirements have brought out is the near universal concern expressed for seniors who may no longer qualify.

Alain Valles warns, "We have to be careful as an industry about not closing the door on the needs-based borrower." He accepts the necessity of the changes, both to maintain the program and to assure the borrower access to funds over a long period, but worries about the 20-25% of the seniors he works with now whom he doesn't think will qualify under the new rules.

"From a public policy perspective, what is going to happen to them? If every day we're seeing the pain and we can't help them, that's a problem. If the industry can't get them a HECM, I wish we could send them some list of alternatives. It's one of the challenges we have to face."

Another challenge is the public perception of the reverse mortgage field in general, and industry leaders are confident that the changes will reflect positively. Otto Kumbar, CEO of Liberty Home Equity Solutions in Rancho Cordova, California, has been working with NRMLA on a new advertising outreach program to change any negative perception of reverse mortgages. This is an opportune time for such an initiative, since the message in much of the celebrity spokesman-based advertising with statements such as "No credit score and income requirements" will have to be modified.

Kumbar labeled the campaign, the "New Reverse Mortgage." "And the cool thing is that we actually do have a new product. All of the changes that have occurred in the industry, with the government, have made the product better, safer, more attractive to the consumer as an equity release over time."

He wants to get to the point where, "The natural default is, 'Of course I'm going to consider a reverse mortgage as part of my financial plan. It may not be right, I may ultimately decide not to get it.' But in every single one of those 25,000,000 consumer households: 'We've thought about it, we've made a logical, conscious decision.' And that's what this is all about."

Alain Valles comments, "Not every senior should get a HECM, but every senior should know about it."

"It's not a be-all for everybody," Christopher Mayer agrees. "But there is a large market of people for whom the reverse mortgage can, and should, be a solution."

Despite the challenges the HUD changes will impose, Kumbar is optimistic about what he calls his "big, hairy, audacious goal" for the industry: going from roughly 50,000 loans a year now to 300,000 by 2018. Many doubt this is possible, but on the basis of numbers alone, he says, "Ninety-nine percent of the opportunity is in front of us!" RM

How Financial Planners Think

The Reverse Mortgage as an Estate Preservation Tool

by Carl A. Friedrich, FRM, CFP®

SOME PEOPLE VIEW A REVERSE MORTGAGE AS A "last resort" financial planning tool. We see much more.

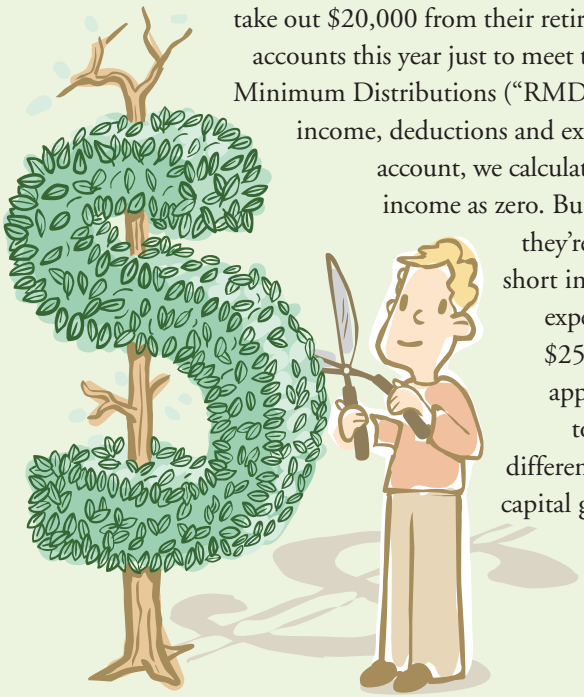
While historically reverse mortgages have indeed filled a critical cash flow gap, we have found that they can be used more as a "strategic funding tool" – and not just for those short on cash.

Let's look at the scenarios of two families: one moderately wealthy and another a good deal wealthier. Assuming these clients have no intention of otherwise monetizing or bequeathing their primary residence, reverse mortgages could help them grow their portfolios.

The Smith Family

Let's look at a fairly typical financial planning scenario. Mr. & Mrs. James Smith are both 72, retired, and file their taxes jointly in a state with no state income tax or state estate tax. Between the two of them, they have a $512,000 IRA; $500,000 in a taxable account (all highly appreciated stocks; cost basis just $50,000); and a $500,000 house with no outstanding mortgage currently.

With $30,000 per year in combined Social Security income, they spend $75,000 per year and anticipate drawing down their financial assets to make up the balance. Of course, at their age, Uncle Sam will make sure they take out $20,000 from their retirement savings accounts this year just to meet their Required Minimum Distributions ("RMDs"). Taking all income, deductions and exemptions into account, we calculate their taxable income as zero. But to the extent they're still $25,000 short in meeting their expenses, they sell $25,000 worth of appreciated stock to make up the difference (in the 0% capital gains bracket).



A Critical Ingredient: Volatility

While annualized return is only one part of the retirement planning picture, volatility is also critically important. Thus, we utilize a "Monte Carlo" analysis to help us understand the odds a client will meet his or her financial goals. In this case, the Smith Family's only goal is funding retirement through life expectancy – anticipated to be age 100.

With a portfolio consisting of about one-half short/intermediate-term bonds, and the other half stocks and alternatives (not uncommon for our typical "Moderate" risk-tolerance client), we are estimating an annualized return of about 7% with volatility of about 7.5%. That is to say, 2/3 of the time, the client's portfolio return will probably range from -0.5% up to 14.5%.

In order to make the math relatable, we'll focus on annualized return for the bulk of this analysis. We'll incorporate the Monte Carlo model into only the Smith Family analysis, noting that the effects are similar for the other scenarios presented.

Going forward, let's assume their financial assets grow at 7% per year. Let's also assume their $75,000 of expenses inflates at the rate of 2.5% annually, as do the value of the home and the income tax bracket levels. We'll estimate the Social Security benefits inflate at just 1.5% per year, as we typically do for our long-term estimates (allowing for potential revisions to the COLA adjustment rules or calculation). As it turns out, the annual increase in their required minimum IRA draw, combined with the COLA increases to Social Security, allow them to continue to draw down just that same approximately $25,000 each year from the taxable account to meet their annual budget.

Let's repeat this same pattern over 28 years, advancing to the couple's mutual passing at the ripe age of 100. Based on the assumptions above, including the same 7% annual return each year, the couple passes away with a $2.7 million estate

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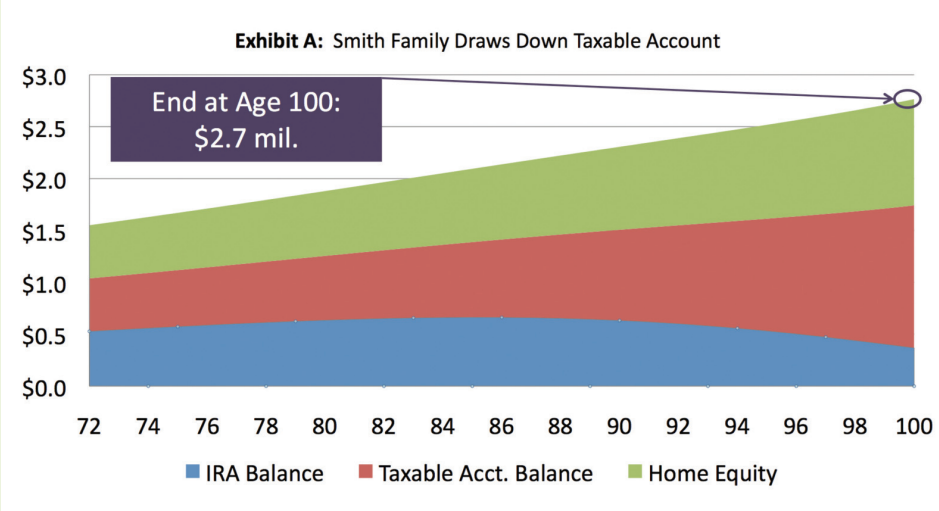
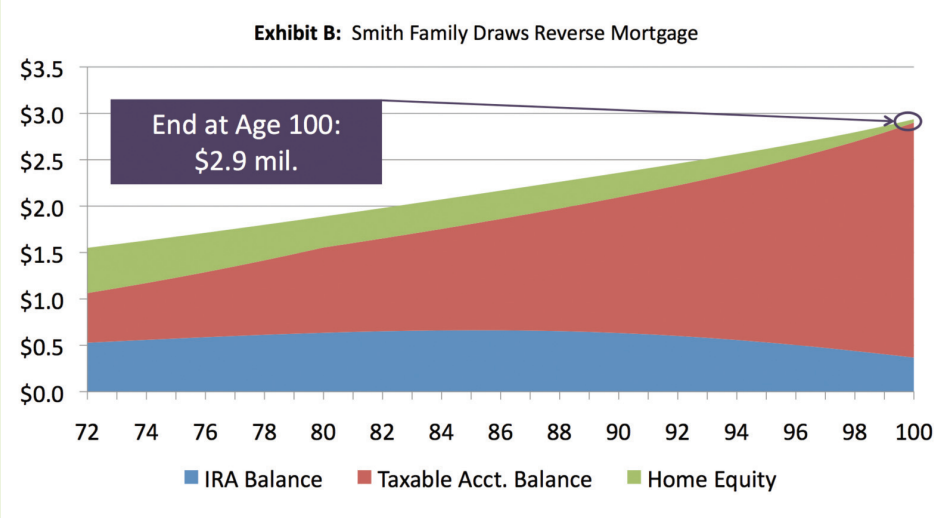
(inclusive of the home's value), which is passed along to their heirs.



That said, the heirs must decide how to dispose of the home.

Since the annual return on their portfolio is unlikely to experience the same 7% return each year, a robust Monte Carlo analysis must also be run to account for volatility. This analysis suggests the couple has a 75-80% chance of reaching their goal. Generally speaking, that is below our comfort zone, and with some more nimble planning we would hope to increase those odds.



Enter the Reverse Mortgage

The Smith Family is paying no tax, at least initially, and could conceivably be very content to draw down their taxable account at the flat amount of $25,000 annually. *But is this truly maximizing value for this couple?*

With a $500,000 home, the NRMLA Reverse Mortgage Calculator suggests that this couple is eligible for approximately $276,000 in net principal under a HECM Fixed Rate reverse mortgage, with a fixed 6.3% total loan rate. In this scenario, the Smith Family has no intention of leaving their home to their heirs. Furthermore, they wish to relieve the heirs of the burden of selling the home after their eventual passing.

Armed with the ability to access the reverse mortgage proceeds, instead of drawing down the taxable account at the rate of $25,000 per year, the Smith Family gradually draws down their $276,000 reverse mortgage at the beginning of each of following nine years (allowing for compounding of the balance). With the reverse mortgage then fully drawn, in the tenth year, the Smith Family then begins their $25,000 drawdown of their taxable account ***(See Exhibit B)***.

In this scenario, the Smith Family has no intention of leaving their home to their heirs. Furthermore, they wish to relieve the heirs of the burden of selling the home after their eventual passing.

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Could such a subtle adjustment to their financial picture possibly add much value?

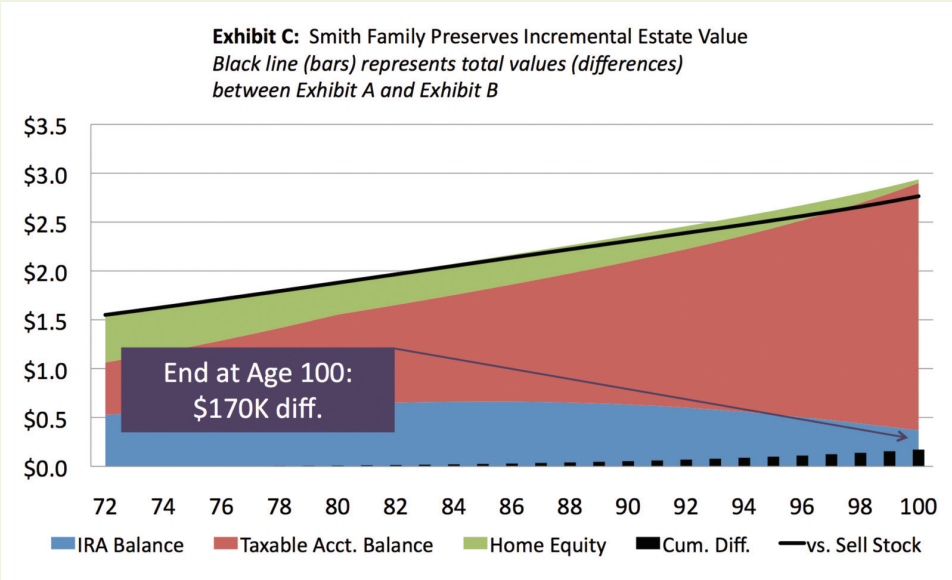

Exhibit C overlays the difference between the first two scenarios, and shows the Smith Family has an approximately additional $170,000 (6% of prior ending estate value) to leave to their heirs. Furthermore, the heirs are relieved of selling the home.

Incrementally, and perhaps more importantly, a Monte Carlo analysis suggests the couple is now more than 99% likely to achieve their retirement funding goal.

Small Differences Become Large

There is little magic beyond the power of compounding in the Smiths' scenario. But it highlights two critical components to value creation: (1) the extent to which the invested assets grow at a faster rate than that charged on the reverse mortgage, and (2) the avoidance of depleting investments early in the plan.

But there is an even more powerful element at play: the reverse mortgage is a non-recourse loan, and the homeowners cannot be left with negative home equity.

As ***Exhibit C*** shows, the erosion in home equity caused by drawing on the reverse mortgage is, in essence, transferred to the increasing value of the Taxable Account. With the Taxable Account growing at a higher rate than the reverse mortgage interest, more value is created – and will continue to be created (subject to investment performance) even when and if any home equity were to be fully depleted.

The Doe Family

Now let's take a look at a couple with far greater assets and for whom income taxes are a more significant consideration. As you will see, this is a somewhat extreme scenario, but intentionally so to make a point:

Dr. and Mrs. Doe are also retired, age 72, and file jointly in a no income/estate tax state. They have a $9.1 million IRA, $2.6 million Taxable Account (of stocks with a basis 1/10th that amount), and have a $1.0 million house. With $50,000 per year in Social Security Income, they spend $485,000 per year. As with the Smith Family, 7% growth and 2.5% inflation are forecasted.

With 85% of the Social Security taxable, and with a **$357,500** current-year required minimum IRA draw, the Doe Family finds itself otherwise short by approximately **$187,000** to fund their lifestyle, and instinctively look to drawing on their Taxable Account to begin making up the difference.

Capital Gains tax is a more onerous burden for the Doe Family, as both 20% capital gains rates as well as the 3.8% Medicare Surtax push their peak marginal tax burden on the stock sales toward 24%. They must sell approximately $234,000 of stock each year to meet their $187,000 expense shortfall. In fact, their effective tax rate overall (including both the capital gains tax on the stock sales and ordinary tax on the required minimum draw) is approximately 25%. But that said, even after paying taxes on the gains, they are able to meet their annual $485,000 spending goal. As with the Smith Family, their required minimum draw increases combined with Social Security COLA help them keep up with inflation while drawing the same $234,000 annually from the Taxable Account.

As an alternative to drawing down the taxable account,

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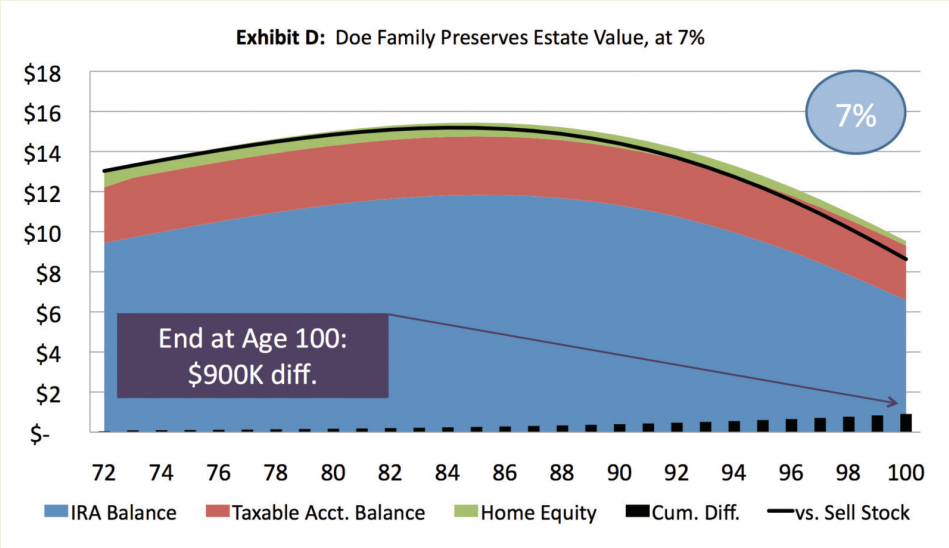
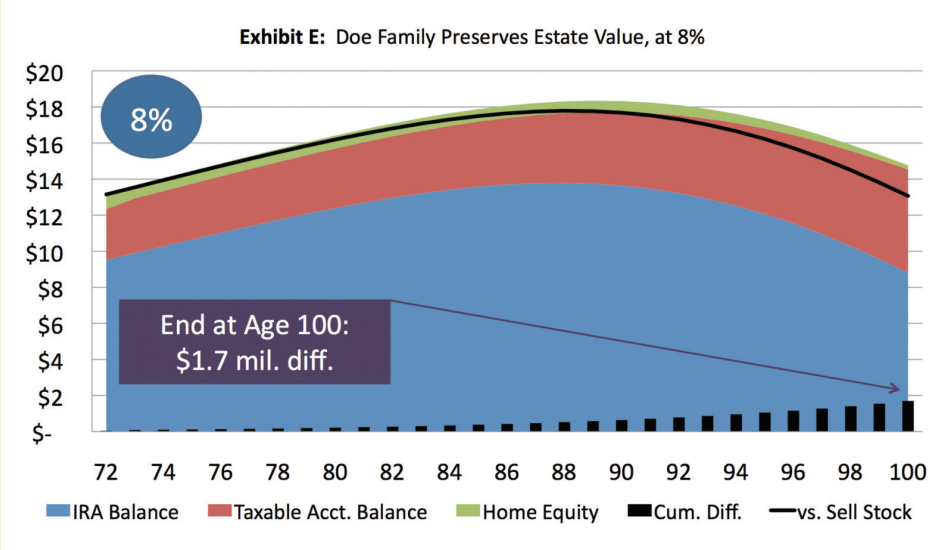
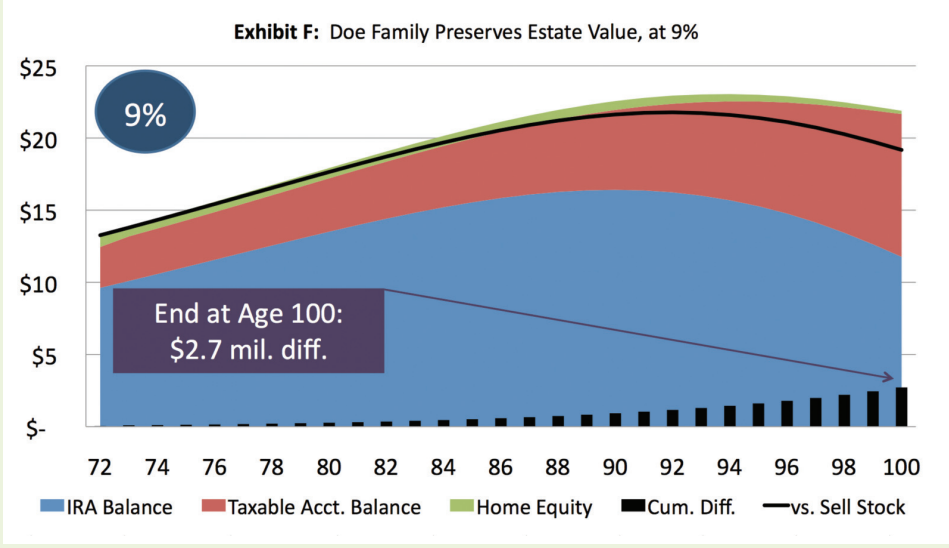
Estate Planning continued from page 25







based on the same HECM calculator, the Doe Family would be eligible for an approximately $342,000 (6.3% APR) reverse mortgage, which they would draw down over just two years to meet their $187,000 per year shortfall (and then initiate stock sales from the Taxable Account in the third year).

Exhibit D shows the net difference in estate value by the time the couple passes at age 100 if they had utilized a reverse mortgage. Now this is a rare case since they only depend on reverse mortgage proceeds for two years. But that's the whole point. Even in this case, their estate increases by $900,000 or approximately 10% of the estate value.

Further Estate Value Accretion for High-Growth Assets

While the 7% return may be entirely attainable for a moderate-risk portfolio, some clients choose to be invested more aggressively. As we mentioned earlier, the differential between investment portfolio growth and the reverse mortgage interest rate is a key determinant of the success of this strategy. ***Exhibits E*** and ***F*** show the Doe Family estate value would increase $1.7 million at investment growth of 8% (or an additional 1%), and $2.7 million at investment growth of 9% (or an additional 2%).

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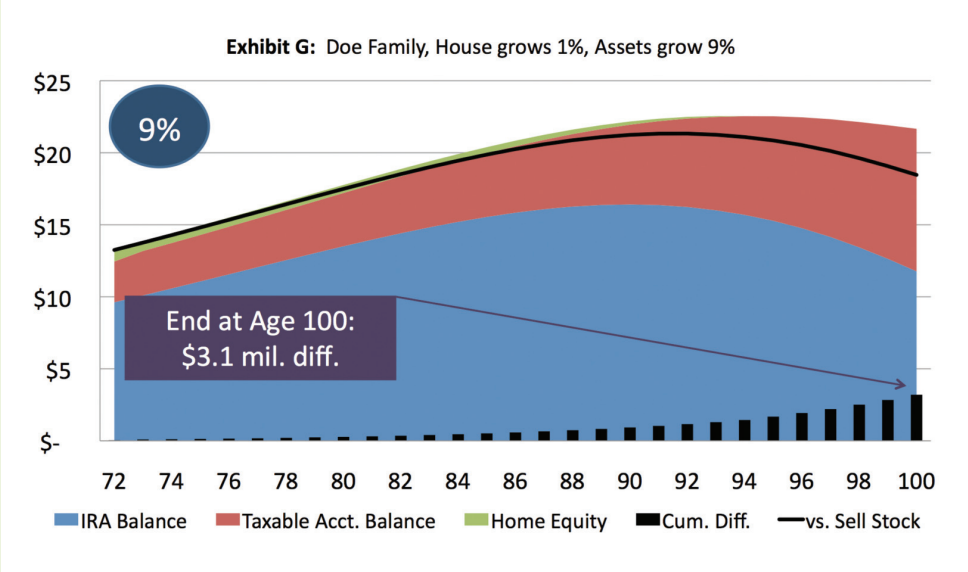
Greater Benefit from "Low-Growth" Homes

Another conclusion from our study is that the greater the differential between the growth in home value and growth in investment assets, the greater the ending estate value differential. If we expand on the prior scenario (9% growth for the Doe Family) to include only 1% annual growth in home value, ***Exhibit G*** shows that the ending estate valuation jumps to $3.1 million (16% of estate without reverse mortgage).



Caveats

Given the audience for this publication, there is likely no need to recap the general risks of a reverse mortgage. Taking into account the potential benefits we've outlined, however, we are not suggesting that a reverse mortgage is a financial planning panacea for all savings, income and home value levels.

There is no logical reason for someone to root for eliminating one's accumulated home equity. That said, one more subtle conclusion from reviewing our exhibits is the following: part of what elevates the opportunity value of the reverse mortgage in a retirement plan is the fact that the home equity asset cannot become negative. Therefore, strategic consumption of home equity via a reverse mortgage can be a powerful driver of growth in the overall assets over time, in lieu of consuming the value of the investment assets. This leads us to the following caution: While the current reverse mortgage rules prohibit borrowers from borrowing beyond a threshold (age-dependent) percentage of the home's value, part of the incremental value created in the above scenarios comes from the fact that the home equity eliminated over time is not particularly large.

Looking at the Smith Family, note that, while their original reverse mortgage was 55% of the home's starting value, the starting home equity vulnerable to consumption by the compounded interest due was only $224,000 – or 15% of their total assets (including the home value). Similarly, for the Doe Family, their original reverse mortgage was 36% of the home's starting value – thus, the starting home equity vulnerable to consumption by interest was $642,500 – or just 5% of their total assets including home value.

The important takeaway is this: Because there is value preservation due to the non-recourse nature of the reverse mortgage, the more home equity that remains after drawing the reverse mortgage, the more value there is vulnerable to consumption by the compounded interest. In a perverse way, we're saying that this strategy may be a better fit for someone with a home value of up to $1 million. A couple with a $3 million home would likely have a greater anticipation of handing some value from the home down via their estate. Thus, they would need to be mindful of the reverse mortgage's ability to consume a substantial portion of that untapped home equity ownership over their lifetime.

This guideline will likely change in coming years as "jumbo" reverse mortgages and other derivations are created, but for the time being, advisors would be wise to consider the aggregate home equity value vulnerable to consumption by the reverse mortgage's growth.

Still, in conclusion, the reverse mortgage is potentially a powerful estate preservation tool when evaluated carefully in the context of a detailed, well-conceived financial plan. RM

Member News

UFA Names Scarpati and Weltman to Executive Positions

Urban Financial of America, LLC promoted Jonathan Scarpati to the newly created position of Vice President of Wholesale Production, while Michael J. Weltman was named Assistant Vice President and Sales Manager for the southern United States.

Scarpati, who joined UFA in March 2010 after serving as Vice President of Sales for Senior Lending Network, will supervise all of Urban's wholesale account executives. Weltman joined the company this past January after prior stints at FirstBank and Wells Fargo. Both gentlemen will report to Chief Sales Officer Sherry Apanay.

Accenture Completes Acquisition of Mortgage Cadence

Global management consulting, outsourcing and tech company Accenture completed its acquisition of Mortgage Cadence in an effort to expand its footprint in the mortgage origination software business. The company changed its name to Accenture Mortgage Cadence.

Through the acquisition, Mortgage Cadence software will serve as the core loan-origination platform for Accenture Credit Services, a business service within Accenture's financial services operating group that provides consulting, technology and outsourcing services to financial institutions. To learn more about the company's reverse mortgage technology services, please consult their listing in the Vendor Directory on NRMLA's member site, www.nrmlaonline.org.

Celink Enhances Servicing Platform

Celink completed modifications to its reverse mortgage servicing platform, ReverServ™, so that Ginnie Mae issuers can more quickly pool loan advances from Home Equity Conversion Mortgage-Backed Securities.

The new update enables issuers to securitize current-month draw activity on loans with existing GNMA participations in compliance with the recent specifications. "While these programming changes may appear minor, the heavy lifting comes into play with the testing to make sure that new programming does not unintentionally impact some other area of the GNMA month-end reporting process," said Celink President and CEO Ryan LaRose in a statement.

Thorpe, Lambrecht Join RMF

Reverse Mortgage Funding, LLC announced the hirings of Richard Thorpe and Patrick Lambrecht to help bolster the company's retail business.

Thorpe, who most recently served as Vice President of the East Coast territory for Security One Lending, was hired as Sales Channel Leader for RMF's distributed retail strategy, one of several key channel strategies for the company this year.

Lambrecht, who previously worked for Security One Lending and MetLife Bank, was appointed Retail Operations Leader. He will lead all retail operations for the company, with particular focus on the HECM for Purchase and Private Label Channels, two key growth areas.

O'Connor Spearheading FirstBank Expansion

FirstBank Mortgage Partners recently hired Ed O'Connor, CRMP, to lead the company's Northeast expansion. O'Connor is the former president and owner of NY-based Advanced Funding Solutions, before he left to work for Generation Mortgage and Nationwide Equities.

FirstBank is a Tennessee-based depository institution with office locations throughout the US.

ReverseVision Adds Mark Johnson as Customer Support Manager

ReverseVision announced that industry expert Mark Johnson has joined its team in the role of Customer Service Manager. Johnson, who brings more than 20 years of reverse mortgage expertise, replaces Joseph Rinner who has moved into the role of Product Manager.

Prior to joining ReverseVision, Johnson played lead roles with reverse lender mainstays such as Generation Mortgage, Financial Freedom and Unity Mortgage. RM

Who's Who in Reverse Mortgages

Profiles of NRMLA Member Companies

Bay Docs, Inc.

Since 1994, Bay Docs' core focus has been providing compliant reverse mortgage document packages. We continue to be the only document preparation company in the nation dedicated solely to the reverse mortgage industry. In 2011 we expanded our services and introduced Reverse Express™, a lightening fast LOS. This system is 100% online and provides a user friendly solution for calculations, required disclosures, application and closing packages as well as several post-closing functions. Bay Docs is also integrated with nearly every lender LOS available today. We have a highly experienced and qualified staff providing our clients with expertise in legal, compliance and technology.

Discover what nearly 18 years of industry experience can do for you!

Call (888) 297-3627 for a free demo of our software … or check us out at www.baydocs.net. Contact: Megen Lawler (415) 209-9424 or email mlawler@baydocs.net

Celink

Celink's Reverse Mortgage Servicing Mission is threefold.

We Lead — Ethics, integrity, and unwavering core values direct all of our actions.

We Support — We support our clients through new and often uncharted territory.

We Innovate — We explore and uncover new and cost-effective ways to increase our value to our clients and their borrowers.

We meet every industry challenge and every client and borrower need with the confidence that comes from knowing who we are and what we're about. Your reputation and your borrowers are safe with Celink. Visit celink.com for a full Corporate Overview.

Ryan LaRose, President &COO: ryan@celink.com (517) 321-5491

Generation Mortgage Company

Generation Mortgage Company is a fully accredited, full-service home equity conversion mortgage provider, offering a complete range of competitive FHA-insured home equity conversion mortgage products. At Generation, we are dedicated to the conversion mortgage industry and have been leading the way with a progressive view of the value of utilizing home equity and the liquidity it can provide. We are helping people discover a new perspective on funding the future.

We put our experience and deep knowledge to use with total support from sales and origination through servicing. We have more than 34,000 loans in servicing, with a total portfolio of over $5.7 billion. It is not just our deep experience in the industry that sets us apart. Our responsive and knowledgeable customer service team is ready to provide top-notch service, nationwide.

Generation has developed the tools needed to help plan strategies for optimal use of home equity. Our patent-pending nu62℠ software is the *only* financial tool of its kind that can quickly and easily demonstrate the power of using untapped home equity to create additional cash flow or future options to support a better retirement.

For more information about Generation and the services we offer, contact Nancy Armour at 877-741-9071, or nancy.armour@generationmortgage.com.

James B. Nutter & Company

Known as America's First FHA Reverse Mortgage Lender, James B. Nutter & Company is a national mortgage banking firm licensed in 50 states, the District of Columbia and the Commonwealth of Puerto Rico. Founded in 1951, the company's headquarters are located in Kansas City, Missouri, where the firm specializes in originating FHA, VA and Conventional loans. In 1989, James B. Nutter & Company was honored to close the first FHA HECM reverse mortgage in the nation for Ms. Marjorie Mason of Fairway, Kansas.

www.jamesbnutter.com
Retail Division: Chris Peters (800) 342-7334
Wholesale Division: Paul Madson (800) 798-3946

Liberty Home Equity Solutions

For nearly a decade, Liberty Home Equity Solutions, Inc. (formerly known as Genworth Financial Home Equity Access, Inc.) has been committed to helping seniors gain financial independence and security through Home Equity Conversion Mortgages (HECMs).

Based in Sacramento, California, Liberty is one of the nation's largest and most experienced lenders, focusing exclusively on providing HECM loans to senior clients and wholesale business partners. We

have helped change the lives of over 25,000 clients since 2003 while providing education and lending solutions to over 1,000 business partners across the U.S.

www.libertyhomeequity.com
For career opportunities call (916) 384-1853
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LRES

LRES is a national provider of property valuation and REO management services for the real estate, capital market and finance industries. LRES, which specializes in helping clients effectively manage compliance and financial risks associated with valuation matters, is the preeminent valuations provider for the Reverse Mortgage industry. LRES delivers high-quality products, backed by peerless customer service while serving as the business partner of choice. The company has experienced significant year-over-year growth, regardless of market conditions, thanks to an experienced staff, advanced technology, solid business planning and efficient operations.

714-872-5813 • www.LRES.com • Marketing@LRES.com

Reverse Mortgage Solutions

When your experience was built on servicing reverse mortgages, you have a unique lending perspective: the quality of the loans originated. This translates into RMS becoming an industry leader in reverse mortgage lending and loan servicing. We are the largest privately held mortgage servicer in the US and a full service independent mortgage banking company. Our well-seasoned staff will provide you exceptional level of services with market leading pricing. To accelerate your growth, go here: www.RMPath.com

Contact: Ralph E. Rosynek, Jr. / VP National – Wholesale and Correspondent Production Manager
Phone: (281) 404-7970 • E-mail: RRosynek@rmsnav.com

Reverse Vision

ReverseVision is a leading technology company in the reverse mortgage industry. 10,000 users in 1,000 companies rely on ReverseVision to originate reverse mortgages. Loan officers like the simplicity of ReverseVision and the powerful graphical representation of reverse mortgages. Lenders rely on ReverseVision for RESPA compliance and use ReverseVision's reporting features to manage their operation. ReverseVision is privately owned and independent and focuses on reverse mortgages exclusively. The company is located in North Carolina and employs a team of leading software engineers and reverse mortgage specialists with a combined experience of over 50 years.

www.reversevision.com • (919) 834-0070 • info@reversevision.com

Take Charge America

For 25 years, Take Charge America has been committed to helping people around the country improve their financial futures. Since introducing HECM Counseling in 2010, we have assisted thousands of senior homeowners review their loan options and understand the reverse mortgage loan process. We take pride in providing education and resources to each and every homeowner.

We are HUD-approved to provide reverse mortgage, pre-purchase and foreclosure prevention counseling. Additional services include credit counseling, student loan counseling and debt management. Since 1987, we have helped more than 1.6 million consumers nationwide manage personal finances and debts.

Counseling may be conducted in person or over the phone.

Contact: Shanna Harvey • Phone Number: 1-866-750-9618
Email: sharvey@takechargeamerica.org
Website: www.takechargeamerica.org

Urban Financial of America (UFA)

Urban Financial of America (formerly Urban Financial Group) is a retail and wholesale lender specializing in reverse mortgages, and ranks among the top originators in the United States. UFA is licensed in most states and Puerto Rico. Our company acts as a direct originator and purchaser of whole loans through our third-party originator channel, and is one of the largest issuers of GNMA securities.

Every day, we find innovative ways to serve our clients through the insight of our people and the strength of our technology. We consistently refine our process to ensure that all loans are closed accurately, quickly, and above all — ethically. Fundamental values guide our business practices: commitment, motivation, integrity, simplicity, flexibility, focus and versatility. Through these values we earn and keep the trust of our clients.

Retail: www.ufareverse.com • Wholesale:

www.ufawholesale.com
Career Opportunities: (888) 622-2073 or recruiting@ufareverse.com
Wholesale Division: Sherry Apany, Managing Director, sapanay@ufareverse.com or 855-77-URBAN

The New Reverse Mortgage Borrowers

51,664,000

Americans over 62

24 million

Americans between 62 and 69

81%

62 to 69 year olds who own homes

19.4 million

Total 62-69 homeowners

32%

Homeowners 60-69 with mortgage debt in 1990

60%

Homeowners 60-69 with mortgage debt today

$119,000

Median home equity of 62-69s

RVUNIVERSITY

MAINTAIN YOUR EDGE-UCATION

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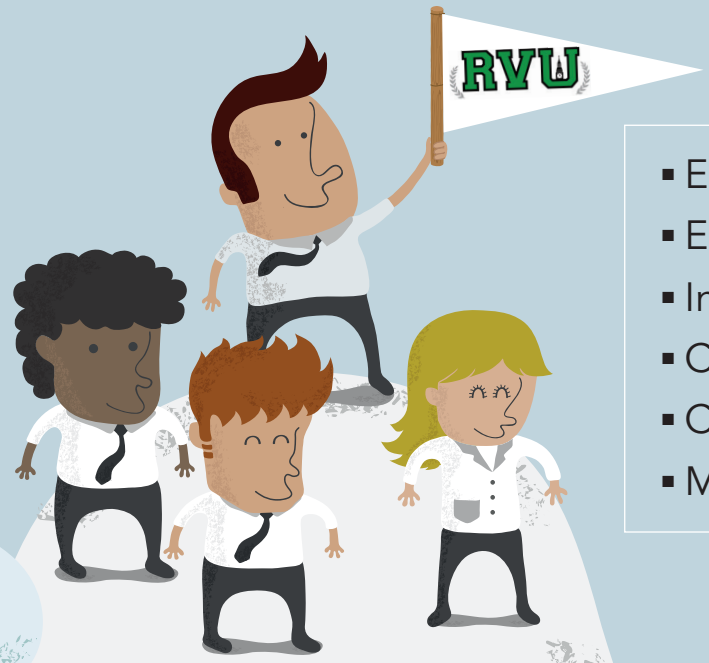
Your Source for Online **Reverse Mortgage Training**.



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