Guardian Capital

Your Solution to Real Estate Financing

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Rethink Reverse

Increase Portfolio Longevity

with a Reverse Mortgage Loan

*stock image

Rethink Reverse Mortgage Loans

Guardian Capital shares in your mission of putting the financial security of your family first and can appreciate the hard work and attention to detail associated with balancing portfolio construction and risk management for long-term success.

Life is not lived in the long-term. Considering the use of home equity in retirement planning is essential in balancing short-term concerns with long-term goals.

Government-insured Home Equity Conversion Mortgages (HECMs), commonly known as reverse mortgage loans can be used as a buffer asset to the borrower's spending strategy or as a new way to diversify wealth.

HECM loans are now safer than ever with specific measures required by the Federal Housing Administration (FHA) to protect borrowers. The new government guidelines make the HECM loan an incredible financial planning tool for investors who want to maximize portfolio longevity.

Learn More About the Advantages of HECMs

What is a reverse mortgage?

A reverse mortgage loan is designed for homeowners 62 and over to unlock a portion of the equity in their home by turning it into tax-free* cash with no monthly mortgage payments**.

How could a reverse mortgage help you with your retirement portfolio?

A reverse mortgage provides a potentially inexpensive, easy-to-qualify, tax-free*, liquid cash reserve for various uses.

How much does a reverse mortgage cost?

Much like traditional mortgage costs there are costs associated with originating the loan. Borrowers are charged an origination fee, a mortgage insurance premium (MIP), an appraisal fee as well as standard closing costs. The great news is that some of these fees can be capped and financed with the loan proceeds.

What are the qualifications?

- ✓ The youngest borrower on title must be 62 years of age or older. A non-borrowing spouse may be under 62.
- ✓ The home must be the borrower's primary residence.
- ✓ The home equity must exceed 40% in most cases, depending upon the borrower's age.
- ✓ The borrowers will undergo a financial review to ensure they are able to comply with the loan terms.

HOW CAN IT BE USED FOR RETIREMENT SECURITY?

- ✓ Replace cash reserves
- ✓ Delay drawing Social Security payments and pension payouts
- ✓ Loan Proceeds are not considered income and can be used as a tax-free income supplement*
- ✓ Buffer spending of investments in a down market
- ✓ Cover unexpected gaps in medical coverage, including long-term or nursing care
- ✓ Eliminate monthly mortgage payments** for borrowers and help to increase cash flow
- ✓ Provide a new way to diversify wealth
- ✓ Use a HECM for purchase to allow a client to purchase a new home and save the residual cash for other investments
- ✓ Enhance financial security without affecting some benefits such as Social Security or Medicare

THE BIG PICTURE

Home equity is a dynamic financial tool that should be discussed with clients to help them reach their retirement goals.

Portfolio Survival Risks:

1.LESS STRUCTURED ASSISTANCE

The shift from defined benefit plans to defined contribution plans might affect the distribution of retirement income among baby boomers.

-Social Security Administration[5]

2. MARKET VOLATILITY AND SHORT-TERM THINKING

Overreacting to short-term market volatility can endanger long-term results.

3. LONGEVITY

About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.

-Social Security Administration[6]

4. TAXES

The top marginal tax bracket for many retirees in 2016 was 39.6%. Minimizing this tax burden can help stretch savings.

-TaxFoundation.org[7]

5. HEALTHCARE

Approximately 70% of Americans age 65 or older will need some type of long-term care.

-Administration on Aging[8]

Demographic Statistics:

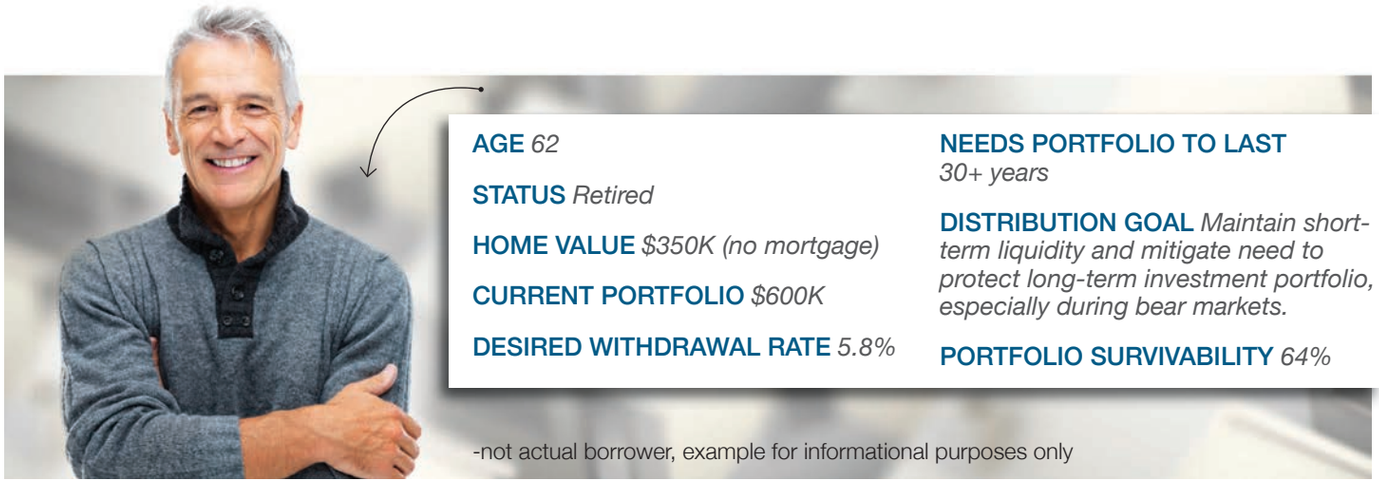
SURVEY[9]

47% of respondents plan to use home equity to help fund their retirement.

BOSTON COLLEGE CENTER FOR RETIREMENT RESEARCH[10]

74% of retirees will fall short of their income needs at 62 years old.

Reverse mortgage loans aren't just for people struggling to keep their homes. Reverse mortgages can also work for financially comfortable retirees looking for additional retirement security in order to avoid selling other portfolio assets at the wrong time or under duress.



MEET HANK

Hank is a recent retiree who is looking forward to enjoying the fruits of his labor. Hank worked closely with his advisor to grow his nest egg, but his portfolio took a $117,000 hit during the recession in 2008, which is on par with the average amount most Baby Boomers lost[1].

Thanks to his advisor, he's back on track, but he understands that the loss will impact his quality of life during retirement. Knowing this, Hank wants to have an intelligent plan in place to make sure his money lasts at least 30 years, especially if the market goes through more volatility.

Applied strategically, a reverse mortgage loan can significantly increase the probability that Hank's portfolio will last by acting as a tax-free* income supplement to buffer drawing down his portfolio.

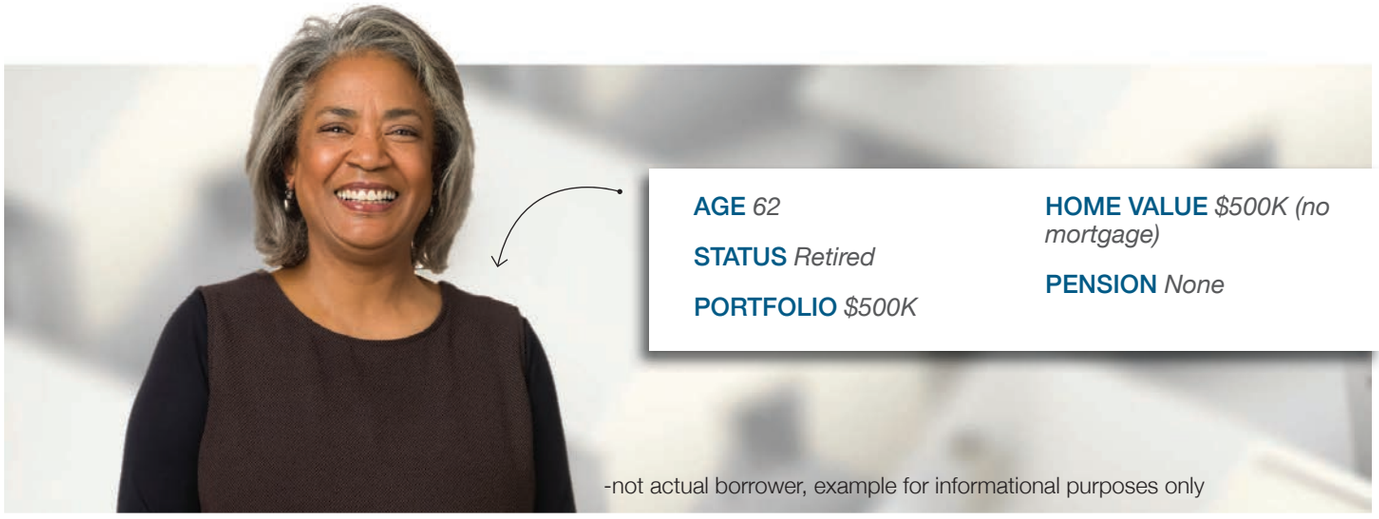
HERE'S HOW

Using Monte Carlo simulations[2] and Hank's current $600,000 portfolio balance with a withdrawal rate of 5.8% ($35,000 a year for living and other expenses), Hank's portfolio will only have a 64% survival rate over 30 years[3].

Making up a $100K+ loss is not an easy feat. By utilizing a reverse mortgage, **Hank is able to access his equity and buffer his portfolio withdrawal rate from 5.8% to 4% giving his portfolio a 93% survivability rate over 30 years[4], all while continuing to own and live in his own home without monthly mortgage payments.****

This is one of many ways a reverse mortgage loan can help provide you with a **sustainable** and **secure** retirement.

IMPORTANT: The projections or other information generated by simulations regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Calculators are made available to you as educational tools for your independent use and are not intended to provide financial planning or investment advice. These tools help you see which factors are most important to consider in making a particular financial decision, and they illustrate the relative impact of each factor on the projected outcome.



MEET BARBARA

Barbara is a recent retiree who is trying to decide the proper time to draw her Social Security benefits. Based on her goals, her projected living expenses are $60,000 per year. If she spends that percentage of her current investment portfolio year after year, she will deplete her funds short of her goal to make it last 30 years- with no pension to make up the difference. Barbara believes that drawing upon Social Security is her only option.

After meeting with her advisor, she learns that in order to make the most of Social Security benefits, she should wait until age 70 to collect the highest amount. By utilizing a reverse mortgage to supplement her retirement income during the eight-year deferral period, Barbara can ensure that she receives maximum benefits without having to drain her investment portfolio to reach her goals.

This is just one of many dynamic strategies that uses a HECM reverse mortgage to help homeowners 62+ reach their long-term goals.

Contact your Reverse Mortgage Loan Professional today!

"Outside of Social Security benefits, home equity is the largest asset for the average retiree. The big misconception many people have about reverse mortgages relates to when it is best to use them in retirement. Most people think it's a product for use at the end of retirement, when the retiree is out of other assets. However, research has shown that in most cases it is far better to use reverse mortgages early in retirement to reduce market risks and help improve cash flow."

-Professor Jamie Hopkins, The American College of Financial Services, 2016

STRATEGIES FOR INTELLIGENT ASSET ALLOCATION

Utilize these effective strategies to help
balance your client's short-term concerns with long term goals
to maximize portfolio longevity.

UTILIZE A HECM TO BUFFER SPENDING

1. A HECM can be used in early retirement as a tax-free* income source to ease sequence return risk by buffering spending from portfolios in down markets. A HECM can be used for this purpose with monthly payments, a lump sum, or a combination of the two. The use of a HECM as an income supplement and the elimination of monthly mortgage payments** can also allow for better tax planning opportunities, such as Roth conversions.

UTILIZE A HELOC WITH GROWTH POTENTIAL

2. A reverse mortgage loan can also be used as a Home Equity Line of Credit to make a portion of the home equity a liquid asset that can grow independently based on factors other than the housing market. This is a great way to create cash reserves by ending monthly mortgage payments**, diversify your assets, and help to minimize risk.

UTILIZE A HECM FOR PURCHASE

3. A HECM for purchase loan can help buyer's 62 and over buy a new home with a down payment and use the HECM loan to cover the rest of the mortgage. The borrowers can live in the home for the remainder of their lives with no monthly mortgage payments** as long as they comply with the loan terms. This is excellent for buyers who are looking to rightsize, as the potential borrower can use part of the proceeds from the sale of the previous home as a down payment and keep the remainder of the sale proceeds to fund their retirement.

These strategies can help your client reach their goals and feel confident about being financially prepared for emergencies while maintaining their desired quality of life.

Simple and effective.