WHY REVERSE MORTGAGE LOANS SHOULD BE IN YOUR FINANCIAL PLANNING TOOLKIT

Explore a Product Category That's Built for the Financial Challenges of Retirement.

From trillions of dollars in untapped home equity to unique features made for mitigating sequence of returns risk, the reverse mortgage isn't a loan of last resort—it's a powerful financial tool for coordinated retirement strategies.

- Potentially grow assets under management* (AUM)
- Increase your clients' cash flow when it's most critical
- Mitigate your clients' financial risk in down markets*
- Eliminate your clients' monthly mortgage payments and other debt
- Provide your clients' opportunities for tax advantages*
- Develop a line of credit with guaranteed growth (applies to unused funds)

**This whitepaper does not constitute tax or financial advice. Please consult a tax and/or financial advisor regarding your specific situation.*

What Is a Reverse Mortgage Loan?

A reverse mortgage loan enables homeowners 62 and older to convert a portion of their home equity into available cash. Homeowners can choose a lump sum, monthly cash flow, line of credit, or a combination of payment types. Because those proceeds are considered a loan, they are tax-free, which opens up a host of potential income deferment and tax advantages.* These benefits will be covered in greater detail later in the whitepaper, but some of the most important product features are as follows.

- Increasing tax-free cash flow in retirement*
- Eliminating monthly mortgage payments
- Keeping more productive assets under management

Why Should You Take the Time to Learn About Reverse Mortgage Loans?

Home equity is good, but it is highly limited in utility. What can home equity do for a retiree who needs to draw from their investments in a down market? Can home equity compensate for unexpected healthcare costs? Without selling their home, the equity they have built over the years can do nothing for them in these very common scenarios. Reverse mortgage loans turn this illiquid equity into tax-free cash on hand.*

It's also worth your time because reverse mortgages are no longer the "loan of last resort." Since 2013 and 2014, HUD and the FHA have added a host of consumer protections to the home equity conversion loan (or HECM), the most common type of reverse mortgage loan.

The homeowner/s remain the official owner/s of the home

- They can chose to keep or sell it at their discretion
- A spouse below 62 when the loan is taken is still protected

The loan can never exceed the market value of the home

- Federal insurance covers any loan overages
- If the home sells for more, the homeowner or heirs keep the profits

There is no obligation to make monthly mortgage payments

- They must pay taxes, insurance and maintain the home
- They may choose to make payments for tax purposes*

Reverse Mortgage Loans Should Be a PROACTIVE Tool, Not Reactive Solution.

Here's another very common scenario. A newly retired couple will be doing well enough financially as long as they are both drawing separate social security payments. What is the smarter strategic plan for them to make for financial security throughout retirement?

Should they depend on you to make greater returns on their investments—without incurring greater risk—when one of them predeceases the other? Or should they turn their home equity into a federally-backed line of credit with guaranteed growth early in their retirement? As you will see later in this whitepaper, any unused portion of a reverse mortgage loan line of credit grows over time, making it an excellent investment, especially when taken early. This is not to say that reverse mortgage loans are not a potential lifeline for retirees with financial difficulties. But when used as a part of a coordinated retirement plan, reverse mortgage loans can provide the security and flexibility to stop financial difficulties from ever occurring.

Top Three Reasons To Put Reverse Mortgage Loans in Your Financial Planning Toolkit ASAP

There Are More Than Nine Trillion Untapped Dollars That Are Insulated From Financial Management.

Senior home equity has reached historic highs. As of the first quarter of 2021, homeowners 62 and older were holding over $9 trillion in home equity.[1] This vast reserve of untouched capital should be intriguing for all financial professionals.

$9 trillion

>62

Your Clients May Be Misdirecting Millions in Cash Every Year.

40% of homeowners 62 and older make monthly mortgage payments of about $1,000 per month. Let's say that you have 400 clients above the age of 62. That means about 160 of your clients are making monthly mortgage payments. That's close to $2,000,000 per year in illiquid cash that you cannot advise upon or manage. Not to mention the drain on cash flow that your clients have to deal with.

An Over Reliance on Home Equity Can Affect Your Clients and Your Performance.

When you see the figure of $9 trillion in home equity across the country, it's easy to overlook what that means on the micro level. But it's estimated the individuals over the age of 65 have more than 67% of their wealth in home equity,[2] and those dollars could strengthen your assets under management. To bring it to the level of financial planning for the average client, how much better could their financial future be if you had hundreds of thousands of more dollars to manage on their behalf?[3]

Even if the home is not fully paid off when the loan is taken, the homeowner is never obligated to make monthly mortgage payments again. They just need to pay taxes, insurance, and maintain the home. That money can be applied directly to other debts that arcue interest, used to manage sequence of returns, leveraged as capital for portfolio investments, or applied to a number of other financial solutions.*

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[1] *https://home.com/senior-home-equity-hits-9-2-trillion/*

[2] *https://wallethacks.com/average-net-worth-by-age-americans/#medianagetype*

[3] *https://reversemortgagedaily.com/2021/04/01/financial-planner-how-reverse-mortgage-pros-can-approach-people-like-me/*

The Top 5 Reverse Mortgage Loan Advantages For Finance

The way reverse mortgage loans turn home equity into cash offers additional advantages that you may not be aware of. Here are the top five.

1. Eliminating Monthly Mortgage Payments and Other Interest Bearing Debt

For retirees, debt can lead to heightened cash flow concerns and increased nest egg withdrawal. Americans above the age of 60 carry $3.24 trillion in total debt.[4] With reverse mortgage loans, any remaining forward mortgage debt is paid off, and the leftover funds can be applied to other debt as a part of a financial plan. Afterward, the homeowner is never obligated to make monthly mortgage payments. However, payments can be voluntarily made as part of a tax reduction strategy.* The borrower must still pay taxes, insurance, and maintain the home.

$3.24 trillion

2. Reverse Mortgage Loan Proceeds Are Tax Free Money.*

No matter how big the loan proceeds, and no matter how it is received—lump sum, monthly, a line of credit, or combination—every dollar is income tax free.* These payouts are considered loans, not income, which makes them off limits to the IRS and ideal for reducing the use of taxable income from other sources.*

3. Maximizing Interest Deductions and Stacking Tax Deductions*

With a reverse mortgage loan, your clients can make mortgage payments when they want to, not when they have to. This enables them to let the interest build up so deductions can be "stacked" together. So at tax time, they can increase itemized deductions, or apply this to potential deductions in a year of higher income or required minimum distributions.

4. Strategic Deferment of Taxable Retirement Income*

Non-taxable reverse mortgage cash could enable clients to withdraw money from their IRA in the lowest tax bracket percentage. If you have clients in the Medicare gap, a lower taxable income might help them receive lower insurance premiums through the ACA or even enable them to qualify for Medicaid.

[4] *https://www.newyorkfed.org/microeconomics/hhdc/background.html*

5. Increasing Financial Flexibility

For clients with monthly mortgage payments with limited liquidity who are struggling to cover their expenses, the elimination of monthly payments and infusion of cash can make a tremendous difference in quality of life. But even for clients who are generally satisfied with their cash flow before a reverse mortgage loan, the tapped home equity can be used to manage sequence of returns, leveraged as capital for portfolio investments, or applied to a number of strategies as a part of your financial planning.*

The Reverse Mortgage Loan Line of Credit

The Swiss Army Knife of Financial Planning

Of the challenges that financial planners face in shepherding clients through retirement, cash flow and risk management are among the most common. The reverse mortgage loan line of credit offers immediate solutions for both of these issues and more. With a unique value growth feature, it offers the opportunity for retirement funds to last a lifetime, even with unexpected living expenses and market volatility. Here's why the reverse mortgage loan line of credit is a powerful tool for a variety of clients and financial situations.

Clients Can Choose to Receive a Reverse Mortgage Loan Proceeds as a Line of Credit.

The same rules and protections apply just as if a client received a reverse mortgage loan with a lump sum payment. What makes it different is that the borrower can use as much cash as they want from loan closing through the first twelve months (up to the max limit set by HUD), and the remaining credit can be accessed as needed. But this in and of itself is not what makes the reverse mortgage loan line of credit so useful for so many different people.

The Line of Credit Grows Over Time.

As with any loan balance that is not repaid, it accrues interest over time. But a reverse mortgage loan line of credit grows at the selected rate, plus a fixed lender's margin set in the contract, and a fixed mortgage insurance premium of .5%. This combination of three factors is "the effective rate."

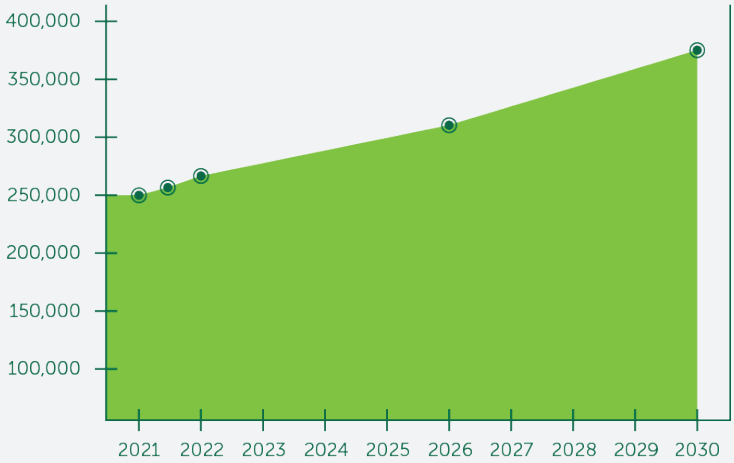
What's special is that the effective rate applies to not only the loan balance, but also the overall principal limit. This principle limit is the sum of the loan balance, the remaining line of credit, and any set-asides. In other words, with the reverse mortgage line of credit, the unused portion of the line of credit grows at the same compounding rate as the loan balance. That line of credit is open-ended, allowing your clients to borrow from the line of credit, pay it back, then borrow or let it grow again.

With the reverse mortgage line of credit, the unused portion of the line of credit grows at the same compounding rate as the loan balance.

That offers the ability for your clients to have access to more and more cash from their reverse mortgage loan as they move through retirement. The graph below shows a sample of what a reverse mortgage loan line of credit can offer.

Financial Security & Flexibility

Unlike traditional lines of credit through a bank, a reverse mortgage loan line of credit is federally insured and can never be frozen. Additionally, when it comes time for your client to leave the home and settle the loan, they or their heirs would



Index + Margin = 4.00%

Mortgage Insurance Premium = .5

Available Credit to Begin = $250,000

Credit After 6 Months = $255,625

Credit After 12 Months = $261,250

Credit After 5 Years = $306,250

Credit After 10 Years = $362,500

never have to pay more than the market value of the home**—that same insurance would take care of potential overages.

One of the most appealing aspects of the reverse mortgage line of credit is avoiding sequence of returns risk. As it happens so often to retirees who depend on investments to maintain their quality of life, market volatility can cause immense levels of stress. But with a reverse mortgage loan line of credit, they can draw from their investments when the market is up, and draw from their line of credit when the market is down. This strategy

could be used for tax mitigation purposes as well.*

Earlier Is Better Than Later

Many people think that retirees should wait as long as possible for a reverse mortgage loan because the initial loan proceeds may be respectively higher. In reality, the timing should be a strategic financial decision. With a reverse mortgage loan line of credit in particular, it makes sense for clients to start growing their line of credit as early as possible.

Conclusion

Put Reverse Mortgage Loans in Your Financial Toolkit Today.

With the massive reserves of untapped capital in home equity, financial pressures experienced by many retirees, and robust consumer protections from the FHA and HUD, the reverse mortgage loan is a product category with tremendous potential.

Consider how many retirees struggle for cash flow or simply do not have the cash flow to fully enjoy their retirements. For either of these groups, market volatility or unexpected living expenses could prove detrimental to quality of life.

The ability to integrate home equity into the financial planning process offers a host of unique advantages. The reverse mortgage loan line of credit is particularly well suited for financial planning. It enables homeowners to convert home equity into an insured, open line of credit with guaranteed growth. This provides the flexibility for sequence of returns risk, income deferment, tax mitigation strategies, and more.*

Why Fairway Independent Mortgage Company Should Be Your Go-To Partner.

It's not just because Fairway is nationwide and has served millions of clients. It's because customer service is a way of life. Our loan officers will work with you to integrate home equity into your clients' financial planning process. As part of our exclusive partnership with Circle of Wealth and MoneyTrax, Fairway has developed a tool specifically for financial professionals called EquityTrax that tracks clients' home equity outlook throughout retirement.

**This advertisement does not constitute tax and/or financial advice from Fairway.*
***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 and insurance and maintaining the home. Credit 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.*

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