

# Innovative Reverse Mortgages Help Attract, Retain Customers

By Mike Potter

**Editor's Note:** *Bank Solutions is designed to help educate bankers on ACB Partners' programs. To learn more about this month's program, contact ACB Partners at (888) 872-0275 or the Financial Freedom ACB Account Team at (866) 719-8107 or visit [www.acbpartners.com](http://www.acbpartners.com) or [www.financialfreedom.com/acbpartners](http://www.financialfreedom.com/acbpartners). Visit [www.aarp.org](http://www.aarp.org) for more on reverse mortgages.*

Attracting and retaining clients is a constant challenge for financial services providers. To be successful, it's crucial to continually add value by providing customers and prospects with creative solutions to their financial needs.



Now there is an innovative mortgage product solution available to help your senior customers and their adult children. It's a relatively new, largely misunderstood and greatly unappreciated financial planning tool called a reverse mortgage. Although available in its modern form since 1989, reverse mortgages are just now gaining prominence as more financial advisors begin to recognize their versatility.

The broad audience and range of applications make reverse mortgages an excellent tool for prospecting clients or adding value to existing relationships. For example, seniors can use a reverse mortgage to increase their monthly retirement income, purchase other financial products such as annuities, long-term-care plans or life policies, or simply to create a cash reserve. Some baby boomers, squeezed by responsibilities for their children's college education and taking care of elderly parents, many are embracing the

reverse mortgage to help their parents help themselves. All of this can mean more business for community banks.

Reverse mortgages are maturing as a product at just the right time, demographically speaking. Increasing numbers of senior citizens have significant equity in their homes, but little income to meet increasing expenses, particularly in the area of health care. At the same time, many seniors don't want to leave the home they've made for themselves.

A lending product that allows homeowners to enjoy their home makes a lot of sense, and it also makes a great source of income and liquidity.

Reverse mortgages are a frequent subject of inquiry through organizations such as AARP, which indicates a growing interest in the product. However, to date, relatively few banks offer the product.

## Reverse Mortgages Explained

A reverse mortgage enables senior homeowners (62 or older) to convert part of their home's equity into income without having to sell the home, give up title, or take on a new monthly mortgage payment. Borrowers will never, under any circumstances resulting from the reverse mortgage, be forced to leave

their homes providing they make their real estate property tax and insurance payments.

Borrowers can choose to receive the reverse mortgage funds as a lump sum, monthly income (for up to life), or line of credit, or any combination. Borrowers make no monthly payments on a reverse mortgage during the life of the loan. The loan becomes repayable when the borrower sells the home or permanently moves out.

In addition, the repayment amount can't exceed the value of the home. Most important—the funds from the reverse mortgage are tax-free and can be used for any purpose.

Best of all, these products have numerous, built-in consumer protection features so bankers can be confident about recommending these products to a client. The National Reverse Mortgage Lenders Association, based in Washington, D.C., has developed a Code of Conduct and Best Practices to establish the highest standards for customer service and consumer protection in the business of reverse mortgage lending.

## Financial Planning Strategies

Recently, the concept has caught on with financial planners who have uncovered numerous innovative strategies for applying reverse mortgages. Here are a just few

ideas that may benefit some of your bank customers.

**Estate Tax Planning.** With the purchase of a reverse mortgage, the homeowner can reduce the taxable portion of their estate while increasing the non-taxable portion of their estate through the purchase of a whole life policy.

**Legacy Planning.** Reverse mortgages enable seniors to provide controlled gifting to their heirs. For example, either with or without a life policy, homeowners can arrange gifting to a favorite charity or establish a college savings account for a grandchild, such as a 529 plan or an UGMA.

**Retirement Income.** Seniors who have felt the decline in the stock market, perhaps through their 401(k), have used reverse mortgages to establish a line of credit in order to maintain comfortable cash reserves during retirement—that can free up other cash reserves which can be put to use elsewhere in their portfolios.

**Annuity Sale.** Funds generated by the reverse mortgage can be used to purchase an annuity to provide a lifetime stream of income that has portability.

**Health Care.** Seniors can alleviate the burden of health care costs by using proceeds from a reverse mortgage to pay prescription medications, long term care, or other related but often overlooked medical expenses such as transportation to the doctors' offices, home modifications or deductibles on health insurance premiums.

#### Learning More

Reverse mortgages are originated largely by private lenders. The most popular is the Home Equity Conversion Mortgage (HECM), which is insured by the Federal Housing Administration, an arm of the U.S. Department of Housing and Urban Development (HUD). More than 40,000 HECMs have been made since 1989 and over 7,000 were sold in 2000 alone. The industry is on pace to shatter that mark in 2001.

Other types of reverse mortgages are the Fannie Mae Home Keeper loan and two jumbo reverse mortgage products devel-

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oped by Financial Freedom Senior Funding Corporation of Irvine, CA. Jumbo reverse mortgages are specifically designed for the affluent market. Information on these products is available at Financial Freedom's Web site, [www.financialfreedom.com](http://www.financialfreedom.com) or [www.reversemortgage.org](http://www.reversemortgage.org), the Web site of the National Reverse Mortgage Lender's Association.

### **Getting Started**

Financial Freedom, a subsidiary of Lehman Brothers Bank, FSB, has formed an affinity partnership with ACB Partners so that ACB Members may respond quickly to rising consumer interest in these products almost immediately, with minimal expense, while always maintaining complete control over the customer relationship.

Through the turn-key program, Financial Freedom provides a complete line of reverse mortgage products that can either be affinity broker or wholesale correspondent based. The company provides training, customer and bank support through its call center and national network of branch offices, and assist banks with marketing.

Financial Freedom offers complete loan origination services from application through closing and funding, but the flexibility of the program allows banks to choose their level of involvement in the loan process. As you would expect, the bank's compensation is proportionate to its level of involvement.

Given the rapidly growing size of the senior market and community banks' involvement with their communities, this program provides an excellent opportunity for ACB members to expand their business while providing a product that can have an immediate positive impact on their clients' lives. **IS**

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