Webinar: How to Talk to Clients and Compliance About Home Equity

Presented by Fairway Independent Mortgage & NAIFA's Business Performance Center

Featuring Jamie Hopkins, Esq., LMM, CFP, RICP, Managing Director, Carson Coaching, and Harlan Accola, National Reverse Mortgage Director, Fairway Independent Mortgage

"We are facing challenges as financial advisors and in the mortgage industry that we have never faced before," said Harlan Accola in his introductory remarks to the webinar, "How to Talk to Clients and Compliance About Home Equity," sponsored by Fairway Independent Mortgage and NAIFA's Business Performance Center.

He teed up the discussion for Jamie Hopkins, an attorney, writer, researcher, educator and reverse mortgage expert, who cleared up some misperceptions about the consideration of reverse mortgages in retirement planning.

"The thing that I'm most concerned about is that financial advisors and people in our industry, mortgage loan officers and reverse mortgage planners, do not talk to each other enough," Accola said. "That would be malpractice in the medical profession, but it's kind of normal in the financial planning world. We have $7.2 trillion worth of wealth that isn't even discussed in most meetings with clients."

THE CLIENT'S BEST INTEREST

Financial professionals are in business to help clients achieve their goals, Hopkins said, and when they are creating financial plans they have an obligation to consider all of their clients' assets and how those assets fit in a plan. The average American's largest asset is their home. The average married couple at age 65 has $192,552 of equity in their home and an additional $92,238 of non-home-equity assets. Even high-net-worth clients are likely to have a significant portion of their assets in their home equity.

Housing is also the average American's number one expense, which means it is not just an asset but also a cash-flow issue. Both of these aspects should figure into a financial plan, Hopkins said.

Advisors who provide comprehensive planning and look out for the best interests of their clients have an obligation to consider all their clients' assets, including home equity, Hopkins said.

A competent advisor would never create a financial plan without considering their clients' stock and bond holdings, tax rate, risk tolerance and cash flow, liquidity and insurance needs. Some advisors may not think to consider home equity, but they should do so, Hopkins said.

“Can you provide prudent retirement income distribution advice without considering home equity?” Hopkins asked. “And I think the answer is: It’s very hard to say, ‘yes,’ here. That is not saying you have to come up with the same solution, answers or products [for every client].”

TALKING TO COMPLIANCE

Compliance officers are trained to look at risks. Reverse mortgages have an image problem based on misconceptions, Hopkins said. There have been negative media reports and issues with unscrupulous and conflicted cross-selling. Reverse mortgages are often not well understood, even by compliance officers. Some companies did not see reverse mortgage transactions, even in the best interests of the client, as significant revenue generators and banned them. Most of these bans have been walked back recently, but it is not uncommon for financial professionals working with reverse mortgages to face compliance scrutiny.

It is important to be respectful, Hopkins said. You don’t want to get into an adversarial situation with compliance professionals. “A lot of compliance people are attorneys,” he said. “So if you start being an adversary with them, they were trained to be in an adversarial role.”

You want to work with compliance to find good solutions for clients. Ask for help and explain how your guidance is in the best interests of your clients. It is also important to, respectfully, make sure compliance officers understand the difference between education and recommendations.

Advisors are often under the misconception that they cannot talk to clients about reverse mortgages because FINRA regulations prohibit them from doing so. In fact, the opposite is more accurate. FINRA’s investor alert regarding reverse mortgages says consumers should “get advice from a trusted financial adviser.”

‘If you can’t give them advice on a reverse mortgage, guess who you are not?” Hopkins said.
“You’re not my trusted advisor.”

WORKING WITH CLIENTS

Consumers don’t understand reverse mortgages and have a tendency to view them negatively. One of the biggest misconceptions is that people believe that by getting a reverse mortgage they give up the title to their house. In truth, under law, to hold a reverse mortgage they must have title to the home.

Education must be a big component of advisors’ discussions about reverse mortgages with consumers. It is also important for advisors to determine clients’ attitudes about housing: Do you plan to live in your home during retirement? Would you like to relocate? Would you like to reduce housing expenses? Do you want to leave your home as a legacy for your heirs? These are all among the questions an advisor might ask a client during the planning process.