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Press Release

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Standby Reverse Mortgage Strategy Works with the New HECM Program

Due to Federal Housing Administration (FHA) Home Equity Conversion Mortgage (HECM) program changes effective September 30, 2013, the HECM program merged the HECM Standard loan and HECM Saver loan into one product to create the new HECM loan. After the HECM program changes, Liberty Home Equity Solutions, Inc. asked researchers John Salter (Ph.D, CFP®, AIFA®), Harold Evensky (CFP®, AIFA®) and Shaun Pfeiffer (Ph.D Candidate at Texas Tech University) to revisit their research studies which used the HECM Saver Line of Credit (LOC) loan as a "Standby Reverse Mortgage (SRM), to determine if their strategies still hold true with the new HECM LOC loan. The researchers' strategies use a HECM LOC loan as a risk management tool to increase the probability of a client being able to meet preplanned retirement goals.

After revisiting the strategies, the researchers determined the new HECM LOC loan, provides similar results as those seen with the HECM Saver loan.[1] The new HECM LOC loan can have a beneficial impact on the likelihood of client's meeting their retirement goals; enabling these clients an improved probability of weathering market drops during bear markets and stretching their retirement savings.

The following paragraphs compare the research results by Salter, Evensky and Pfeiffer of the previous research and the results under the new HECM program.

The New HECM vs the HECM Saver loan

The SRM strategy combines a HECM LOC loan with a traditional two-bucket Cash Flow Reserve (CFR) investment distribution strategy (investment portfolio and CFR buckets), creating a three-bucket strategy where cash is accessed from the HECM LOC loan to replenish the cash account which is used to meet client's goals in times of bear markets. The three-bucket strategy enables clients to avoid selling assets at depreciated prices and allowing for additional time for possible recovery in the market, improving the probability for investment portfolio longevity.

The HECM product used in the SRM analyses in August 2012 was the HECM Saver LOC loan; a lower cost version of the traditional HECM Standard loan.[2] The HECM Saver loan had an initial mortgage insurance premium (MIP) of 0.01%, while the HECM Standard loan had a 2% MIP. With the new HECM loan, if the initial disbursement at closing and during the first 12-month disbursement period is 60% or less of the principal limit, the MIP is based on a rate of 0.50% of the maximum claim amount. However, if the initial disbursement at closing is greater than 60% of the principal limit, the MIP is based on a rate of 2.50% of the maximum claim amount.

Another change to the new HECM loan is the Principal Limit Factor (PLF) which is used to determine the benefit amount available to the borrower. According to the researcher's new study, the PLF is now slightly higher than the previous HECM Saver loan, but lower than the previous HECM Standard loan. Under the new HECM loan requirements, borrowers may access a minimum of 60% of the principal limit amount for the first 12 months after loan closing. Borrowers may be eligible to access an additional 10%, subject to additional HECM requirements, of the principal limit amount for the first 12 months after loan closing.

When the researchers revisited their studies to determine if their strategies still hold true with the new HECM LOC loan, they found that while the initial MIP costs for the new HECM loan are higher than the previous HECM Saver, the probability of clients reaching their retirement goals may also be higher as can be seen in the example in Table 1 below. The new HECM LOC loan also offers many of the same appealing features as the Saver, some of which include being a non-recourse loan (FHA insured), eliminating existing mortgage payments, proceeds are tax-free[3], and there are no prepayment penalties.

Meeting Client Goals

When updating the results from the study "Standby Reverse Mortgage: A Risk Management Tool for Retirement Distributions" the researchers actually found the change in the HECM LOC loan to be slightly beneficial in terms of the probability of meeting the retirement spending goal. As detailed in the original *Journal of Financial Planning* publication, the following table describes the results for a 62 year old client with a $250,000 estimated home value, a $500,000 portfolio and a desired real withdrawal rate of 5.0% of the initial investment portfolio over 30 years. The table illustrates the changes with the HECM program and how the SRM strategy is still a viable tool when using the new HECM LOC loan.

Table 1

HECM LOC Loan Type	Principal Limit Factor	Probability of Success with Partial SRM	Median Wealth ($1,000's)
HECM Saver	33%	74.1%	668.45
New HECM	37%	74.8%	662.8

Increasing the Sustainable Withdrawal Rate

When updating the results from the study "Increasing the Sustainable Withdrawal Rate using the Standby Reverse Mortgage," the researchers found similar results to the updated SRM research, suggesting the new HECM LOC loan produces similar results as the previous study using the HECM Saver LOC loan. The increase in the Sustainable Withdrawal Rate of the portfolio to 5.25% occurs at a probability of 89.9% with the HECM Saver LOC, but drops slightly to 89.0% with the new HECM loan. The results suggest there is little material difference in the effectiveness of using the SRM strategy to increase a client's Sustainable Withdrawal Rate. The updated "Increasing the Sustainable Withdrawal Rate using the Standby Reverse Mortgage" research is expected to be published in the *Journal of Financial Planning* December 2013.

About Liberty Home Equity Solutions, Inc.

Liberty Home Equity Solutions, Inc. (Liberty) is one of the nation's largest reverse mortgage lenders dedicated to educating seniors about the different HEMC options available to them and providing loans that help them meet their financial and personal goals. Our team of professionals has the experience, integrity and communication skills that it takes to help seniors understand HECM loans and the options that fit them best in order to truly change their lives. To learn more about Liberty, visit www.libertyhomeequity.com or call 800.218.1415.

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[1]Salter, J. Ph.D., CFP®, AIFA®; Pfeiffer , S.; and Evensky, H. CFP®, AIF® (2013, October). Standby Reverse Mortgages and Sustainable Withdrawal Rate Research Updates.

[2]Salter, J. Ph.D., CFP®, AIFA®; Pfeiffer , S.; and Evensky, H. CFP®, AIF® (2012, August). Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions. http://www.fpanet.org/journal/StandbyReverseMortgages/

[3]Consult your financial advisor and appropriate government agencies for any effect on taxes or government benefits.

[4]Texas Tech University is not affiliated with Liberty Home Equity Solutions, Inc. or any of its companies. The researchers were compensated for the research they performed.