



**Hilltop Advisors, LLC**

# ***Investing Reverse Mortgage Lending?***

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**Hilltop Advisors, LLC**

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# Investing in the Reverse Mortgage Lending Business



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What you should know if you are considering investing in a reverse mortgage lender or reverse mortgage loan portfolio?

- reverse mortgage product – substantially one product type
- nature of the borrowers that are attracted to this product
- cashflow requirements of the borrower, life expectancy and the ability of the property value to support such
- liquidity of the product in the secondary market
- tools needed to properly underwrite this product
- loan officer skills needed to properly originate this product
- impact on servicing systems to handle the loan over its life
- investments are being made in this business segment

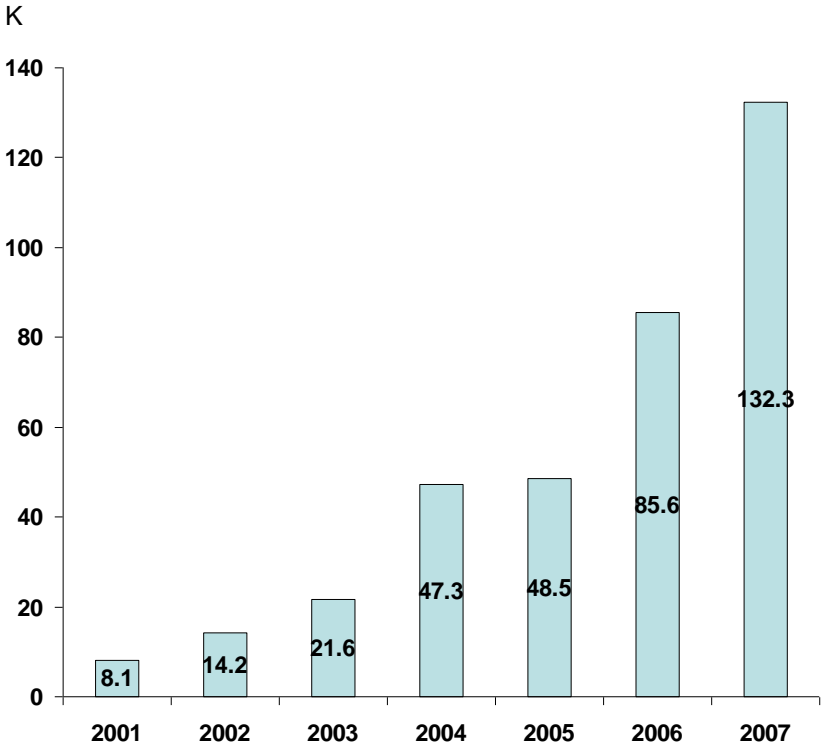
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# Reverse Mortgage Market is Growing

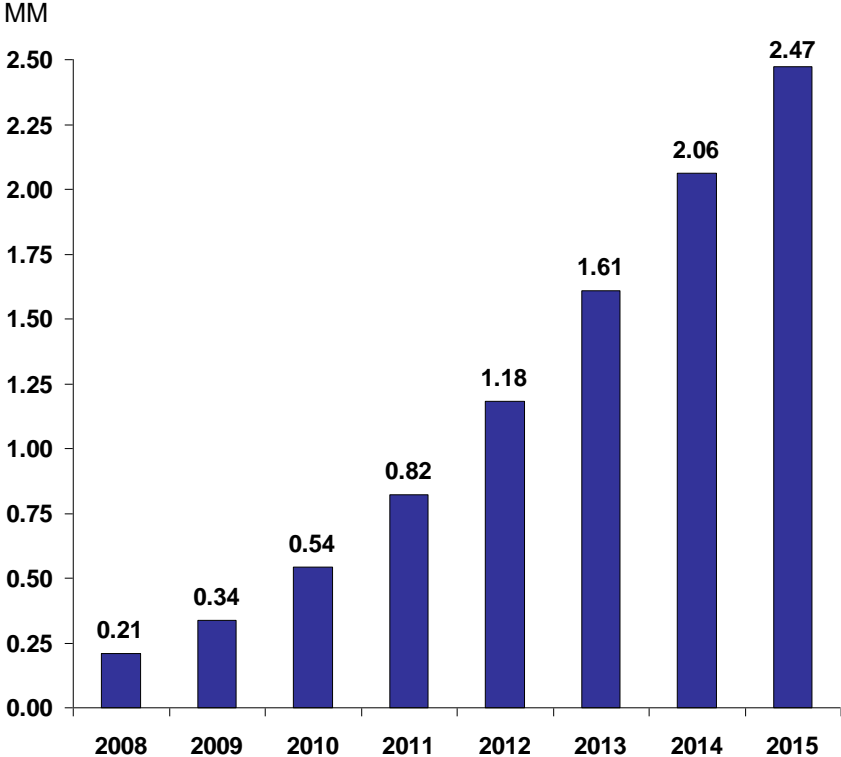


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**Actual HECM Loans by Year**



**Est. Rev Mortgages by Year**



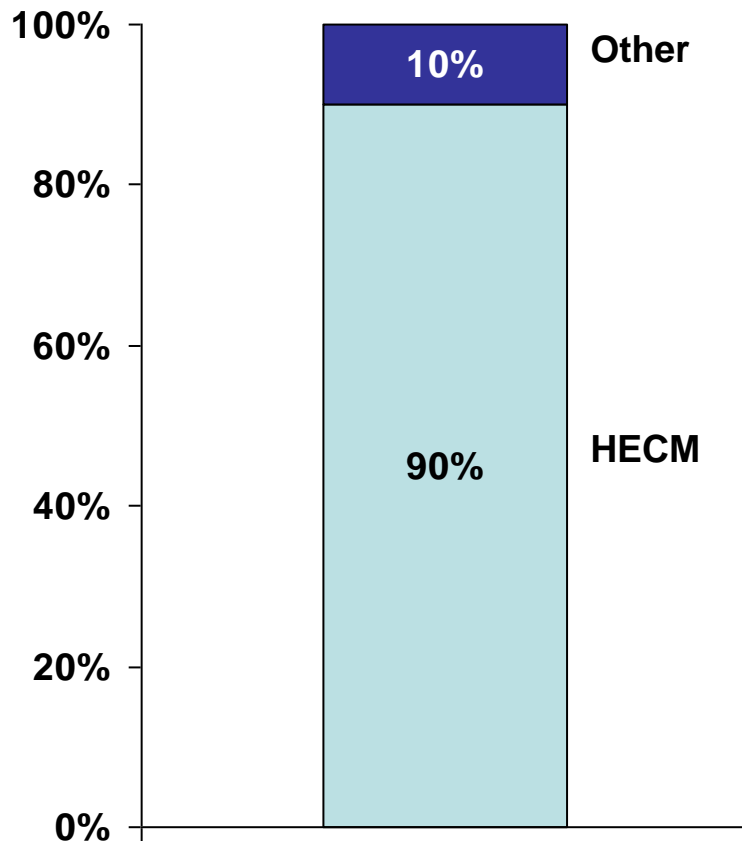
Source: Actual data from NRMLA/HUD fiscal year reports adjusted for calendar year. 2008-2010 estimates assume 60% annual growth rate. 2011-2015 estimate assumes linear decrease in growth rate from 60% in 2010 to 20% by 2015.

# FHA insured Home Equity Conversion Mortgages Dominate



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## Product Distribution



- Offered since 1989 to homeowners 62 or older
- Insured by the FHA
- Loan amount varies depending on the borrower's age, home value, home equity, and location
- Requires mortgage insurance premium of 2% up front and 0.5% thereafter
- Non recourse loan, so customer never owes more than the value of the home
- Repaid when the borrower moves out of the home permanently
- After repayment, remaining equity is distributed to the borrower or borrower's heirs/estate

# Nature of the borrowers that are attracted to this product



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## Average Reverse Mortgage Customer Descriptive Statistics

	<b>1990</b>	<b>2004</b>	<b>2007</b>
<b>Age</b>	<b>76</b>	<b>74</b>	<b>71</b>
<b>Female %</b>	<b>57%</b>	<b>48%</b>	<b>52%</b>
<b>Male %</b>	<b>13%</b>	<b>16%</b>	<b>26%</b>
<b>Couples %</b>	<b>30%</b>	<b>36%</b>	<b>22%</b>

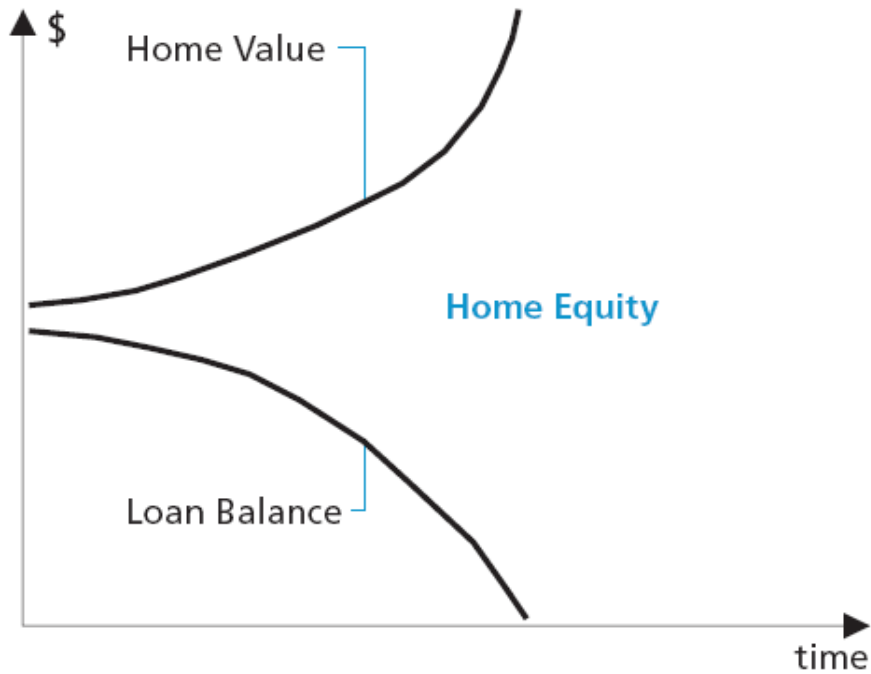
Source: Actual data from NRMLA news Release September 28, 2004.

# Cashflow Requirements, Life Expectancy and Property Values are Critical Components

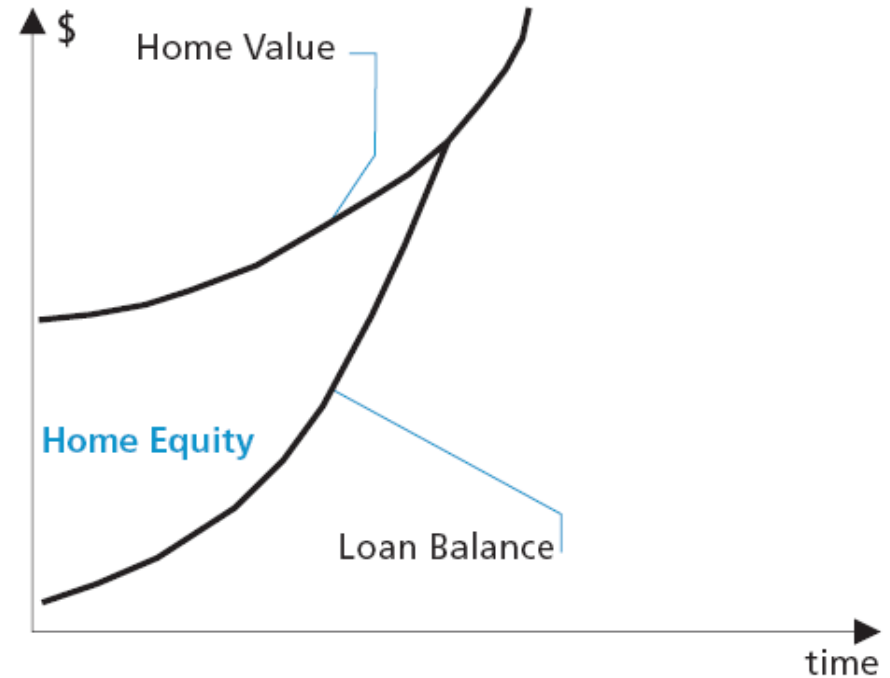


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## Forward Mortgage



## Reverse Mortgage



Source: AARP "Home Made Money: A consumer's Guide to Reverse Mortgages" 2004.

# Mortgage is tied to rate, real estate value and life expectancy (age)



## HECM Lump Sum or Credit Line

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Home Value	Age	Lump sum or creditline when expected rate is		
		6%	7%	8%
\$150,000	65	\$75,657	\$60,873	\$48,705
	70	83,077	69,733	58,121
	75	90,882	79,265	68,798
	80	99,104	89,353	80,169
	85	107,337	99,444	91,832
	90	115,193	109,157	103,113
\$200,000	65	\$103,207	\$83,323	\$66,955
	70	113,027	95,083	79,471
	75	123,332	107,715	93,648
	80	134,154	121,053	108,719
	85	144,937	134,344	124,132
	90	155,143	147,057	138,963
\$250,000	65	\$130,757	\$105,772	\$85,204
	70	142,977	120,432	100,820
	75	155,782	136,165	118,497
	80	169,204	152,752	137,268
	85	182,537	169,243	156,431
	90	195,093	184,956	174,813

Source: AARP "Home Made Money: A consumer's Guide to Reverse Mortgages" 2004.

# Liquidity of Secondary Market



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Unless you are going to put the reverse mortgages into portfolio, the liquidity of the Secondary Market is of critical importance.

Liquidity in the current market is currently limited to:

- Fannie Mae program
- Certain large banks

Possible future outlets include insurance companies or other investors which understand the life expectancy aspects of this loan product.

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# Who, What, and How of Reverse Mortgage Lending/Servicing



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Lenders will need very experienced loan officers or will need significant training to create a sale force capable of handling this unique product, especially after the mortgage market “meltdown”.

Traditional automated underwriting tools will not be applicable to reverse mortgage lending.

Tools to help assess life expectancy – mortality curves and other tools used by life insurers to determine risk of life span are needed to properly assess this type of loan product. Life insurers may have a role in providing “factors” for life expectancy.

Loan servicing and risk management systems may need modification or “add ons” to handle disbursements, monitoring loan caps, updating real estate values, etc.

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# Recent Acquisitions/Investments



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- Genworth recently acquired Liberty Reverse Mortgage for \$50MM, plus earnout
- MetLife recently acquired Everbank Reverse Mortgage
- KBC (2<sup>nd</sup> largest Belgian bank) acquired Vertical Lend Reverse Mortgage (Robert Wagner tv commercials)
- Bank of America acquired Seattle Reverse Mortgage
- Guggenheim invested in Generation Reverse Mortgage
- Rock Financial (Quicken Loans) acquired One Reverse Mortgage
- WSFS Financial Corporation acquired majority stake in 1<sup>st</sup> Reverse Financial Services



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*Hilltop Advisors, LLC is here to help your company be successful! We look forward to working with you.*

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