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ARTICLES

The Home Equity Conversion Mortgage as a Long-Term Care Insurance Alternative for Financing In-Home Care
By Stephen R. Pepe, J.D.

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The Home Equity Conversion Mortgage as a Long-Term Care Insurance Alternative for Financing In-Home Care

By Stephen R. Pepe, J.D.

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I. Introduction

Most older Americans lack long-term care insurance (LTCI) for financing a long-term care event, thereby exposing their retirement savings to premature and devastating erosion. The $6.1 trillion in home equity owned by households with a member age 62 or older can serve as a viable in-home care funding source if it is accessed properly. This article explains how the Home Equity Conversion Mortgage (HECM), more commonly known as a reverse mortgage, is an effective tool that enables older homeowners to access home equity to finance in-home care and why elder law attorneys should include HECMs into long-term care discussions.

A prolonged in-home care event can devastate an older client's carefully crafted retirement plan. An article published in 2016 conveys the same message, explaining, "While Medicare covers major medical expenses for those who are 65 and over, the expenses involved in a chronic or catastrophic health event can surprise even those who plan well … . The estimated [health care] expenses the average couple will spend in retirement is $245,000."[1] Purchasing LTCI is the traditional, reliable strategy to mitigate the risk of going broke in retirement due to a long-term care event. Clients should purchase LTCI in time to protect themselves financially in the event of declining health. But many clients do not. Maybe they object to the policies or cannot afford the premiums. Perhaps they fail to meet LTCI health underwriting standards because they are among the 90 percent of seniors who have a chronic health condition or 80 percent of seniors who have two or more chronic conditions.[2] Others may procrastinate by avoiding thinking about and discussing their own mortality. Whatever the reason, only 10 percent of elderly Americans have LTCI,[3] leaving the rest to find alternatives.

1 Sandra Timmermann, *Shocks and Loss in Retirement: Preventing Despair, Promoting Resilience*, 70(5) J. Fin. Serv. Profs., p. 34 (Sept. 2016).

2 Bipartisan Policy Ctr., *Healthy Aging Begins at Home* 21 (May 22, 2016).

3 Susan Hoover, *Long-Term Care Insurance (LTCI): The Good, the Bad, and the Ugly*, Enterprising Investor, CFA Inst., https://blogs.cfainstitute.org/investor/2016/09/19/the

Long-term care financing alternatives for affluent clients who enter retirement without LTCI include self-insuring or purchasing "hybrid" life insurance policies and annuities that have long-term care riders. These policies and annuities come with substantial initial out-of-pocket costs but, similar to traditional LTCI products, can provide meaningful long-term care benefits. Another article from 2016 covered these asset-based products in great detail.[4] Clients who lack both LTCI and the resources to self-insure or purchase hybrid insurance and annuity products must rely on their families and programs such as Medicare, Medicaid, the Department of Veterans Affairs Aid and Attendance benefit, and others.

Seniors' desires to age in their own homes surface in conversations during client appointments as well as in written studies. For instance, the Bipartisan Policy Center in May 2016 reported that a "substantial majority of seniors" wish to age in place in their own homes.[5] Furthermore, 85 percent of retirees surveyed by Merrill Lynch preferred to receive long-term care in their own homes as opposed to assisted living facilities, nursing homes, or family members' homes.[6]

As of 2016, the nationwide median nonhousing net worth of homeowners age 65 and older was $103,180.[7] Therefore, home equity cannot be ignored when searching for viable in-home long-term care financing sources — whether as part of an annual review or in preparation for an imminent foreseeable need.

Homeowners age 62 and older, who combined own $6.1 trillion of this nation's home equity, can tap into their home equity to finance their in-home care needs.[8] Because home equity is not a liquid asset, a homeowner requires a mechanism to release that equity and transform it into spendable funds. One such mechanism that is both efficient at unlocking home equity and within the financial reach of millions of older homeowners is the HECM, insured by the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA).[9] Commonly known as a reverse mortgage, a HECM enables older homeowners to convert a portion of their home equity into income tax–free funds[10] to pay for in-home care, medical equipment, and home accessibility modifications necessary to endure an extended period of declining health in their own homes — all while insulating their other assets from significant depletion. By using the strategies explained in this article,

-pros-and-cons-of-long-term-care-insurance/?tc=eml (Sept. 19, 2016).

4 David A. Gresham, *Seeking Stable, Efficient Coverage for Long-Term Care With Asset-Based Products,* 70(4) J. Fin. Serv. Profs., p. 47 (July 2016).

5 Bipartisan Policy Ctr., *supra* n. 2, at 17.

6 Merrill Lynch, *Home in Retirement: More Freedom, New Choices* (Aug. 2014).

7 Jt. Ctr. for Hous. Stud. of Harvard U., *Projections and Implications for Housing a Growing Population: Older Households 2015–2035*, 54 (2016).

8 Jason Oliva, *Home Equity Grows to $6.1 Trillion for Reverse Mortgage–Age Seniors*, ReverseMortgageDaily, http://reversemortgagedaily.com/2016/12/20/home-equity-grows-to-6-1-trillion-for-reverse-mortgage-age-seniors/?utm_source=Reverse+Mortgage+Daily&utm_campaign=d6db0ae98eEMAIL_CAMPAIGN_2016_12_20&utm_medium=email&utm_term=0_48b4357284-d6db0ae98e-54189 (Dec. 20, 2016).

9 This material has not been reviewed, approved, or issued by — nor is the author affiliated with or acting on behalf of — HUD, FHA, or any other government agency.

10 This is not tax advice. One should seek the advice of a tax professional.

Table 1. Median Monthly Costs for Combined Homemaker and Home Health Aide Services in Selected Regions/States, 2016

Region	State	Median Monthly Cost
Northeast	Massachusetts	$9,505
Southeast	Florida	$7,293
Midwest	Kansas	$7,674
Northwest	Washington	$9,472
Southwest	Arizona	$7,811

clients whose choice of long-term care setting is their home will discover that a HECM can outperform many LTCI polices in terms of the amount of money available for care, the versatility of those funds, startup costs, and ongoing out-of-pocket costs.

II. Cost of In-Home Care

According to the 2016 Genworth Cost of Care Survey,[11] the national median hourly rate for "homemaker services" and "home health aide services" in 2016 was $20 per hour and the national median monthly cost for these services combined was $7,674; Table 1 presents the 2016 median monthly costs for these services combined in five states in five regions of the country.[12]

These costs are limited to the hourly rate for caregivers who visit clients' homes. They do not include assistive technologies or home accessibility modifications. Less than 4 percent of single-family homes contain all three of what the Joint Center for Housing Studies of Harvard University calls "the most critical accessibility features" for older homeowners (single-floor living, extra-wide hallways and doors, and zero-step entrances).[13] Therefore, the majority of older homeowners trying to age in place will face additional disability-related home renovation costs in addition to caregiver costs.

III. HECM Primer

This section presents an overview of HECM features and highlights HECM program rules encountered in the in-home care context. Some comparisons between HECMs and LTCI are interspersed throughout this section.

A. *General Eligibility*

An eligible HECM borrower must be at least 62 years old and own a primary residence that is a single-family home, an owner-occupied multifamily home,

11 Genworth Financial, Inc., *Cost of Care* (2016).

12 Genworth defines "homemaker services" as those providing help with household tasks that cannot be managed alone. Homemaker services include hands-off care such as cooking, cleaning, and running errands. Genworth defines "home health aide services" as hands-on personal care, but not medical care, that is provided to people who need more extensive care.

13 *Supra* n. 7, at 9.

an FHA-approved condominium, or a planned unit development. The home must meet a set of FHA standards addressing safety and structural soundness. Unlike LTCI, advanced age, such as being in one's 80s or 90s, does not negatively impact one's ability to obtain a HECM. In fact, it can actually work to a homeowner's advantage by increasing the amount of available HECM funds. HECMs are compatible with life estates and certain inter vivos trusts.[14] In addition, new regulations and safeguards are in place for age-qualified borrowers who have spouses who are younger than 62.[15]

B. Credit and Income

Because a HECM has no recurring monthly repayment requirement,[16] the absence of substantial income or assets does not necessarily bar a homeowner from obtaining a HECM. However, all HECM applicants undergo a financial assessment, which analyzes the homeowner's credit history, property charge payment history, and residual income to determine the homeowner's ability (income) and willingness (credit) to meet his or her property expense obligations (including taxes, insurance, and maintenance).[17] Those who do not meet certain HUD income and credit thresholds encounter Life Expectancy Set-Aside accounts, earmarking part of their HECM proceeds for future property tax and insurance payments or, in extreme cases, have their HECM application denied. Although income matters for today's HECM applicants, an income level that might not sustain a recurring LTCI premium payment may still pass HECM financial assessment.

C. Health

One distinct advantage of a HECM over LTCI is that a HECM lender cannot base any credit decisions on an applicant's health. Therefore, clients who are denied LTCI for health reasons still have a viable in-home care financing option with a HECM if they are homeowners. If an applicant has a physical disability that makes signing documents difficult, lenders have procedures for signing documents with a "mark" or allowing the client's attorney-in-fact (AIF), guardian, or conservator to sign the documents in his or her place.

Homeowners receiving in-home care frequently suffer from mental impairments such as Alzheimer's disease or another form of dementia. For a homeowner lacking the cognitive ability to understand and participate in a HECM transaction, an AIF under a durable power of attorney or a duly appointed conservator or guardian may complete the transaction on his or her behalf.[18] Similar to a physical impairment, a cognitive impairment or neurological disorder does not disqualify a client from obtaining a HECM. This is another advantage that a HECM has over LTCI. If an AIF is to sign documents, the lender requires a physician's letter detailing the homeowner's cognitive abilities

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14 24 C.F.R. §§ 206.35, 206.45 (2003); Dept. of Hous. & Urb. Dev., *Home Equity Conversion Mortgages Handbook* 4235.1, REV-1, § 4-5 [Nov. 18, 1994].

15 Dept. of Hous. & Urb. Dev., Mortgagee Letter 2014-21, *Subject: Revised Changes to the Home Equity Conversion Mortgage (HECM) Program Requirements*, https://www.hud.gov/sites/documents/14-21ML.PDF (Nov. 10, 2014).

16 As with any home-secured loan, a borrower must meet his or her loan obligations, which include the payment of property taxes, homeowner's insurance, and costs associated with home maintenance.

17 *Id.*

18 Dept. of Hous. & Urb. Dev., *supra* n. 14, at 4-6, 4-7A.

both when the durable power of attorney is signed and when the homeowner applies for the HECM.

D. Required Consumer Counseling

Every homeowner who wishes to obtain a HECM must undergo a reverse mortgage counseling session with a HUD-approved nonprofit HECM counseling agency.[19] During the 1- to 2-hour session, conducted in-person or by telephone, the counselor explains the HECM program in detail, reviews alternatives to the HECM program, and tries to ascertain whether anyone is exerting undue influence over the potential borrower. No steering can occur between counselors and lenders (i.e., a counselor cannot steer a client toward a particular lender or vice versa). A HECM lender may not process a homeowner's HECM application until the homeowner successfully completes HECM counseling. Also, similar to a HECM transaction, an AIF, a conservator, or a guardian can stand in on behalf of a homeowner who has cognitive impairments.

E. HECM Loan Amount

The amount of HECM loan proceeds that a client can borrow is called the principal limit. The principal limit amount is determined by the youngest homeowner's age, the maximum claim amount, and the expected interest rate.[20] The maximum claim amount is the lesser of the home's appraised value or the "FHA lending limit." In 2018, the FHA lending limit is $679,650.[21] For example:

- Mr. Rogers owns a house worth $300,000. His maximum claim amount is $300,000.
- Mrs. Brown's house is worth $1,000,000. Her maximum claim amount is $679,650.

Age also plays a role in the principal limit. The older the homeowner, the higher the principal limit. An 82-year-old homeowner can borrow more money than a 62-year-old homeowner living in a house of identical value. Other than influencing the principal limit amount, advanced age does not affect a homeowner's HECM eligibility, unlike LTCI. In other words, a 90-year-old client might be rejected for LTCI but may still qualify for a HECM.

Whether the client is 62 or 102 or owns a home worth $100,000 or $1 million, a HECM will not convert 100 percent of the client's home equity into cash. An equity cushion will always exist to protect against crossover risk, or the risk that the client's outstanding loan balance will exceed the home's value. In general, the younger the borrower, the larger the equity cushion.

F. HECM Disbursement Options

A HECM borrower has six options for receiving HECM loan proceeds. Three of those options — the line of credit (LOC), the term payment, and the lump sum disbursement — are most relevant to the in-home care financing discussion. These three options, which, along with case studies, are described in subsequent sections, are introduced below.

19 24 C.F.R. 206.41; Dept. of Hous. & Urb. Dev., *supra* n. 14, at 1-9, 2; Dept. of Hous. & Urb. Dev., Mortgagee Letters 04-25, 04-48, 06-25, https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee, *click selected year under* Previous years (accessed Jan. 11, 2018).

20 Dept. of Hous. & Urb. Dev., *supra* n. 14, at 1-4.

21 Dept. of Hous. & Urb. Dev., Mortgagee Letter 2017-17, *Subject: 2018 Nationwide Home Equity Conversion Mortgage (HECM) Limits*, https://www.hud.gov/sites/dfiles/OCHCO/documents/17-17ml.pdf (Dec. 7, 2017).

1. Line of Credit

The homeowner has access to a LOC against which he or she can draw. One key feature distinguishing a HECM LOC from a traditional home equity LOC is a guaranteed growth factor:[22] The unused portion of a HECM LOC experiences guaranteed income tax-free growth[23] regardless of any future fluctuations in the home's value. A LOC set up today and left untouched will be more valuable in 1 year, 5 years, 10 years, etc. The LOC growth rate is equal to the HECM note rate plus 50 basis points.[24] Therefore, a HECM with a note rate of 6.00 percent today will have a LOC growth rate of 6.50 percent. The options and accompanying case studies in this article demonstrate how clients can leverage the HECM's LOC growth rate to build up a substantial source of in-home care funds.

2. Term Payment

Term payments are monthly disbursements that end after a certain period of time. The homeowner chooses the amount of the monthly disbursement or the length of the term; for instance, a borrower with in-home care costs of $10,000 per month can request monthly term payments of $10,000. Those term payments end when all of the loan proceeds have been disbursed.

3. Lump Sum Disbursement

With this option, the homeowner receives some or all of the loan proceeds as a single lump sum disbursement on Day One. A client requiring home accessibility modifications or expensive durable medical equipment may choose this option right away.

G. Disbursements and Mandatory Obligations

Mandatory obligations typically include mortgage and lien payoffs, financed closing costs, and first-year set-asides. If a homeowner's mandatory obligations are less than 60 percent of the principal limit at closing, he or she may withdraw loan funds during the first year in amounts up to 60 percent of the principal limit. The remaining loan funds can be withdrawn during Year Two and beyond. To ensure that the strategies discussed in this article work effectively, a homeowner client's mandatory obligations should be below this 60 percent threshold. Otherwise, the HECM may not adequately cover the homeowner's first year of in-home care expenses. Following is an example:

- Mrs. Blue's home is worth $200,000, and her principal limit is $100,000. Her total mandatory obligations are $4,000. She can withdraw up to another $56,000 during Year One and the remaining $40,000 during Year Two and beyond. (The LOC growth factor has been set aside to simplify this explanation.) If Mrs. Blue's total in-home care costs are $4,000 per month, or $48,000 annually, her HECM can finance all of her first-year care expenses. If Mrs.

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22 24 C.F.R. 206.25(d).

23 This is not tax advice. One should seek the advice of a tax professional.

24 For HECM loans, the unused portion of the LOC grows at the LOC growth rate, which is equal to the compounding note rate. This is the same rate at which the principal limit and the loan balance grow, which is the current interest rate plus the annual mortgage insurance premium rate (as of this writing 0.50% divided by 12). Therefore, the amount of funds available to the borrower from a LOC increases each month for as long as funds remain. A proprietary product may have a lower growth rate than that of a HECM or no growth rate feature, which affects the amount of cash available to a borrower.

Blue's in-home care costs total $8,000 per month, or $96,000 annually, her HECM will only cover 7 months of her care costs ($56,000).

H. Repayment

Unlike traditional mortgages and home equity lines of credit (HELOCs), a HECM has no required monthly repayment obligation.[25] However, homeowners may make voluntary prepayments in whole or in part without incurring a prepayment penalty. A HECM becomes due and payable when one of the following occurs:[26]

- All of the borrowers and any qualified nonborrowing spouses have died.
- All of the borrowers have sold or conveyed their interest in the property.
- No borrowers have occupied the property as their principal residence for 12 consecutive months because of physical or mental illness.
- The property has fallen into disrepair, and the borrower refuses to repair it.
- The borrower otherwise violates a mortgage covenant (i.e., fails to pay real estate taxes, homeowner's insurance, flood insurance, or homeowner's association fees), leading to default.

At the time of repayment, the HECM repayment balance comprises all principal disbursed to the homeowner plus accrued interest, FHA insurance premiums, servicing fees (if any), and financed closing costs. These costs are explained in more detail later. A deceased borrower's estate can pay off the HECM by selling the home or can keep the home in the family by paying off the HECM with funds on hand, a conventional mortgage, or the death benefit from a life insurance policy.

I. Nonrecourse Guarantee

If a homeowner's equity cushion does not withstand future interest rate and real estate market fluctuations, HECMs are nonrecourse loans.[27] The homeowner is not personally liable for the repayment of the debt if crossover occurs (i.e., the outstanding HECM loan balance exceeds the home's value). The only asset from which the lender can expect repayment is the home. If the loan repayment balance exceeds the fair market value of the home at the time of repayment, the FHA pays an insurance claim to the lender to make the lender whole. Unlike virtually any other mortgage product, the HECM lender cannot commence a deficiency judgment against the borrower or the borrower's estate. All of the client's other assets and investments are out of the lender's reach.

IV. HECM Costs

This cost discussion divides HECM costs into two categories: out-of-pocket costs and financed costs.

A. Out-of-Pocket Costs

Compared with LTCI, HECMs have extremely low out-of-pocket costs. The first out-of-pocket cost is the HECM counseling agency's fee, which typically ranges from $125 to $200. The second out-of-pocket cost is the appraisal deposit. FHA appraisals typically cost approximately $550 for single-family homes or condominiums and more for multifamily homes. A lender may ask a homeowner

25 As with any home-secured loan, a borrower must meet his or her loan obligations, which include the payment of property taxes, homeowner's insurance, and home maintenance costs.

26 24 C.F.R. 206.27(c); Dept. of Hous. & Urb. Dev., *supra* n. 14, at 1-13.

27 24 C.F.R. 206.27(8); Dept. of Hous. & Urb. Dev., *supra* n. 14, at 1-3C.

to pay some or all of the appraisal fee as a deposit at the time of application. A potential out-of-pocket cost is a voluntary prepayment that is entirely within the homeowner's discretion. Again, the homeowner has the option of prepaying a HECM in whole or part without penalty if the HECM is not due and payable. During a long-term care episode, a homeowner most likely will not prepay a HECM in the interest of conserving funds for care-related expenditures. Therefore, the most an average single-family homeowner should expect to pay out-of-pocket to initiate a HECM is about $750.

Comparing the HECM's one-time out-of-pocket cost to LTCI out-of-pocket premium costs demonstrates a dramatic difference between the two options. According to the American Association for Long-Term Care Insurance's 2015 Price Index, a 60-year-old couple purchasing $164,000 in immediate LTCI coverage would pay average annual premiums ranging from $2,170 to $3,930 per year.[28]

B. Financed Costs

Financed HECM costs are separated into four categories: closing costs, interest, ongoing mortgage insurance, and monthly servicing fee. These costs are added to the loan repayment balance. In today's competitive HECM market, lenders frequently offer lender credits to offset some of these financed closing costs, thereby reducing the total closing costs charged to the homeowner.

1. Closing Costs

a. Initial Mortgage Insurance Premium

The FHA's initial mortgage insurance premium (IMIP) is a financed closing cost that is subtracted from the borrower's principal limit. The IMIP is 2 percent of the homeowner's maximum claim amount.[29] For example:

- Mrs. Blue's home is worth $200,000. Her IMIP is $4,000 (2 percent of $200,000).

b. Financed Origination Fee

The financed origination fee is another closing cost that a HECM lender may charge the homeowner. Like the IMIP, it is subtracted from the borrower's principal limit. HUD sets a $2,500 floor and a $6,000 cap. The formula for everything in between is as follows:

- 2 percent of the first $200,000 of the maximum claim amount
- 1 percent of the remaining maximum claim amount over $200,000

In today's competitive market, lenders frequently reduce their origination fees; therefore, clients should shop different lenders to assess their origination fee structures.

c. Third-Party Closing Costs

These costs include third-party fees and costs that appear in any typical residential real estate transaction. They may vary by lender or state and include the appraisal, legal, title examination, title insurance, credit report, flood determination, real estate tax certificate, and county recording fees.

28 Am. Assn. for Long-Term Care Ins., *How Much Does Long Term Care Insurance Cost? Here Are Costs for 2015 for Leading Long-Term Care Insurers*, http://www.aaltci.org/long-term-care-insurance/learning-center/long-term-care-insurance-costs-2015.php scroll down to "Good," "Better," and "Best" Long-Term Care Insurance price lists (accessed Jan. 11, 2018).

29 Dept. of Hous. & Urb. Dev., Mortgagee Letter 2017-12, *Subject: Home Equity Conversion Mortgage (HECM) Program: Mortgage Insurance Premium Rates and Principal Limit Factors*, https://www.hud.gov/sites/documents/17-12ML.PDF (Aug. 29, 2017).

2. Interest

Homeowners have a choice between fixed and adjustable interest rates. Interest is assessed against any costs and principal disbursed to the homeowner. The interest is not an out-of-pocket cost; instead, it is added to the homeowner's outstanding balance that will be repaid when the loan becomes due and payable. This article focuses on adjustable interest rates because only adjustable rate HECMs enable the homeowner to select a LOC or monthly disbursement. Homeowners can choose a rate that changes annually or monthly. Fixed interest rates have the advantage of never changing during the life of the loan, but the homeowner is limited to a single lump sum disbursement of all loan proceeds at closing. Therefore, a fixed rate is usually a subpar selection for homeowners who want to fund in-home care with a HECM.

3. Ongoing Mortgage Insurance

In addition to the IMIP, the FHA charges an ongoing mortgage insurance premium of 50 basis points (0.50 percent) piggybacked on the lender's interest rate. This ongoing premium is assessed against the homeowner's outstanding balance.[30]

4. Monthly Servicing Fee

HECM lenders may charge a monthly servicing fee to cover their expenses for day-to-day loan servicing. HUD caps this servicing fee at $35 per month for all monthly adjusting interest rate HECMs and $30 per month for all annually adjusting interest rate HECMs. Not all lenders charge servicing fees, and those that do can and do vary on what they charge.

C. The Lower Cost HECM

Those searching for HECMs may be able to find HECMs with financed closing costs below $5,000. All the strategies presented in the following section use lower cost HECMs in their calculations. Although no HECM is officially named "lower cost HECM," clients looking for such a HECM should search for one that has the following features:

- A low financed origination fee
- A lender credit that offsets some or most of the remaining financed closing costs

V. HECM Options

The following options and accompanying case studies demonstrate how a HECM can finance in-home care. The subjects are four older homeowners who live in Cape Cod, Massachusetts — a popular retirement destination.

A. Option 1 (Line of Credit): Set Up a HECM Line of Credit as Early as Possible

This is the most effective strategy for giving the homeowner the greatest possible benefit at the lowest possible cost. The key is setting up a lower cost HECM as early as possible, ideally when the homeowner turns 62, choosing the LOC option, and allowing it to grow over the years. Out-of-pocket costs are minimal, and the total annual loan costs remain low until the homeowner begins drawing against the LOC.

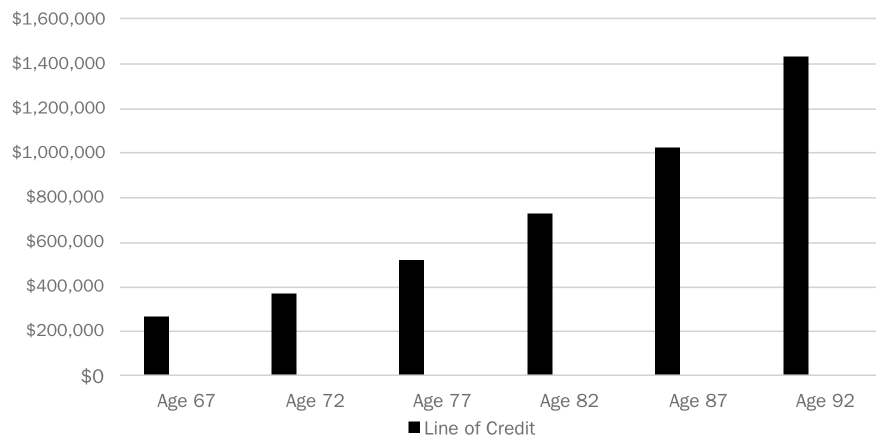
1. Client A

Client A owns a $600,000 home. He is 62 years old and was recently rejected for LTCI because of his pre-existing chronic medical condition. Client A's retirement portfolio is valued at $2 million.

Strategy. Rather than self-insuring or purchasing a life insurance product with a long-term care rider, Client A sets up a

30 *Id.*

Chart 1. Client A's 30-Year LOC Growth Projections



With this pricing option, the borrower receives a lender credit covering all but $4,500 in closing costs. The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 62; 2) the home is valued at $600,000; 3) the LOC will grow at 0.50% above the adjustable-rate mortgage (ARM), which uses the 1-year London Interbank Offered Rate (LIBOR) plus a margin of 4.50%; initial interest rate is 6.436%; initial annual percentage rate (APR) is 13.378% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 11.436%; 4) the LOC growth rate remains at 6.936%; and 5) the borrower makes no draws. Interest rates and funds available may change daily without notice.

lower cost HECM at age 62 with the following features:[31]

- Principal limit: $190,200
- Out-of-pocket cost: $175
- Financed closing costs: $4,500
- Interest rate: 6.436 percent annually adjustable
- Monthly servicing fee: None
- Disbursement option: LOC
- Initial LOC: $185,684
- LOC growth rate: 6.936 percent

Chart 1 presents Client A's LOC growth projections for the next 30 years.

Now assume that Client A, at age 82, suffers a serious health event but can remain at home with the help of in-home care at a cost of $120,000 per year. By age 82, Client A will have access to approximately $721,900 in his HECM LOC and can afford the $120,000 per year level of in-home care for more than 6 years.[32] Furthermore, Client A will not have to withdraw 1 cent from his other retirement savings to fund his care during that 6-year period, thereby preserving it for his other necessary and discretionary living expenses, gifting, philanthropy, his legacy, or any other use.

Chart 2 illustrates how Client A's home equity pays for his in-home care.

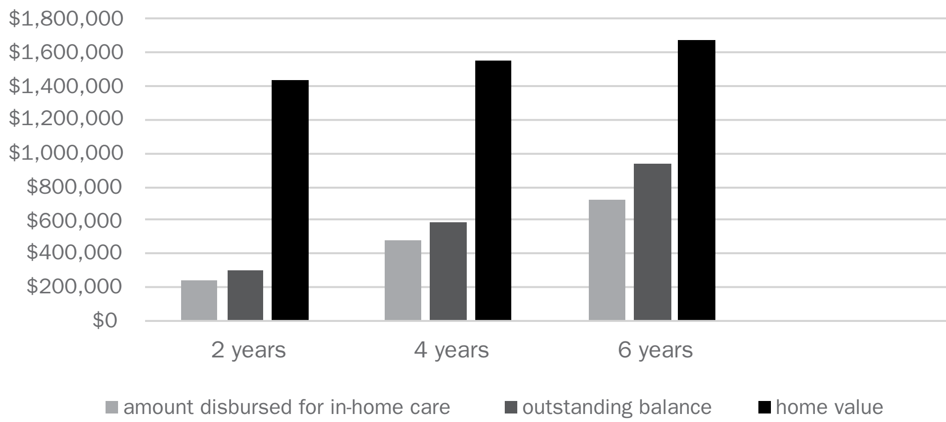
2. Client B

Client B is one of the 40 percent of Americans turning 62 over the next 20

31 Calculated on December 2, 2017, using Tango Reverse™ software.

32 Calculated on December 2, 2017, using Tango Reverse loan forecasting tool. Assumes 4 percent annual property appreciation rate.

Chart 2. Client A's $120,000/Year for In-Home Care Beginning at Age 82



With this pricing option, the borrower receives a lender credit covering all but $4,500 in closing costs. The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 62; 2) the home is valued at $600,000; 3) the LOC will grow at 0.50% above the ARM, which uses the 1-year LIBOR plus a margin of 4.50%; initial interest rate is 6.436%; initial APR is 13.378% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 11.436%; 4) the LOC growth rate remains at 6.936%; and 5) the borrower draws $120,000 per year for 6 years beginning at age 82. Interest rates and funds available may change daily without notice.

years who will have $25,000 or less in savings.[33] He owns a home worth $300,000. Although he wants to remain in his home for the rest of his life, Client B has resisted past recommendations to purchase LTCI because he could not afford the annual premiums or an asset-based long-term care product such as a life insurance policy with a long-term care rider.

Strategy. Client B follows the same strategy as Client A and sets up a HECM LOC at his current age of 62. Chart 3 illustrates his 30-year LOC growth with a HECM with the following features:[34]

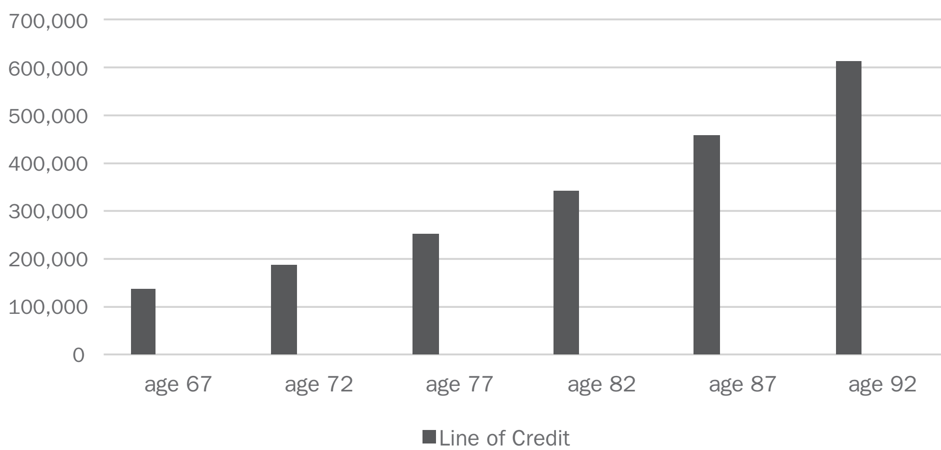
- Principal limit: $114,600
- Out-of-pocket cost: $175
- Financed closing costs: $11,912
- Interest rate: 5.061 percent annually adjustable
- Monthly servicing fee: None
- Disbursement option: LOC
- Initial LOC: $102,687
- LOC growth rate: 5.56 percent

Chart 3 presents Client B's LOC growth projections for the next 30 years.

Even though Client B's lower home value results in a principal limit of $114,600, a sum that can be depleted by just 1 year of in-home care costs, the guaranteed LOC growth ensures that his LOC will surge to a sizable amount over time. By comparing the size of the HECM LOC over time with Client B's $25,000 in savings, one immediately recognizes the benefits of imple-

33 Bipartisan Policy Ctr., *supra* n. 2, at 38.
34 Calculated on December 2, 2017, using Tango Reverse software.

Chart 3. Client B's 30-Year LOC Growth Projections



The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 62; 2) the home is valued at $300,000; 3) the LOC will grow at 0.50% above the ARM, which uses the 1-year LIBOR plus a margin of 3.125%; initial interest rate is 5.061%; initial APR is 17.328% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 10.061%; 4) the LOC growth rate remains at 5.56%; 5) and the borrower makes no draws. Interest rates and funds available may change daily without notice.

menting this long-term care strategy for similarly situated clients. Without LTCI or a HECM LOC, a long-term care event would wipe out Client B's savings in a matter of weeks.

Assume that Client B requires in-home care at age 82 to fulfill his wish of remaining in his home for life. The projected performance of his HECM LOC at a $10,000 per month withdrawal rate is presented in Chart 4.[35]

B. Option 2 (Term Payment): Immediately Use a HECM in the Absence of LTCI

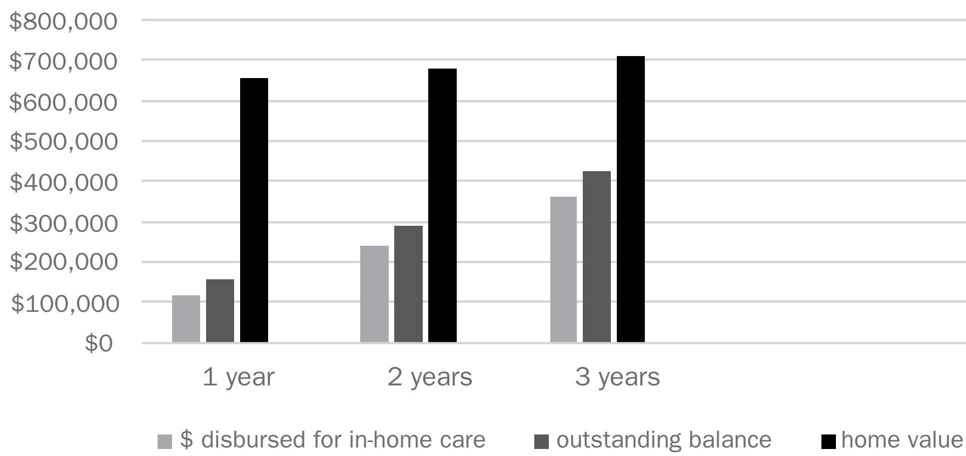
This strategy involves setting up a HECM for a homeowner who is already receiving or about to receive in-home care. Typically, a care plan is already in place, but it has depleted the majority of the client's liquid assets. The client is searching for a financing source to extend the in-home care's duration.

1. Client C

Client C is 82 years old and lives in a home worth $600,000. She never purchased a LTCI policy and now her chronic health conditions and advanced age prevent her from qualifying. During the past 3 years, Client C has withdrawn $10,000 per month from her $500,000 IRA to finance her in-home care. Her IRA's value is now $140,000. Client C is well enough to remain at home if she can continue to pay for the same level of in-home care, but she and her family are concerned about run-

35 Calculated on December 2, 2017, using Tango Reverse loan forecasting tool. Assumes 4 percent annual property appreciation rate.

Chart 4. Client B's $120,000/Year for In-Home Care Beginning at Age 82



The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 62; 2) the home is valued at $300,000; 3) the LOC will grow at 0.50% above the ARM, which uses the 1-year LIBOR plus a margin of 3.125%; initial interest rate is 5.061%; initial APR is 17.328% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 10.061%; 4) the LOC growth rate remains at 5.56%; and 5) the borrower begins drawing $120,000 per year at age 82. Interest rates and funds available may change daily without notice.

ning out of money before she runs out of time.

Client C's daughter, Clara, promised her mother that she would keep her out of a nursing home at all costs. She told Client C's attorney that she is prepared to take over the $10,000 monthly payments if her mother exhausts all of her assets. Clara is still in the accumulation phase of her own retirement plan.

Strategy. Client C sets up a HECM with monthly term payments of $10,000 and the following features to pay for her in-home care:[36]

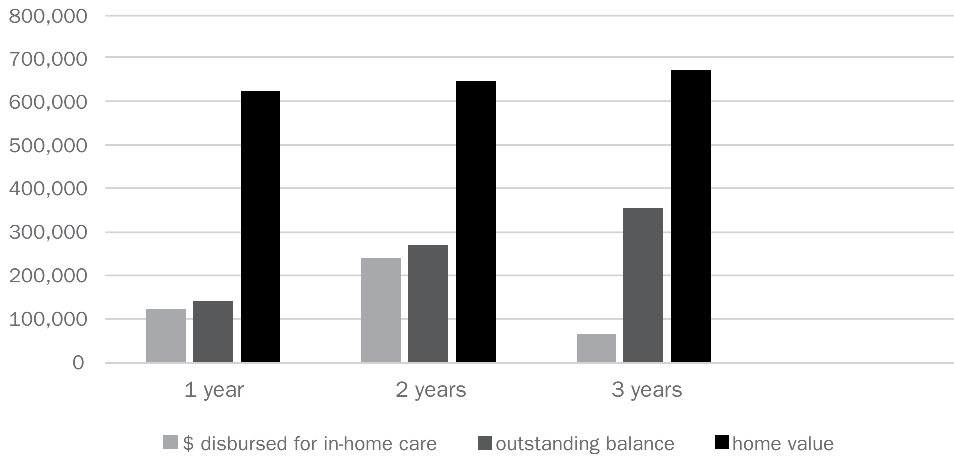
- Principal limit: $285,600
- Out-of-pocket cost: $175
- Financed closing costs: $4,500
- Interest rate: 6.436 percent annually adjustable
- Monthly servicing fee: None
- Disbursement option: Term payments of $10,000 for 30 months
- Initial LOC: $274,884
- LOC growth rate: 6.94 percent

Chart 5 illustrates Client C's projected HECM loan activity in relation to her home value once the HECM bears the burden of her in-home care expenses.

Setting up the HECM and immediately withdrawing monthly term payments guarantees that Client C will be able to afford 30 more months of in-home care while preserving her other retirement assets. This plan enables her to reduce the drawdown rate on her IRA from $10,000

36 Calculated on December 2, 2017, using Tango Reverse software.

Chart 5. Client C's HECM With $10,000 Term Payments



With this pricing option, the borrower receives a lender credit covering all but $4,500 in closing costs. The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 82; 2) the home is valued at $600,000; 3) the LOC will grow at 0.50% above the ARM, which uses the 1-year LIBOR plus a margin of 4.50%; initial interest rate is 6.436%; initial APR is 7.747% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 11.436%; 4) the LOC growth rate remains at 6.94%; and 5) the borrower draws $10,000 per month until funds are depleted. Interest rates and funds available may change daily without notice.

per month to her required minimum distribution. If she is well enough to remain at home in Month 31, she can again turn to her IRA as a funding source for her in-home care needs.

This strategy also delays or eliminates the need for Client C's daughter, Clara, to prematurely employ her own retirement plan. She made a common, albeit emotionally charged, promise to keep her mother in place, which could have disastrous consequences on her own financial well-being. The HECM enables Client C to rely on her own home equity to pay for 2.5 more years of in-home care and enables her daughter to continue down her own retirement savings path unscathed.

Client A and Client C live in homes of identical value and chose HECMs with identical closing costs and out-of-pocket costs. However, Client C borrowed $285,600 at the outset while Client A's principal limit was $190,200. These varying examples demonstrate the impact of age on principal limit. With all else being equal, older homeowners can borrow more. But in the end, did Client C have the better outcome?

Client A set up his HECM LOC at age 62, when he did not yet need it, enabling it to grow for 20 years. When he reached 82, the same age as Client C, his LOC exceeded $721,000. His LOC was 2.5 times more valuable than that of Client C, who waited until she had an immediate need for cash before using the LOC. Client A's HECM will fund his in-home care for 6 years versus Client C's HECM, from which she can squeeze out only 2.5 years of care. This may be why a leading financial professional wrote, "The ability to have an unused LOC grow is a valuable consideration for opening a reverse mortgage sooner rather than later."[37]

C. Option 3 (Lump Sum Disbursement): Use a HECM Along With LTCI

A HECM and LTCI can work together to extend a disabled homeowner's tenure in his or her home. This strategy demonstrates how to effectively withstand the LTCI elimination period by tapping into home equity as well as the versatility of HECM funds.

1. Client D

Client D recently suffered a stroke that will permanently confine him to a wheelchair. He is 62, owns a two-story home worth $600,000, and has a $500,000 retirement portfolio. Fortunately, Client D purchased a LTCI policy 10 years ago, which is still in force. The policy has a 6-month elimination period and thereafter will pay out up to $6,000 per month in eligible costs for 3 years. Health care professionals have advised Client D that he can safely remain at home if he makes certain home accessibility modifications, which follow, and hires an in-home care provider for 40 hours per week at $6,000 per month.

- Minivan with lift: $35,000
- Doorway widening and threshold removal: $5,000
- Wheelchair ramp to front door: $3,000
- Stair lift, interior: $7,000
- Walk-in tub: $3,000

Strategy. Client D immediately sets up a lower cost HECM with the following features:

- Principal limit: $190,200
- Out-of-pocket cost: $175
- Financed closing costs: $4,500
- Interest rate: 6.436 percent annually adjustable
- Monthly servicing fee: None
- Disbursement options: Lump sum and modified term with LOC
- Initial lump sum: $53,000
- Term payments: $6,000 per month for first 6 months
- Initial LOC: $91,028
- LOC growth rate: 6.94 percent

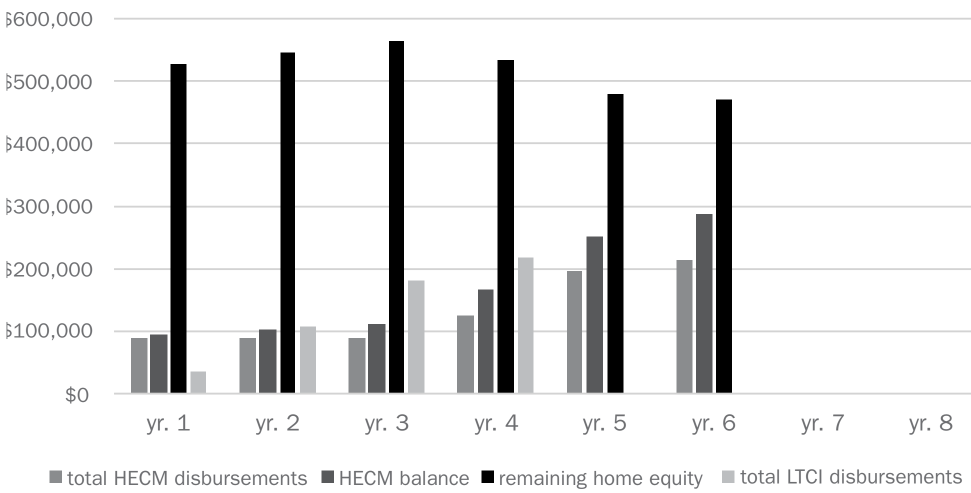
Client D withdraws a partial lump sum from the HECM rather than the retirement portfolio to pay for the $53,000 in home accessibility modifications and minivan. He withdraws funds from the HECM LOC during the LTCI elimination period to finance the first 6 months of in-home care ($36,000 total). Once the LTCI benefit disbursements begin, Client D uses them to finance in-home care and stops making withdrawals from the HECM LOC, which will enable it to grow over the next 3 years. When the LTCI policy is exhausted in 3 years, Client D reverts to drawing from the HECM LOC to pay in-home care expenses for another 27 months.

Chart 6 shows how the burden of financing Client D's home modifications and in-home care shifts between his LTCI policy and his home equity.

This strategy extends the period in which Client D relies on resources other than his retirement portfolio to finance his in-home care from 3 years to 5 years, 3 months. At the conclusion of this plan, Client D still has more than $471,000 in home equity and did not have to drain his retirement portfolio to pay for his in-home care during the entire 5-year period,

37 Wade Pfau, *Reverse Mortgages: How to Use Reverse Mortgages to Secure Your Retirement* 68 (Ret. Researcher Media 2016).

Chart 6. Client D's HECM Combined With LTCI



With this pricing option, the borrower receives a lender credit covering all but $4,500 in closing costs. The out-of-pocket cost is for a nonrefundable independent counseling fee of approximately $175 on average, which the borrower pays directly to the counseling agency. (Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only.) Assumptions: 1) The borrower is 62; 2) the home is valued at $600,000; 3) the LOC will grow at 0.50% above the ARM, which uses the 1-year LIBOR plus a margin of 4.50%; initial interest rate is 6.436%; initial APR is 10.920% as of December 2, 2017, which can change annually; annual interest cap is 2%; lifetime interest cap over the initial interest rate is 5%; maximum interest rate is 11.436%; 4) the LOC growth rate remains at 6.94%; and 5) the borrower draws a $53,000 initial lump sum in addition to six term payments of $6,000 each during Year One. The borrower resumes the $6,000 term payment in the 44th month. Interest rates and funds available may change daily without notice.

thereby extending his portfolio's longevity and giving it an opportunity to grow. This scenario highlights how HECM funds are unrestricted in their use and allows for HECM funds to pay for in-home care providers as well as home accessibility modifications, durable medical equipment, and transportation.

D. When Is a HECM the Wrong Long-Term Care Solution?

As with any financial product, a HECM in the long-term care context may not be advisable for some clients. For example, a HECM is a poor fit for a client whose safest and best environment is somewhere other than his or her home or a client who is making an imminent permanent move to an apartment, assisted living facility, skilled nursing facility, group home, or the home of a family member. In these cases, a LTCI policy, which is portable and follows the policyholder wherever he or she lives, is a better option than a HECM.

In addition, because of its rising balance over time, a HECM may be a poor fit for clients who consider home equity preservation a top priority in their estate plans. If home appreciation does not keep pace with the loan's outstanding balance, the HECM may erode home equity, which could trouble clients who wish to leave their home or home equity to future generations. That being said, elder law attorneys should remain observant for children, grandchildren, or other relatives who try to dissuade such clients from obtaining a HECM even though these clients might benefit greatly from one. Sometimes relatives do not have the client's best interests in mind when they object to a HECM.

IV. Conclusion

Tapping into home equity through a HECM is an in-home care funding option for older clients, even those for whom no imminent long-term care event is looming. HECMs are not limited to those with immediate care needs. If a client is 62 or older and owns a home, implementing the strategies described in this article can serve as a valuable alternative or supplement to a LTCI policy.