



**FAIRWAY**  
INDEPENDENT MORTGAGE CORPORATION

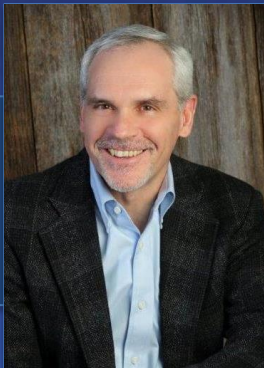


# A Reverse Mortgage *Cinderella Story*



By Harlan Accola

National Reverse Mortgage Director • NMLS #277693

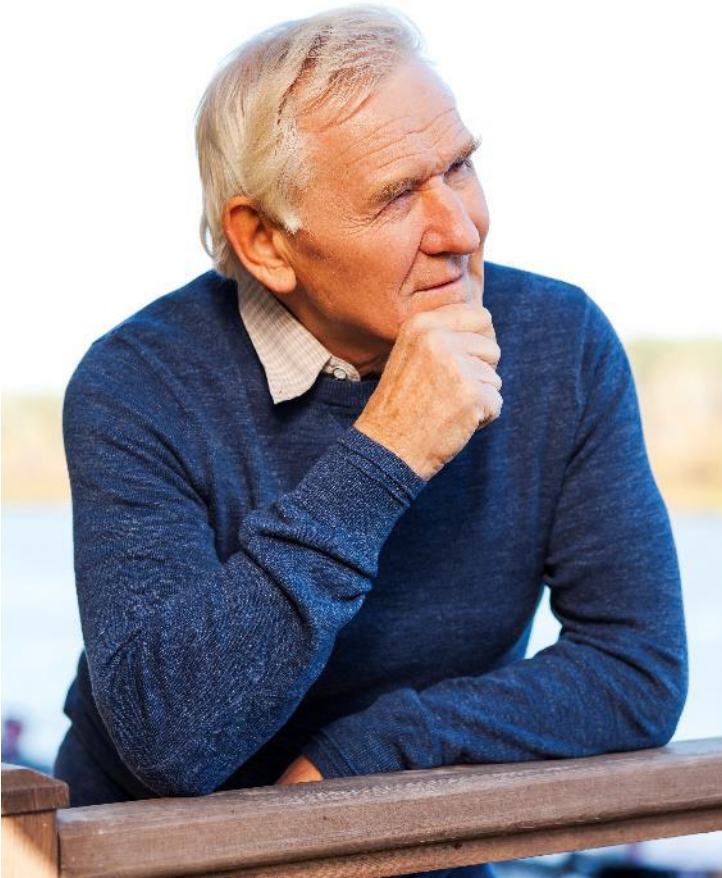


Harlan has been in the mortgage industry for over 20 years. He has specialized in reverse mortgages since 2003 and is currently the Reverse Mortgage Director for Fairway. Harlan is very passionate about the role that reverse mortgages can play in changing the way retirement is done in this country. His best attribute is confronting conventional wisdom with new and innovative ideas that will give you a completely different perspective.

## Why Wouldn't You Get Or Recommend A Reverse Mortgage?

*“Used strategically, a reverse mortgage can greatly improve the sustainability of your retirement income.”*

- Wade Pfau, PH.D.  
*Professor of Retirement Income*

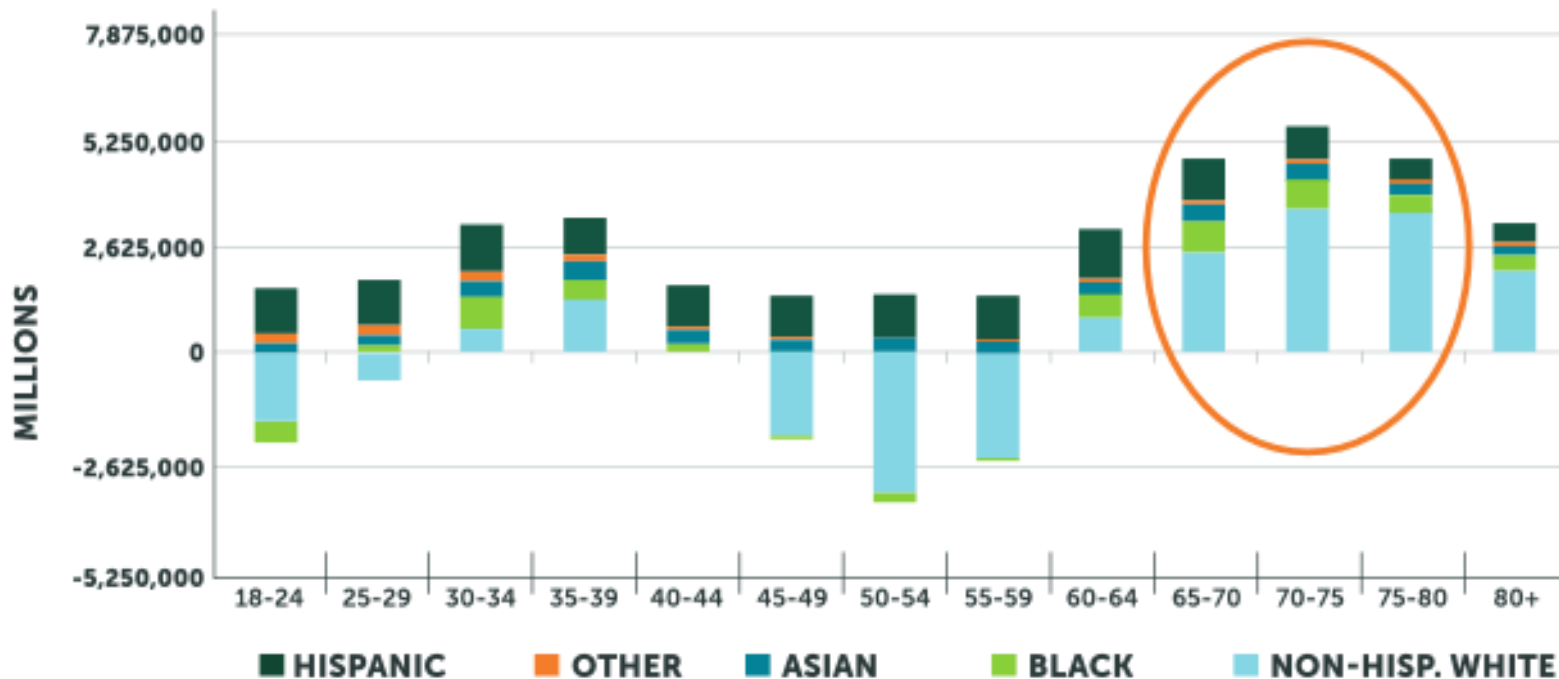


# Projected Changes On The Horizon

10,000 People a Day Hit 62 For Next 20 Years

4,000 Of Them Are Still Making A Mortgage Payment

## Projected Changes In Population by Age 2014 – 2024



Source: Moving Forward to Economic Stability, MBA David H. Stevens, *Fairway Managers Meeting Presentation 2016*

Source: *Falling Short: The Coming Retirement Crisis and What To Do About It* by Charles D. Ellis, Alicia H. Mennell & Andrew D. Eschtruth





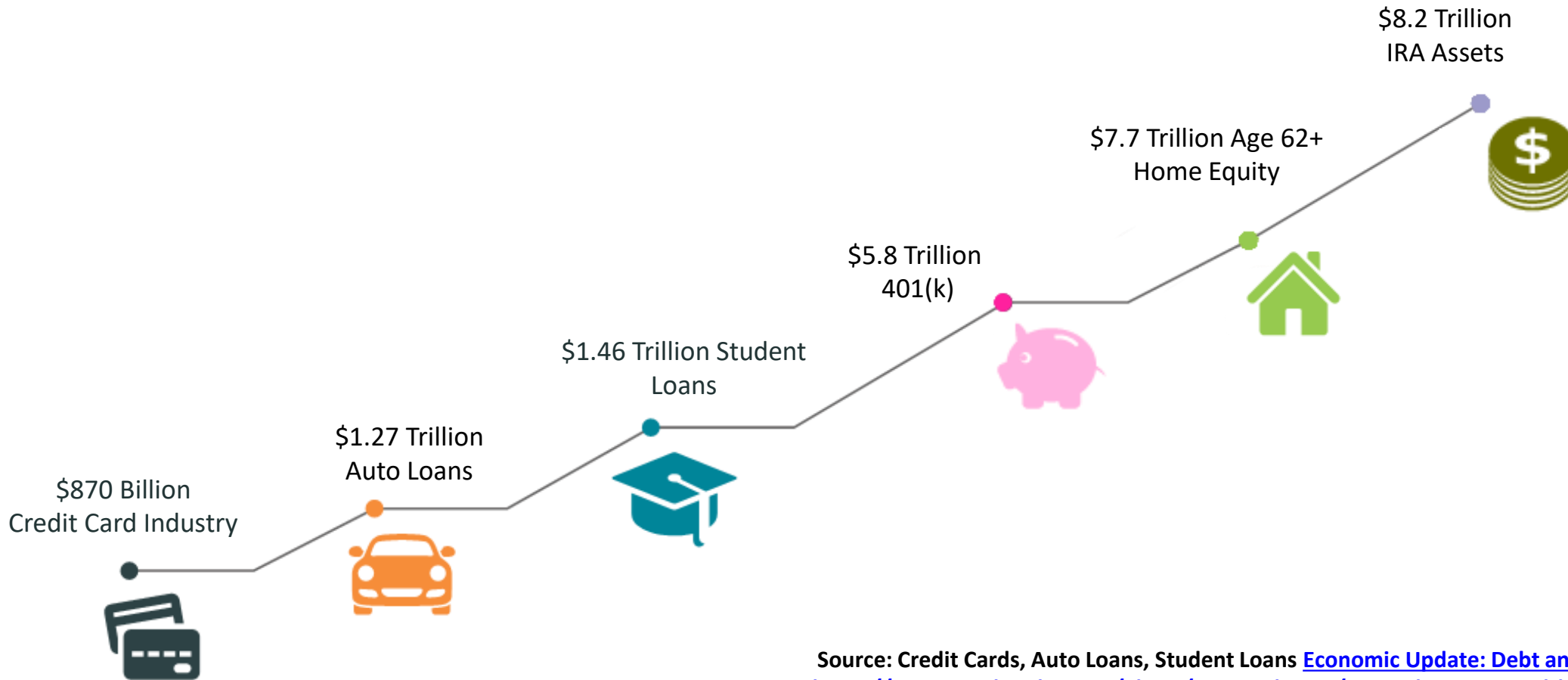
## If All Baby Boomers Retire:

- ✓ **At 62 – 84% Would Be In Jeopardy Of Running Out Of Money**
  - ✓ **At 66 – 50% Would Still Be Likely To Run Out Of Money**
1. Lower Savings Rate With Less Retirement Preparation
  2. Fewer Pensions & Defined Benefit Plans
  3. Lowest Return On Investment For Decades
  4. Greater Need For Security And Certainty Than Ever Before Since We Live Longer Which Causes Concern About Outliving Our Money

Source: Center Of Retirement Research At Boston College

Source: *Falling Short: The Coming Retirement Crisis and What To Do About It* by Charles D. Ellis, Alicia H. Mennell & Andrew D. Eschtruth





Source: Credit Cards, Auto Loans, Student Loans [Economic Update: Debt and Spending by Edward Seiler](#)  
Source: Home Equity: <https://www.nrmlaonline.org/about/press-releases/senior-housing-wealth-reaches-record-7-70-trillion>  
Source: IRA Assets, 401(k) <http://bit.ly/2A0sggk>

# Reverse Mortgage Basics



- ✓ Age 62 Or Older
- ✓ FHA-Qualified Home
- ✓ Must Live In Home More Than 6 Months A Year
- ✓ Generally Won't Affect Social Security and Medicare Benefits\*

\*This is not tax or financial advice. Client should consult a tax and/or financial advisor for their specific situation.

# Reverse Mortgage Benefits

- ✓ Keep The Title To Your Home\*
- ✓ Basic Credit & Income Qualifications
- ✓ Loan Proceeds from Equity 50-70% are Usually Tax-Free\*\*
- ✓ Never A Monthly Payment – Still Responsible For Maintenance, Taxes, And Insurance As Long As They Occupy Their Home

\*There are some circumstances that will cause the loan to mature and the balance to become due and payable. Borrower is still responsible for paying property taxes, insurance and maintenance. Credit is subject to age, property and some limited debt qualifications. Program rates, fees, terms and conditions are not available in all states and subject to change. \*\*This is not tax advice. Client should consult a tax advisor for their specific situation.





# Reverse Mortgage Benefits



- ✓ Does NOT Require Repayment Until\*
- ✓ The Last Living Borrower Permanently Leaves The Home
- ✓ Borrower Chooses To Sell The Property
- ✓ Never Owe More Than Home Value - With FHA-Insured Reverse Mortgages
- ✓ Able To Purchase A Home For 50-70% Down Of New Residence Sale Price\*\*

\*Heirs will have 6 months with two 90-day optional extensions to either refinance the home if they want to purchase it at 95% of the appraised value; keep any net proceeds; or walk away if property is upside down. \*\*Percentage of down payment required is determined by borrower's age, interest rates, and the lesser of the home's appraised value or purchase price.

NOTE: There are some circumstances that will cause the loan to mature and the balance to become due and payable. Borrower is still responsible for paying property taxes, insurance and maintenance. Credit is subject to age, property and some limited debt qualifications. Program rates, fees, terms and conditions are not available in all states and subject to change.

# Ways to Harvest Cash From Home Equity

## Combination Of Any Of The Following:

### 1. Lump Sum

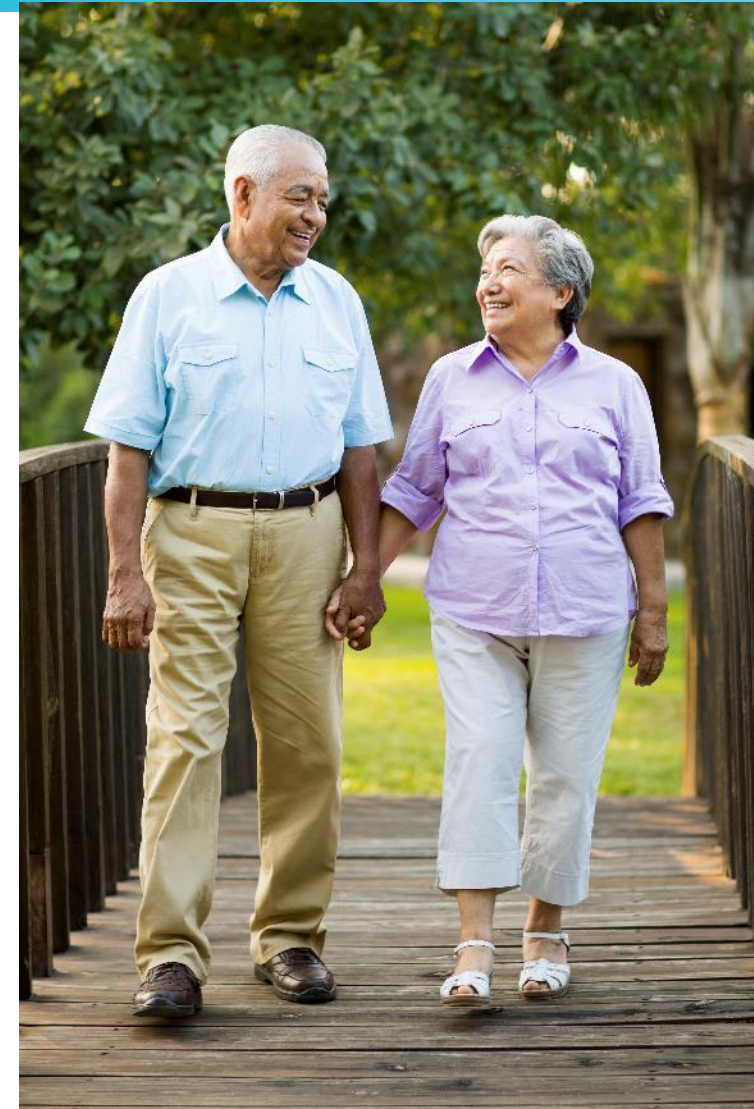
- ✓ Purchase
- ✓ Refinance

### 2. Line Of Credit

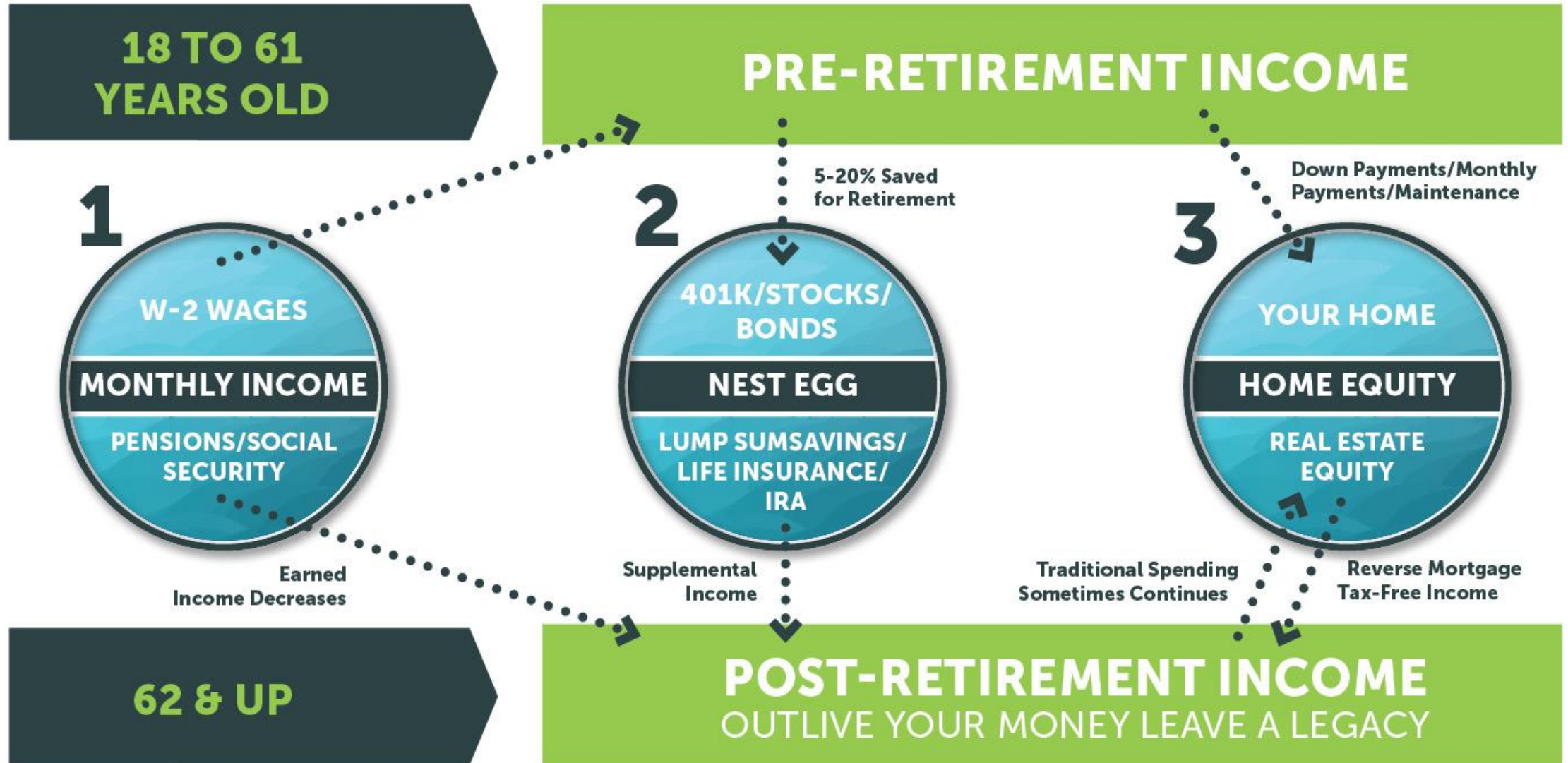
- ✓ Non-Recourse
- ✓ Guaranteed Growth

### 3. Monthly Loan Proceeds Payments

- ✓ Tenure
- ✓ Term

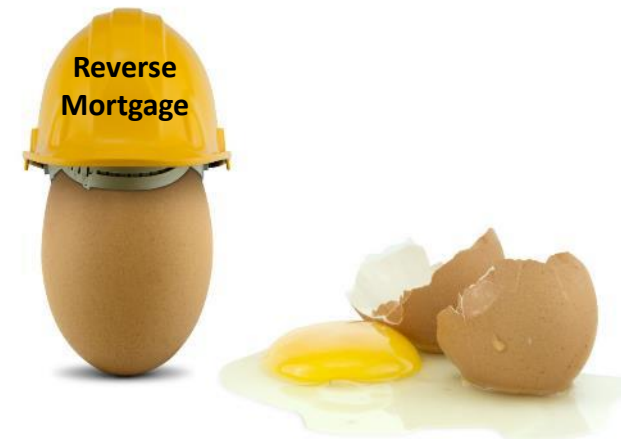


# The 3 Buckets & The Sacred Cow of Home Equity



- ✓ Federal Housing Administration (FHA) Guarantees No Repayment Of The Loan Until The Last Borrower Moves Out, Sells Or Passes Away
- ✓ When Client Moves Out Of Their Home, Client Or Their Estate Has Up To 12 Months To Repay The Loan
- ✓ No Penalty For Early Payment (May Vary In Some States)
- ✓ This Loan Is A Non-Recourse Loan (If The Balance On The Loan Exceeds The Home Value, HUD/FHA Makes Up The Difference!)
- ✓ Heirs Of Estate Keep Any Excess Proceeds From The Sale Of The Home

This is not legal or financial advice. Client should consult an attorney and/or financial advisor for their specific situation.



## **Paradigm Shift** - A Change In One's Perspective Of Thinking

### **The Old Days:**

- ✓ The Loan Of Last Resort
- ✓ For People Who Are In Financial Distress

### **Today:**

- ✓ Financial Planning Tool\*
- ✓ Best Used At Age 62 With Line Of Credit To Assist with Future Home Equity Value\*

# Silos of Income Distribution

## Income Allocation

### Assets

401k  
Savings  
IRAs

### Liabilities

Home  
Mortgage

# Reverse Mortgage Line of Credit (LOC)

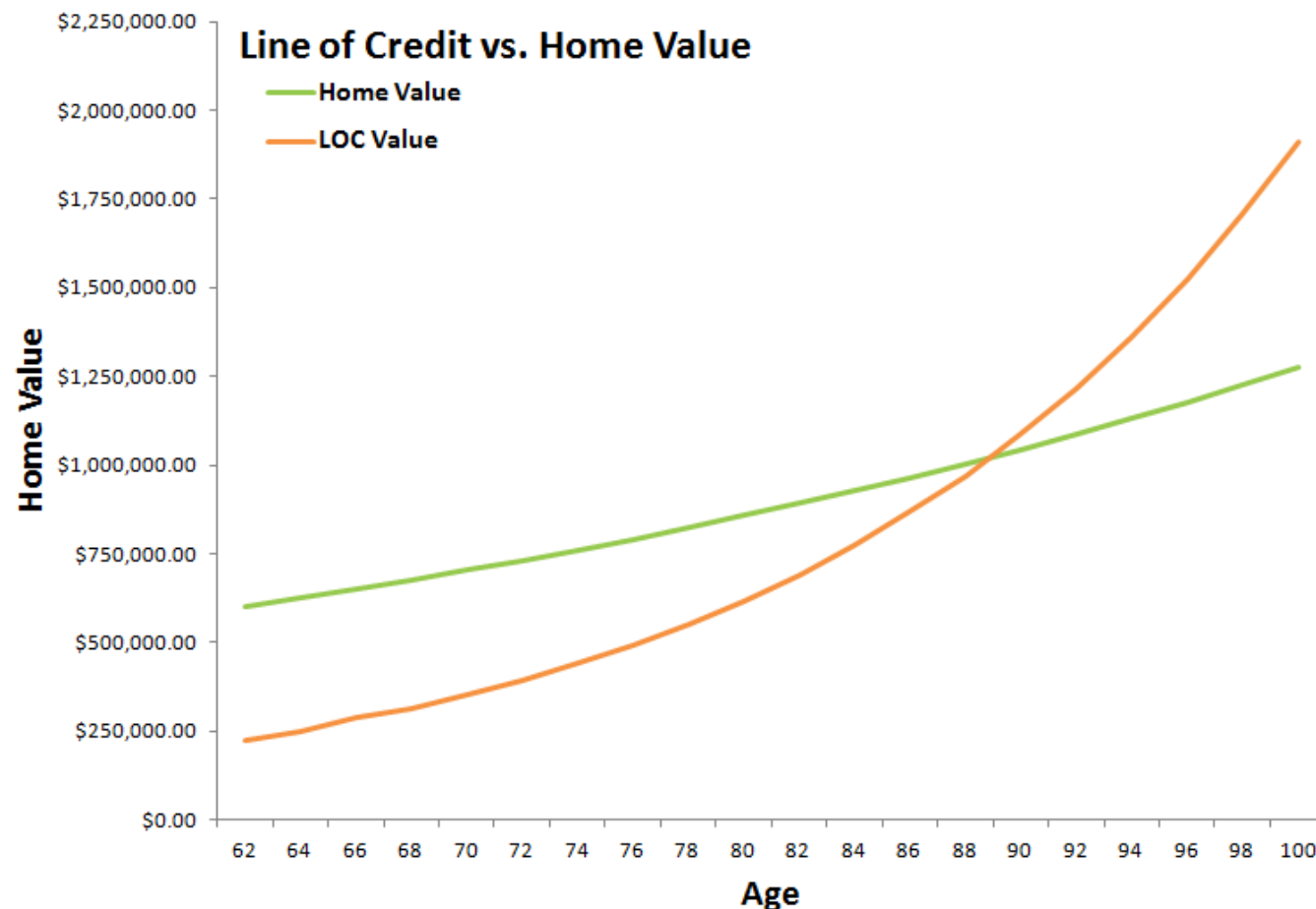
## 62-Year-Old Client

- ✓ Home Value \$600,000
- ✓ Available LOC \$223,506

## Client At Age 89

- ✓ Home Value \$1,024,132
- ✓ Available LOC \$1,026,643

Client Can Withdraw From The LOC And Reinvest Back Tax Free At Any Time\*



\*Not tax or financial advice. Client should consult a tax and/or financial advisor for their specific situation. This information is provided as a guideline; the actual reverse mortgage available funds are based on current interest rates, current charges associated with loan, borrower date of birth and standard closing cost. Interest rates and loan fees are subject to change without notice.



# Incorporating Home Equity Into Retirement Income Strategy

## Why 62, Not 82, May Be The Best Time To Secure A Reverse Mortgage

### Sacks & Sacks

#### Coordinated Strategy

78% Cash Flow Survival Rate

4% Post - Tax Initial Withdrawal Rate  
Based On 32-Year Investment Return

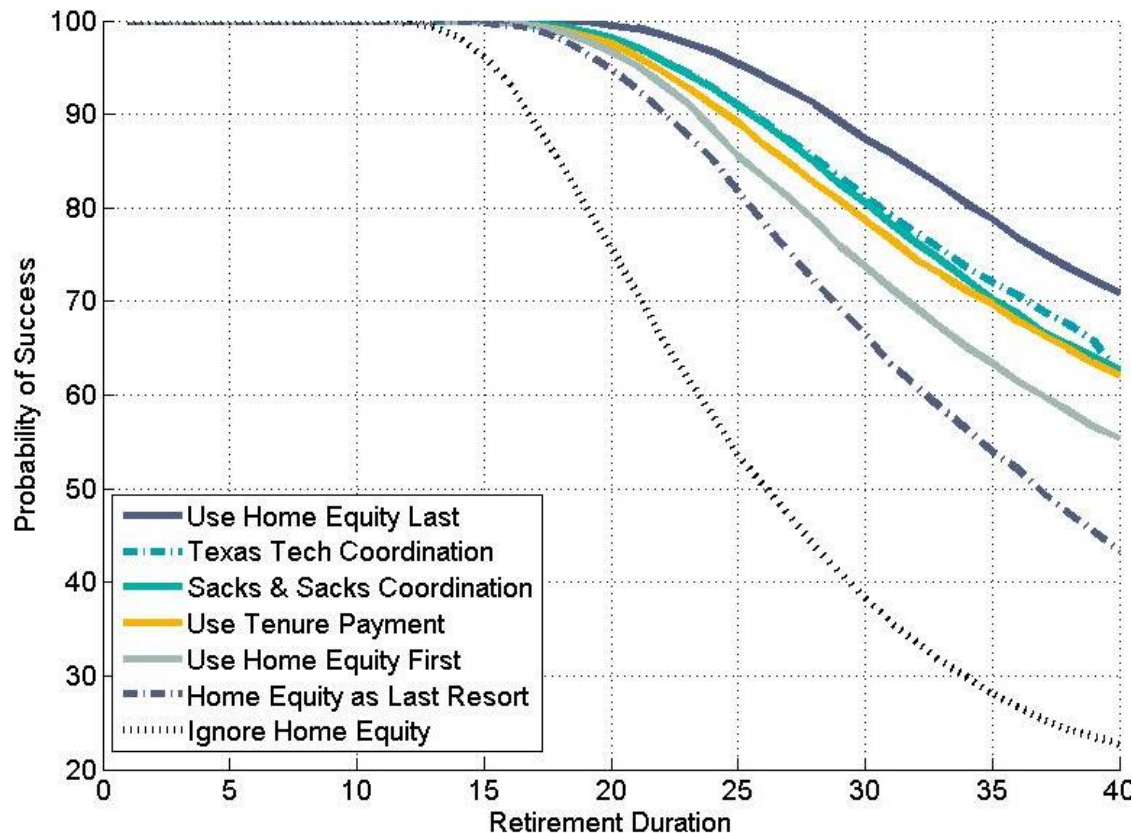
### Home Equity Last Resort

#### Conventional Passive Strategy

60% Cash Flow Survival Rate

4% Post - Tax Initial Withdrawal Rate  
Based On 32-Year Investment Return

At 4% Post Tax Initial Withdrawal Rate Ignoring Home Equity,  
Cash Flow Survival Probability Is 35%



Source: Ph.D. Pfau, Wade, "The Retirement Researcher's Guide Series Reverse Mortgages  
How to use Reverse Mortgages to Secure Your Retirement" Exhibit 6.1





# Example: Coordinated Strategy

## Coordinated Strategy

Age 81

LOC Available: **\$207,697**

IRA Value: **\$912,672**

Disbursement: **6%**

## Passive Strategy

Age 81

IRA Value: **\$0**

Disbursement: **6%**

Period	Investment Value	Rate of Return %	Distribution	HECM Draw	Total HECM Draws	Y/E Loan Balance	Available Credit line	Max Credit Line
1/1/2000	<b>\$1,000,000</b>		<b>6.00%</b>				<b>\$250,000</b>	\$250,000
12/31/2000	\$909,700	-9.03%		\$48,000	\$48,000	\$49,454	\$214,648	\$264,102
12/31/2001	\$801,901	-11.85%		\$48,000	\$96,000	\$101,698	\$177,301	\$278,999
12/31/2002	\$625,723	-21.97%		\$48,000	\$144,000	\$156,889	\$137,848	\$294,737
12/31/2003	\$743,178	28.36%	\$60,000		\$144,000	\$165,739	\$145,624	\$311,363
12/31/2004	\$762,995	10.74%	\$60,000		\$144,000	\$175,088	\$153,838	\$328,926
12/31/2005	\$739,848	4.83%	\$60,000		\$144,000	\$184,964	\$162,516	\$347,480
12/31/2006	\$795,338	15.61%	\$60,000		\$144,000	\$195,398	\$171,683	\$367,081
12/31/2007	\$778,923	5.48%	\$60,000		\$144,000	\$206,420	\$181,367	\$387,787
12/31/2008	\$494,227	-36.55%		\$48,000	\$192,000	\$267,518	\$142,143	\$409,661
12/31/2009	\$562,429	25.94%	\$60,000		\$192,000	\$282,608	\$150,161	\$432,769
12/31/2010	\$585,781	14.82%	\$60,000		\$192,000	\$298,549	\$158,632	\$457,181
12/31/2011	\$538,082	2.10%	\$60,000		\$192,000	\$315,390	\$167,580	\$482,969
12/31/2012	\$563,584	15.89%	\$60,000		\$192,000	\$333,180	\$177,033	\$510,213
12/31/2013	\$684,776	32.15%	\$60,000		\$192,000	\$351,974	\$187,019	\$538,993
12/31/2014	\$717,357	13.52%	\$60,000		\$192,000	\$371,828	\$197,568	\$569,396
12/31/2015	\$667,257	1.38%	\$60,000		\$192,000	\$392,802	\$208,712	\$601,514
12/31/2016	\$685,793	11.77%	\$60,000		\$192,000	\$414,959	\$220,485	\$635,444
12/31/2017	\$773,993	21.61%	\$60,000		\$192,000	\$438,366	\$232,922	\$671,289
12/31/2018	\$741,253	-4.23%		\$48,000	\$240,000	\$512,548	\$196,607	\$709,155
12/31/2019	\$912,672	31.22%	\$60,000		\$240,000	\$541,459	\$207,697	\$749,156
	<b>\$912,672</b>	<b>7.59%</b>	<b>\$900,000</b>	<b>\$240,000</b>	<b>\$240,000</b>	<b>\$541,459</b>	<b>\$207,697</b>	<b>\$749,156</b>

1) The numbers above, sample loan rate and the sample credit line growth rates are for illustration purposes and may or may not be indicative of what a reverse mortgage loan consumer may experience with his/her own loan.

2) The HECM draws shown above were reduced by 20% to reflect the fact that reverse loan proceeds are usually not taxable.

3) Investment Values (second column above) were calculated with entire withdrawal at the end of the year. HECM draws monthly.

\*This is not financial advice. Client should consult a financial advisor for their specific situation.



# Example: Passive Strategy

## Non Coordinated Strategy

### No Life Boat - No Reverse Mortgage Loan

Period	IRA Value	Rate of Return %	Distribution
1/1/2000	\$1,000,000		6.00%
12/31/2000	\$849,700	-9.03%	\$60,000
12/31/2001	\$689,011	-11.85%	\$60,000
12/31/2002	\$477,635	-21.97%	\$60,000
12/31/2003	\$553,092	28.36%	\$60,000
12/31/2004	\$552,494	10.74%	\$60,000
12/31/2005	\$519,180	4.83%	\$60,000
12/31/2006	\$540,224	15.61%	\$60,000
12/31/2007	\$509,828	5.48%	\$60,000
12/31/2008	\$263,486	-36.55%	\$60,000
12/31/2009	\$271,834	25.94%	\$60,000
12/31/2010	\$252,120	14.82%	\$60,000
12/31/2011	\$197,414	2.10%	\$60,000
12/31/2012	\$168,784	15.89%	\$60,000
12/31/2013	\$163,048	32.15%	\$60,000
12/31/2014	\$125,092	13.52%	\$60,000
12/31/2015	\$66,818	1.38%	\$60,000
12/31/2016	\$14,682	11.77%	\$60,000
12/31/2017	\$0	21.61%	\$17,855
12/31/2018		-4.23%	
12/31/2019		31.22%	
	<b>\$0</b>	<b>7.59%</b>	<b>\$1,037,855</b>

### Coordinated Strategy Leaves Client With:

Higher IRA Value			
No HECM	IRA Value	HECM	
\$0		\$912,672	
Funds Withdrawn			
Non Coordinated Strategy		Coordinated Strategy	
2017	\$17,855	2017	\$60,000
2018	\$0	2018	\$48,000
2019	\$0	2019	\$60,000
	<u>\$17,855</u>		<u>\$168,000</u>
Greater Liquid Assets Available			
No HECM	IRA Value	HECM	
\$0		\$912,672	
\$0	Remaining Available LOC	\$207,697	
\$0	Additional Funds 2017/18/19	\$150,145	
		<u>\$1,270,514</u>	
Greater Net Assets			
Non Coordinated Strategy		Coordinated Strategy	
\$0	IRA Value	\$912,672	
\$0	Loan Balance	-\$541,459	
\$0	Additional Funds Withdrawn	\$150,145	
\$0		<u>\$521,358</u>	

- 4) Yearly gains and losses are consistent with S&P, and include potential tax benefits from using HECM line of credit or interest rate adjustments.
- 5) This is not tax or financial advice. Your client should consult a tax and/or financial advisor for his or her specific situation.
- 6) Annual Returns S&P 500 Source: [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)

\*This information is provided as a guideline; the actual reverse mortgage available funds are based on current interest rates, current charges associated with loan, borrower date of birth and standard closing cost. Interest rates and loan fees are subject to change without notice.

**\$600,000 Mortgages**

**FHA Mortgage**

**Standard Mortgage**



**\$200,000 Home**

## Pre-Planning Reverse Mortgage Uses:

- ✓ Medicaid Lien 3<sup>rd</sup> Position
- ✓ Reduce Community Spouse Resource Allowance
- ✓ Reduce Equity To Prevent Selling Home
- ✓ Long Term Care Planning
- ✓ Estate Tax\* Planning

\*This is not legal advice. Client should consult an attorney for their specific situation.



# Replacement Retirement Refinance

**Forward Mortgages  
Payments Required**

**Reverse Mortgages  
Payments Optional\***

**Example: \$200,000 Mortgage, 30-Year At 4% Interest Rate and 4.116%APR**

- ✓ In 30 Years With \$954.83 Payment = Loss Of Cash Flow Of \$343,738.80
- ✓ May Still Use As Tax Deduction\*\*

**Most Beneficial To People:**

- ✓ Over Age 62
- ✓ With 50% Equity Or Better
- ✓ Still Making A Mortgage Payment – From Bucket One Or Two

\*Still responsible for maintenance, taxes, and insurance

\*\* This is not tax or financial advice. Client should consult a tax and/or financial advisor for their specific situation.

## Use Small Amount Of Equity To Protect All Other Assets

- ✓ Traditional Monthly LTC Premiums
- ✓ Lump Sum LTC/Life Insurance
- ✓ UL Life Insurance With Living Benefit Riders

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# Costs of LTC Insurance

## Home Health Care \$45,760 Annually

- Alzheimer's Care
- Meal Prep / Diet Monitoring
- Light Housekeeping
- Errands or Shopping

## Assisted Living Facility \$43,539 Annually

- Private Apartments
- On-Site Nursing
- Help with Daily Living
- Help with Medication

## Nursing Home Care \$92,378 Annual (Private)

- Full-time in Facility Care
- Advanced LTC
- Therapy, Rehabilitation, Medication
- Skilled 24-Hour Nursing

## Medicaid Only Pays for Shared Rooms

- 95% of People Have No LTC Insurance
- Over 50% Will Need LTC Insurance

Data From 2016 Survey, Conducted By Carescout Based On 15,000 Surveys



## Delaying Social Security Draw Dates

This became a very controversial subject in late summer 2017 when the CFPB came out with a directive that said “Reverse mortgages should not be used to delay Social Security filing.” Almost immediately, several people from the financial planning community wrote articles for Investment News and Forbes Magazine that took an opposite viewpoint and disagreed with the math that was used in the CFPB examples.\*

It is not the purpose of those of us in the reverse mortgage industry to advise on the best time to draw Social Security payments. We simply know that this is one of the single biggest sources of income for many retirees and many make the decision without consulting an advisor who is trained and familiar with all the options. Unfortunately, about 50% of retirees draw at ages 62 and 63 and because of projected longevity, should be waiting longer.\*\* Jamie Hopkins and Mary Beth Franklin both wrote their opinions on Social Security and reverse mortgage use. The links are provided here for your reference when analyzing your client’s Social Security plans.

Additional Sources:

**Jaime Hopkins** <https://www.forbes.com/sites/jamiehopkins/2017/08/28/cfpb-releases-misleading-report-on-social-security-deferral-strategies/#f7fa2773a1b0>

**Mary Beth Franklin** <http://www.investmentnews.com/article/20170906/BLOG05/170909967/reverse-mortgages-under-fire-again>

Note: This is not tax, legal or financial advice. Client(s) should consult a tax, legal or financial expert for their specific situation.

\* [http://files.consumerfinance.gov/f/documents/201708\\_cfpb\\_costs-and-risks-of-using-reverse-mortgage-to-delay-collecting-ss.pdf](http://files.consumerfinance.gov/f/documents/201708_cfpb_costs-and-risks-of-using-reverse-mortgage-to-delay-collecting-ss.pdf)

\*\* <https://www.fool.com/retirement/general/2016/04/19/when-does-the-average-american-start-collecting-so.aspx>



- ✓ Replace Home Asset
- ✓ Leave Behind Larger Legacy
- ✓ Leverage Of Tax-Free Payments To Heirs\*



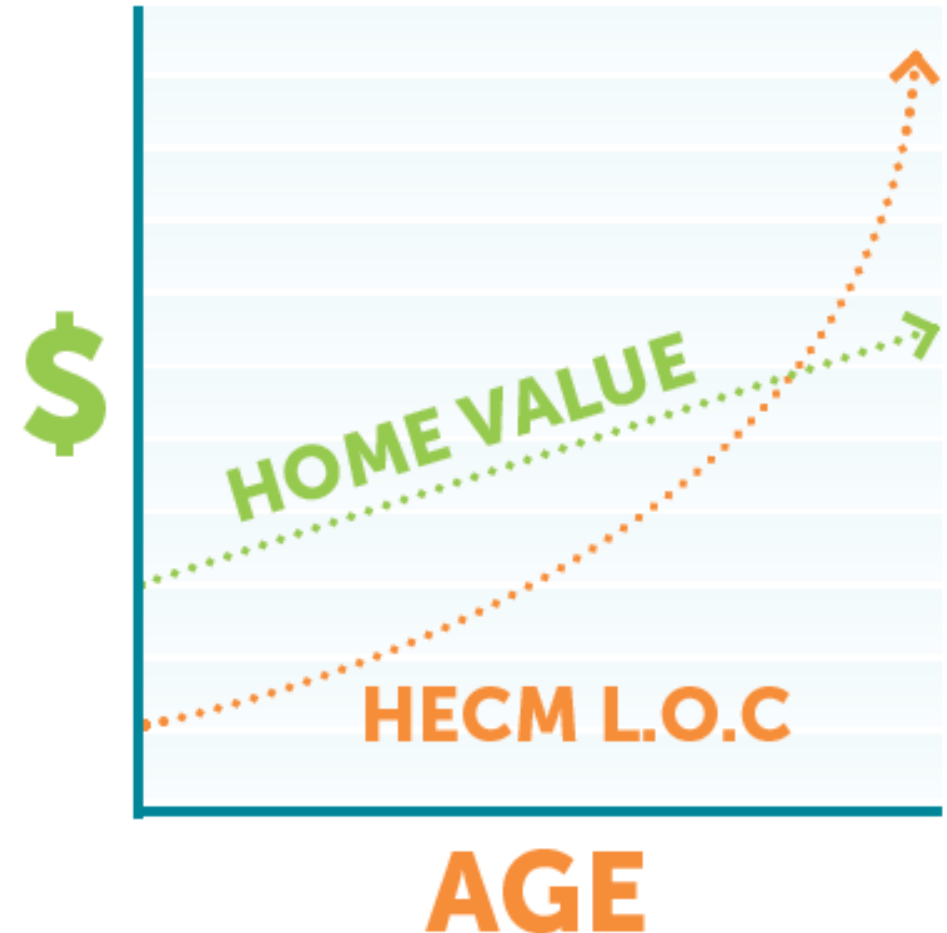
## Medicare Gap Age 62-65

Many People Can't Retire, Because They Depend On Their Company's Insurance

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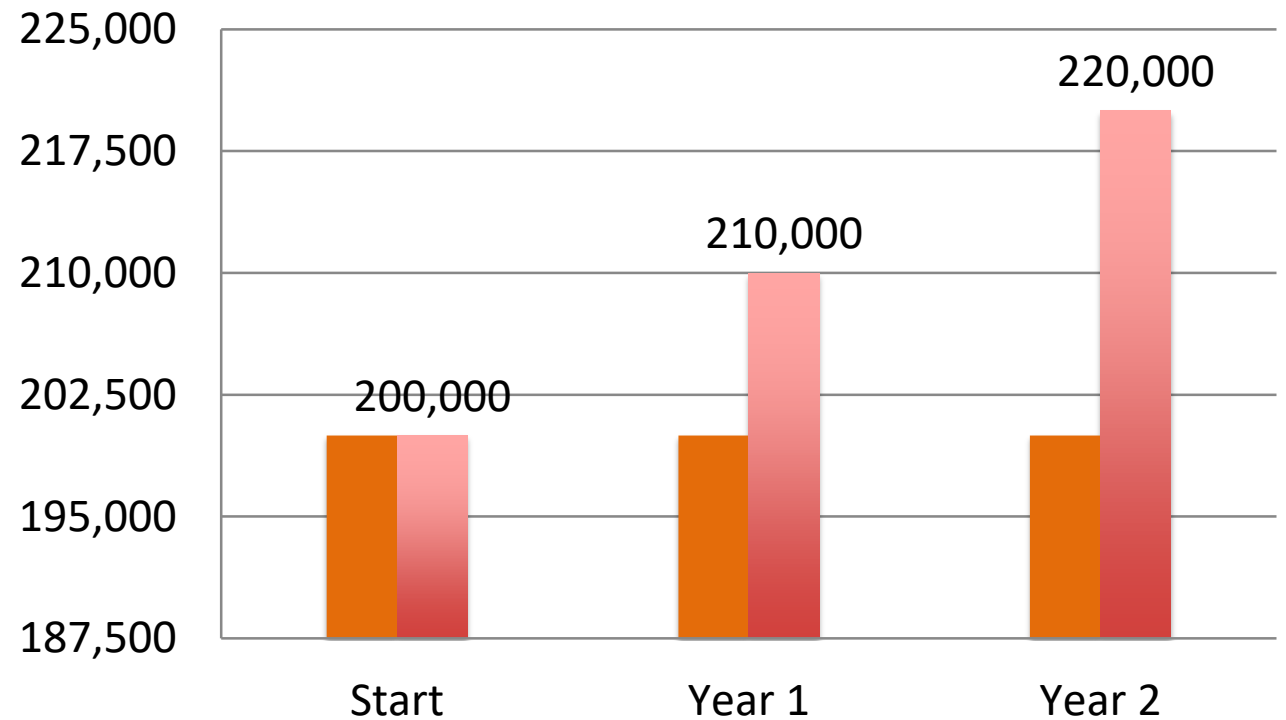
## Buy A Put\* On Home Equity Without Spending A Dime Of Cash From Bucket 2



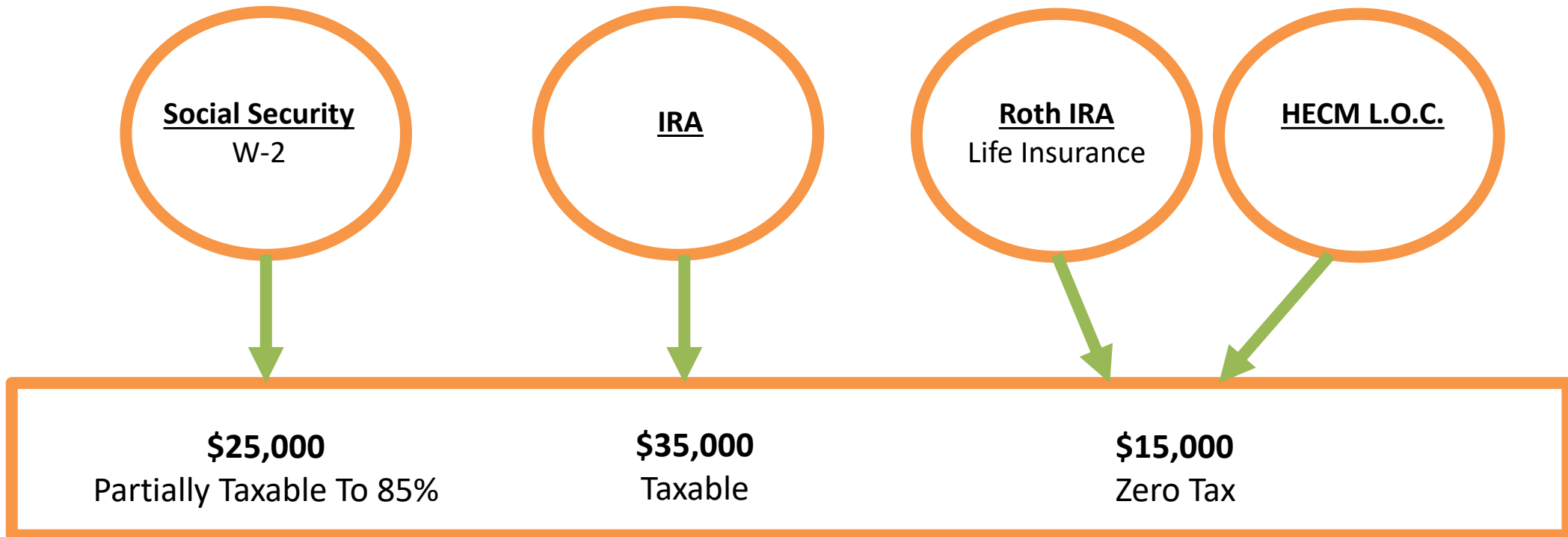
\* A put is an option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time.

1. Make \$20,000 Payment
2. Use \$20,000 Deduction
3. Receive Immediate Line Of Credit Back of \$20,000

### Increase Line Of Credit



## Lowest Tax Bracket Planning



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# Psychology Of Reverse Mortgage



- ✓ Not The Loan Of Last Resort
  
- ✓ Cash Management Tool
  - ✓ Liquid
  - ✓ Safer Getting A Reverse Mortgage Now Than Later With A Growing Line Of Credit
  - ✓ Rate of Return

This is not financial advice. Client should consult a financial advisor for their specific situation.

- ✓ Financial Assessment (Spring 2015)
- ✓ Non-Borrowing Spouse (Fall 2014)
- ✓ Same Sex Couple (Summer 2015)



# Planning Ahead For Younger Clients

- ✓ 40-55 Year Old Clients With 15-Year Mortgages
  - ✓ Decreasing Retirement - Contributions
  - ✓ Paying Extra on Home Mortgage
- ✓ Refinance to 30 Years To Increase Contributions To Retirement





- ✓ High Income / High Taxation - Paid Off House
- ✓ Have Current Mortgages – Paying With Taxable Funds
- ✓ Anyone Withdrawing More Than 6%
- ✓ Decreased Income – Increasing Expenses
- ✓ No Long-Term Care Plan

This is not tax or financial advice. Client should consult a tax and/or financial advisor for their specific situation.





# How To Use A Reverse Mortgage\*

**Running Out Of Money Before Running Out Of Life Is An Obvious Concern - Don't Overlook It If Client Is Planning On Selling When They Don't Want To**

**It Is Much Better To Be Able To Use A Reverse Mortgage In The Following Ways:**

- 1) Refinance Standard Mortgage To Eliminate Monthly Mortgage Payments, Although Still Required To Pay Taxes And Insurance And Maintain The Home; And Allows For Guaranteed Increase In The Unused Funds In Credit Line
- 2) Standby Portfolio Protection – Use Reverse Mortgage to Enhance Your Cash Flow in Economic Down Times – Could Make All Investments Last Longer While Net Worth Will Not Necessarily Decrease
- 3) Replaces Need For Cash Reserve Bucket - Home Loans Are Not Usually Taxable, Increase Cash Flow
- 4) Ability To Purchase Needed Insurance Or Investment Products Because Of Change In Cash Flow - Insurance Can Multiply The Wealth
- 5) Able To Purchase Long-Term Care Insurance

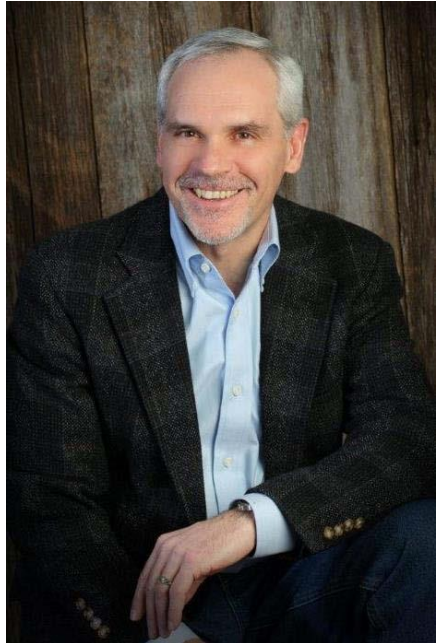
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# How To Use A Reverse Mortgage\*

- 6) Purchase An Investment Property Or A Second Home
- 7) Tax\* Management Tool To Receive Deductions When Needed Or Client Wants To Withdraw Less From IRAs And Other Taxable Sources, Lower Taxes And Preserve Portfolio Reducing Client's Risk Of Outliving Their Savings
- 8) Bridge Medicare Gap From 62-65 For Early Retirees
- 9) Potential Hedge Against Future Declines In Home Equity Because Of Guaranteed Increasing Credit Line (Applies to Unused Funds)
- 10) Gifting To Family – Help Family Out In Need Or Simply Leave A Larger Legacy
- 11) Gifting To Non-Profits So They Can Enjoy Gifting While They Are Alive To See The Results

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