Reverse Mortgages
vs.
the 1% CFA with SPIA

The Wealth Preservation Institute
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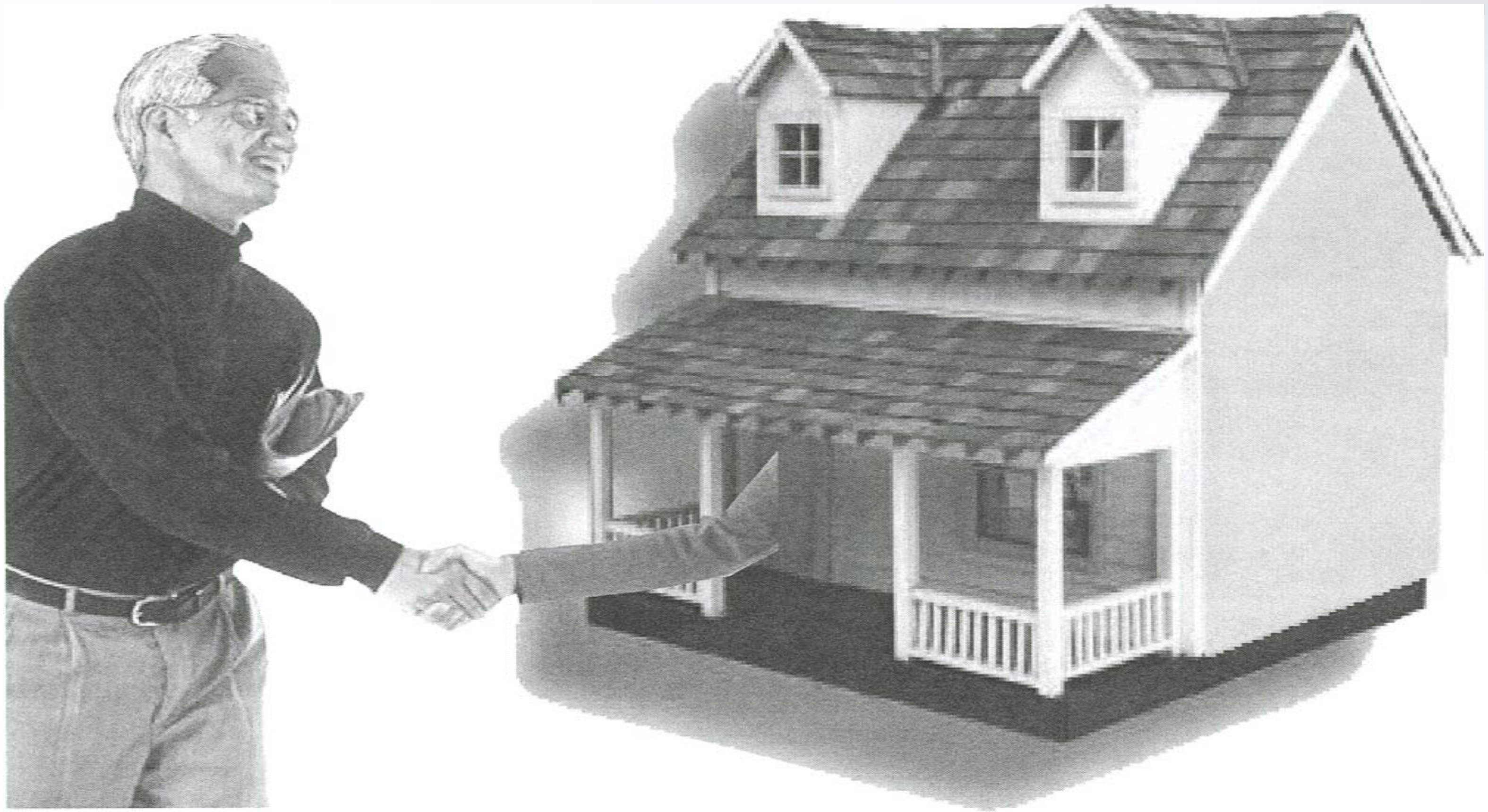
Harnessing the power of reverse mortgages

- Many seniors did not make the best investing or financial decisions throughout their earning years.
- Many elder clients will have significant financial problems AFTER they retire (medical expense).
- Their need for immediate money has been might be able to be satisfied with a RM.
- Couple those problems with the fact that the elderly <u>DO NOT want to leave their homes</u> and this creates problems.
- Clients can transform the equity in their home into cash AND they can <u>**still stay in their home**</u>.

“I’ve Taken Care of you all these years.”’

“It’s now my turn To take care of you.”



What is a Reverse Mortgage?

- A RM is a special kind of loan that is easy to obtain if you are **at least 62 years** of age and own your own home, condo (PUD) or co-op (only in New York).
- A reverse mortgage converts a portion of the value (equity) of a home into instant cash.
- The pool of money that is created by a reverse mortgage can be received by a senior homeowner(s) in a variety of ways.
- There is no credit or financial underwriting with a RM. The client simply needs a house with equity (**which means it very easy to qualify for**).

Non-Recourse

- One important aspect to a RM is that it is a non-recourse loan.
- The only collateral for the loan is the client’s home.
- The lender can not foreclose on the home if the client is living it.
- The lender simply waits until:
  - 1) the client dies
  - 2) moves out of the house as a primary residence (365 consecutive days).
- If the house’s value at the client’s death is not sufficient to pay back the loan, the estate is NOT liable.

Interest payments on a RM

- There are NO interest payments with a RM.
- That's one reason the plan is useable for an older client who had NO desire to make monthly mortgages payments.
- The interest on the loan is accrued and ultimately paid back at the client's death.
- Also, the interest on the loan is **NOT** fixed.

How a RM Loan is Paid Off

- If the client dies with no spouse, the estate will sell the house and pay off the loan (the estate is **NOT** liable if there is a shortfall).
- If the client has a spouse still living, the spouse (typically already in a nursing home) will sell the house to pay off the debt.
- The client could choose to purchase a life insurance policy that can be used in part or in full to pay off the debt at the clients death.
- The loan will need to be paid off if the client does not live in the house for 365 consecutive days.

How much money can be borrowed?

- Three things will determine how much a client can receive from a reverse mortgage:

  1. The age of the **youngest** borrower.
  2. The value of the home (up to a certain limit for some programs).
  3. The EXPECTED interest rate (This is true only for the most common RM which is the FHA RM).

Reverse Mortgage Examples

HUD/FHA HECM

- Borrower: Couple, aged 70 and 68
- Value of Home: $200,000
- Eligible Proceeds: $115,207 {or $700 monthly}*

Fannie Mae Home Keeper

- Borrower: Single, aged 70
- Value of Home: $400,000
- Eligible Proceeds: $106,037 {or $792 monthly}*

Simply Zero™ Cash Account™ (N/A in all states)

- Borrower: Single, aged 79
- Value of Home: $1,500,000
- Eligible Proceeds: $603,600*

*As of August 23, 2004, and net of origination fees, MIP, and other closing costs

Is a RM best for your client?

- Maybe.
- RM’s are very in vogue because they are easy to sell and the agent make a bunch of money.
- Wouldn’t many clients who don’t need a big house be better off **selling the house** (using their $250,000 cap. gains exemption), downsizing into a condo and using the difference to live on?
- Selling and downsizing avoids the negative amortization situation that happens with every RM.

What about the 1% CFA and a SPIA?

- The reason clients like RMs is because they are easy to qualify for (no need to show income).
- For those clients who have a limited income, we can help them create a guaranteed income stream through the use of a SPIA (single premium immediate annuity).
- The client would take out a 1% CFA mortgage and then use the borrowed funds to pay for a SPIA.

Let’s look at a comparison

- Husband and wife, both age 72 and in decent health. They live in Anaheim, CA and have a home they have lived in for a number of years. The fair market value of the home is $550,000 and the house has $40,000 of debt on it.
- This couple has a modest income from social security and an IRA and they would like more money to maintain their lifestyle.
- They want to <u>remain in the house</u> and do not want to sell and downsize into a condo.

Continued

- When the agent runs a RM illustration it comes out to where the client can take a lump sum of $169,269 or have a monthly income of **$1,112** each month until both die or move out of the house for 365 consecutive days.
- The interest rater on the loan starts at 6.76% and has a cap of 16.26%.
- The client is happy because they get cash, the RM broker is happy because he/she made $7,255.
- Oh by the way the total closing costs of the loan are $16,898.

Reverse Mortgage Comparison - Selected Plans

From:

DENNIS HABER
Senior Funding Group
247 West Old Country Road
Hicksville, NY 11753
Phone: (877) 327-8485 Fax: (516) 938-6601

Estimates For:

DeFrancesco

Anaheim, CA 92801

Age Information:

DOB	Nearest Age	Age
1/1/1934	72	72
1/1/1934	72	72

Estimated Closing Date*: May-21, 2006

	FHA/HUD Monthly Adj.	FHA/HUD Annual Adj.	Fannie Mae Standard
Initial Interest Rate	6.26%	7.86%	8.13%
Expected Interest Rate*	6.21%	7.81%	8.13%
Interest Rate Cap	16.26%	12.86%	20.13%
Monthly Service Fee	$30	$30	30
Estimated Home Value	$550,000	$550,000	$550,000
Lending Limit	$362,790	$362,790	$417,000
Percentage	65.96%	65.96%	75.82%
Creditline Growth Rate	6.76%	8.36%	0
Principal Limit	**$230,734.44**	**$186,111.27**	**$99,354.42**
Service Set-Aside	$4,566.57	$3,932.92	$3,588.52
Available Principal Limit	**$226,167.87**	**$182,178.35**	**$95,765.90**
Initial Mort. Ins. Prem.	$7,255.80	$7,255.80	$0.00
Financed Origination Fee	$7,255.80	$7,255.80	$8,340.00
Other Financed Costs	$2,387.10	$2,387.10	$2,231.00
Net Principal Limit	**$209,269.17**	**$165,279.65**	**$85,194.90**
Debt Payoff Advance	$40,000.00	$40,000.00	$40,000.00
Tax & Ins. Set-Aside	$0.00	$0.00	$0.00
Net Available to You	**$169,269.17**	**$125,279.65**	**$45,194.90**
Cash Requested	$0.00	$0.00	$0.00
Creditline Requested	$0.00	$0.00	$0.00
Remaining Cash	**$169,269.17**	**$125,279.65**	**$45,194.90**
	or	**or**	**or**
Potential Tenure Payments	**$1,112.01**	**$955.62**	**$377.83**
Financed Fees and Costs	$16,898.70	$16,898.70	$10,571.00
Borrower Paid Costs	$0.00	$0.00	$0.00

* The above numbers are calculated based upon the specified interest rates and the estimated closing date noted above. Changes in interest rates and/or changes in actual closing dates may cause the amounts available to be higher or lower than stated.

DeFrancesco Date

FF90024

Continued

- What if the client went out and borrowed $400,000 against the house?
- What would the additional payments be if the client used the 1% CFA with a 40 year amortization?
- In today’s market the client would have a mortgage payment of approximately 14,000 a year as an average over the first five years.
- If we poured $400,000 into an immediate pay single premium annuity (SPIA) the clients would receive $30,000 a year for their joint lives

So, which one was better for the client?

- With the RM the client received $1,112 not for life but for as long as the clients stayed in the home for 365 consecutive days.
- With the SPIA, the client received $30,000 a year, but the first five years on average, $14,000 went to service the new 1% CFA mortgage.
- This will leave the client with $16,000 a year ($1,333 a month) in payments but these payments will be made for the joint lives of the clients.

Negative Amortization

- With the RM, the clients are taking a flame thrower to the equity of their home because there are NO payments being made.
- With the 1% CFA and a SPIA, $14,000 a year on average the first five years went to service the loan thereby mitigating the negative amortization.
- Which one would the client like better? More income, less negative amortization and income for life no matter if they stay in the home?
- I'd submit to you that many clients would opt for the 1% CFA and SPIA over the RM.

What about compensation?

- On the RM, the agent made $7,255.
- With the 1% CFA the agent could make upwards of 85% of 3% of the loan value = $10,200 and 3% on the $400,000 SPIA = $12,000.

What about a rated SPIA

- If the client is not healthy, the SPIA payments could increase dramatically thereby making the 1% CFA and SPIA concept much more beneficial for the client.

Summary

- RMs are here to stay because the general public wants them, because the government wants them and because RM agents can make a bunch of money.
- Having said that, RMs are not always the best option for your clients.
- Keep an open mind about having the client sell their home.
- And remember to run the numbers on a 1% CFA and SPIA to see if the client would be better served than with a traditional RM.

Questions?

www.thewpi.org

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Overview for the Professional Designation: CWPP™ (Certified Wealth Preservation Planner)

The Wealth Preservation Institute

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What do Advisors want?

- To earn more money?
- To have more knowledge than other advisors?
- To provide better advice to clients on multiple topics?
- To be more credible than other advisors?
- A team of advisors for support and back office when dealing with “advanced” planning.
- The ability to market to CPA, Attorneys and physicians through continuing education credit.
- Are these of interest to you?
  – If so you are a candidate to become an APP™ or CWPP™

The WPI and CWPP™/APP™

- What is the Wealth Preservation Institute (WPI)?
  - The **only** educational entity in the country devoted to provide education on **“advanced” planning (**asset protection, tax and estate planning)
  - The **only** entity in the country focusing on topics that apply mainly to the **high income/net worth client**.
  - Certifying entity for the CWPP™ designation.
- The CWPP™ course is a 24 hour certification program which can be taken all online or in person.
- The Asset Protection Planner designation is for those simply want to deal with AP (12 hours).

Marketing

- The WPI helps is certified advisors market in two several very unique ways.
- 1) The ability to become an instant author through a 340+ page "ghost book." You can read the table of contents at http://www.thewpi.org/newindex.php?dept=51&pid=495
- The WPI will allow CWPP™ advisors to give CPE continuing education courses on a local level to CPAs and accountants.
- The WPI has a number of articles that CWPP™ advisors can use to place in local medical, accounting, legal and other business journals.

Topics

- What topics are covered in the CWPP™ course?
- **Asset protection (3 hours)**
  - -Domestic
  - -Offshore
- **Deferred Compensation (4 hours)**
  - -WealthBuilder® Annuity; Traditional NQDC and the Leveraged Bonus Plan®
  - -Qualified plans/412(i) plans
  - -ESOPs
  - -IRAs
- **Business Planning (6 hours)**
  - -Account Receivables (A/R) Leveraging
  - -VEBAs and 419A(f)(6) Plans
  - -Section 79 Plans
  - -Closely Held Insurance Companies
  - -Corporate Structure

Continued

- **Estate Planning (8 hours)**
  -Basic
  -“Advanced”
  - Life Insurance
  -Premium Financed Life Insurance
  - Medicaid Planning
  -Qualified Pension Insurance Partnership®
  (Mitigating the 75% Tax Trap)
  -Charitable planning
  -Long Term Care Insurance
- **Personal Finance (4 hours)**
  -Annuities
  -Life Settlements
  -Reverse Mortgages
  -Private Annuity Trust

Next Seminar?

- The next in person seminar is in San Diego on the 14-16th of March.
- The course can be taken completely online.
- Keep checking back to www.thewpi.org for posting.
- Group discounts. If you have 5 or more advisors who want to take the course, please contact The WPI for information on course discounts.

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