

HECM Mitigates Portfolio Volatility

Sequence of Returns Risk Scenarios

1 ILLUSTRATION ONE

2 ILLUSTRATION TWO

HECM AS A LAST RESORT STRATEGY

Age	Year	Portfolio Draws	HECM Line of Credit Draws	Portfolio Value Start of Year	Portfolio Performance 60/40 Mix	Portfolio Value End of Year
62	1973	\$26,000		\$374,000	-11.08%	\$332,560.80
63	1974	\$26,910		\$302,325	-15.40%	\$255,767.11
64	1975	\$27,852		\$225,358	31.89%	\$297,224.13
65	1976	\$28,827		\$265,425	22.50%	\$325,145.90
66	1977	\$29,836		\$292,059	2.98%	\$300,762.19
67	1978	\$30,880		\$266,875	9.67%	\$292,681.51
68	1979	\$31,961		\$257,794	16.10%	\$299,298.90
69	1980	\$33,079				
70	1981	\$34,237				
71	1982	\$35,435				
72	1983	\$36,676				
73	1984	\$37,959				
74	1985	\$39,288				
75	1986	\$40,663				
76	1987	\$42,086				
77	1988	\$43,559				
78	1989	\$45,084		\$274,177	20.95%	\$331,616.59
79	1990	\$46,662		\$281,639	-3.55%	\$271,640.68
80	1991	\$48,295		\$330,630	24.26%	\$274,154.28
81	1992	\$49,985		\$221,428	6.71%	\$236,285.51
82	1993	\$51,735		\$182,188	13.56%	\$206,892.85
83	1994	\$53,545		\$151,279	0.78%	\$152,458.68
84	1995	\$55,419		\$95,515	25.54%	\$9,909.27
85	1996	\$57,359		\$61,351	14.60%	\$70,308.47
86	1997	\$59,367		\$10,239	21.75%	\$12,465.80
87	1998	\$12,341	\$49,103	\$0	15.61%	\$0.00
88	1999		\$63,595	\$0	11.28%	\$0.00
89	2000		\$65,821	\$0	1.65%	\$0.00
90	2001		\$68,124	\$0	-1.17%	\$0.00
91	2002		\$70,509	\$0	-8.77%	\$0.00

HECM PORTFOLIO LONGEVITY STRATEGY

Age	Year	Portfolio Draws	HECM Line of Credit Draws	Invested Start of Year	Portfolio Performance 60/40 Mix	Portfolio Value End of Year
62	1973	\$26,000		\$374,000	-11.08%	\$332,560.80
63	1974		\$26,910	\$329,235	-15.40%	\$278,532.97
64	1975		\$27,852	\$275,748	31.89%	\$363,683.57
65	1976	\$28,827		\$331,220	22.50%	\$405,744.17
66	1977	\$29,836		\$371,851	2.98%	\$382,931.94
67	1978	\$30,880		\$348,222	9.67%	\$381,895.52
68	1979	\$31,961		\$346,116	16.10%	\$401,840.16
69	1980				21.75%	\$444,073.52
70	1981				2.00%	\$413,503.26
71	1982				23.33%	\$461,170.93
72	1983				19.34%	\$501,088.65
73	1984				8.49%	\$497,012.33
74	1985				29.08%	\$584,414.82
75	1986				20.74%	\$649,469.33
76	1987				4.61%	\$628,589.03
77	1988				16.88%	\$676,435.48
78	1989	\$45,084		\$624,587	20.95%	\$755,437.93
79	1990	\$46,662		\$701,221	-3.55%	\$676,328.08
80	1991	\$48,295	\$48,295	\$669,565	24.26%	\$832,001.22
81	1992	\$49,985		\$773,696	6.71%	\$825,611.22
82	1993	\$51,734		\$765,621	13.56%	\$869,438.79
83	1994	\$53,545		\$807,199	0.78%	\$813,495.38
84	1995	\$55,419		\$9,941	25.54%	\$941,476.13
85	1996	\$57,359		\$87,002	14.60%	\$1,002,408.99
86	1997	\$59,366		\$933,016	21.75%	\$1,135,949.90
87	1998	\$61,444		\$1,063,146	15.61%	\$1,229,103.18
88	1999			\$1,153,217	11.28%	\$1,283,300.18
89	2000			\$1,204,646	1.65%	\$1,224,523.14
90	2001			\$1,144,153	-1.17%	\$1,130,766.89
91	2002		\$70,509	\$1,119,459	-8.77%	\$1,021,282.65

Compare Outcomes
\$0.00 vs \$1,021,282

RESULT:

- » **Portfolio exhausted** at year 25.2, 5 years short of life expectancy
- » Portfolio balance = **\$0.00**
- » Total draws on HECM Line of Credit = \$471,182 (Includes the accumulated interest)

In **ILLUSTRATION 1**, we have a 30-year retirement plan using a strategy known as **HECM as a Last Resort**.* This means the retiree lives off of their investment portfolio until all funds are exhausted before relying on the Home Equity Conversion Mortgage for income. Starting with an initial value of \$400,000 the withdrawal rate is 6.5%, an inflation factor of 3.5%, and actual market performance based on a portfolio mix of 60% stocks and 40% bonds. This Scenario assumes a retired couple with \$27,000 in social security income trying to maintain a lifestyle that cost \$53,000 the first year of retirement.

*Sacks and Sacks 2012—Journal of Financial Planning

For illustration purposes only. Past market performance does not reflect future performance. FAR does not make investment or tax recommendations. Consult your investment and tax advisors for the retirement plan, financing and investments that are right for you.

RESULT:

- » **Portfolio success** — Portfolio and income outlast life expectancy
- » Portfolio value = **\$1,021,282.65**
- » Total draws on HECM Line of Credit = \$563,526 (Includes the accumulated interest)

In **ILLUSTRATION 2**, known as the **HECM Portfolio Longevity Strategy** or **Coordinated Strategy**,* we have the exact same plan except, instead of waiting for the portfolio to run out before engaging the HECM, we alternate annual withdrawals between the portfolio and the HECM based on portfolio performance. Following any down year, this strategy switches to the HECM as the income source for one year.



Financial Planning Solutions Utilizing Home Equity



Home equity could be a strategic component of a comprehensive retirement plan.

Retirement funds may come from investments, insurance and fixed income. But now, the HECM may help complete the longevity planning puzzle.

HECMs are becoming increasingly recognized by homeowners and financial advisors as a smart and safe way to access an important retirement asset: **home equity**. The HECM (Home Equity Conversion Mortgage) is insured by the Federal Housing Administration (FHA) to protect lenders and borrowers alike.

To learn more about the benefits of a HECM, and how it may help your clients secure long-term financial independence, please contact me:



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— M O R T G A G E —

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•When the loan is due and payable, some or all of the equity in the property that is the subject of the reverse mortgage no longer belongs to borrowers, who may need to sell the home or otherwise repay the loan with interest from other proceeds. • FAR may charge an origination fee, mortgage insurance premium, closing costs and servicing fees (added to the balance of the loan). • The balance of the loan grows over time and FAR charges interest on the balance. • Borrowers are responsible for paying property taxes, homeowner's insurance, maintenance, and related taxes (which may be substantial). We do not establish an escrow account for disbursements of these payments. A set-aside account can be set up to pay taxes and insurance and may be required in some cases. Borrowers must occupy home as their primary residence and pay for ongoing maintenance; otherwise the loan becomes due and payable. The loan also becomes due and payable (and the property may be subject to a tax lien, other encumbrance, or foreclosure) when the last borrower, or eligible non-borrowing surviving spouse, dies, sells the home, permanently moves out, defaults on taxes, insurance payments, or maintenance, or does not otherwise comply with the loan terms. • Interest is not tax-deductible until the loan is partially or fully repaid.