

# *Alternative Products*



## **Session 29: Home Equity Release Products**

With limited LTCI coverage, seniors may need to tap home equity. This session will examine key issues in using this asset.

**ILTCI**

**14th Annual Intercompany Long Term Care Insurance Conference**

# Panelists



- **Steve Cinelli** – Founder/CEO of PRIMARQ, which links homebuyers and homeowners with investors in a marketplace for the trade of home equity.
- **John Nelson** – Managing Partner, Wall Street Without Walls, which connects capital market institutions with community economic development.
- **Barbara Stucki** – Co-founder/CEO of NestCare FPC, which is developing a late-in-life financial product to access home equity for aging in place.

# Questions for Discussion



- How can equity sharing address limitations with debt-based financing in the housing market?
- What is the role of home equity in financing aging in place?
- How can the capital market facilitate innovation in financing to help people with disabilities?
- What are the challenges and opportunities in achieving these goals?

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## **Home Equity Financing for LTC**

Barbara R. Stucki, Ph.D.

NestCare FPC

[bstucki@nestcare.com](mailto:bstucki@nestcare.com)

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# Elements of an Efficient LTC System



- Family participation in LTC situations.
- Efficiency.
- Planning.
- Purchasing appropriate products.
- Using appropriate care settings.
- Healthy lifestyles.

Source: SOA 2013 - *Designing a Solution for the Nation's LTC Problems Using the Delphi Method*

# Accessing Home Equity Can Help Seniors Cope



## ISSUES

- Due to medical advances, seniors face compressed morbidity, where the decline begins later in life and has a shorter duration.
- A large portion of that period of decline, specifically the early years, can be managed with home care and other supports.
- Aging in place with assistance preserves the dignity of the senior and minimizes the impact of impairment on senior and family.
- Additional funds can pay for timely interventions that reduce the risk of falls and rehospitalization.

## OPPORTUNITY

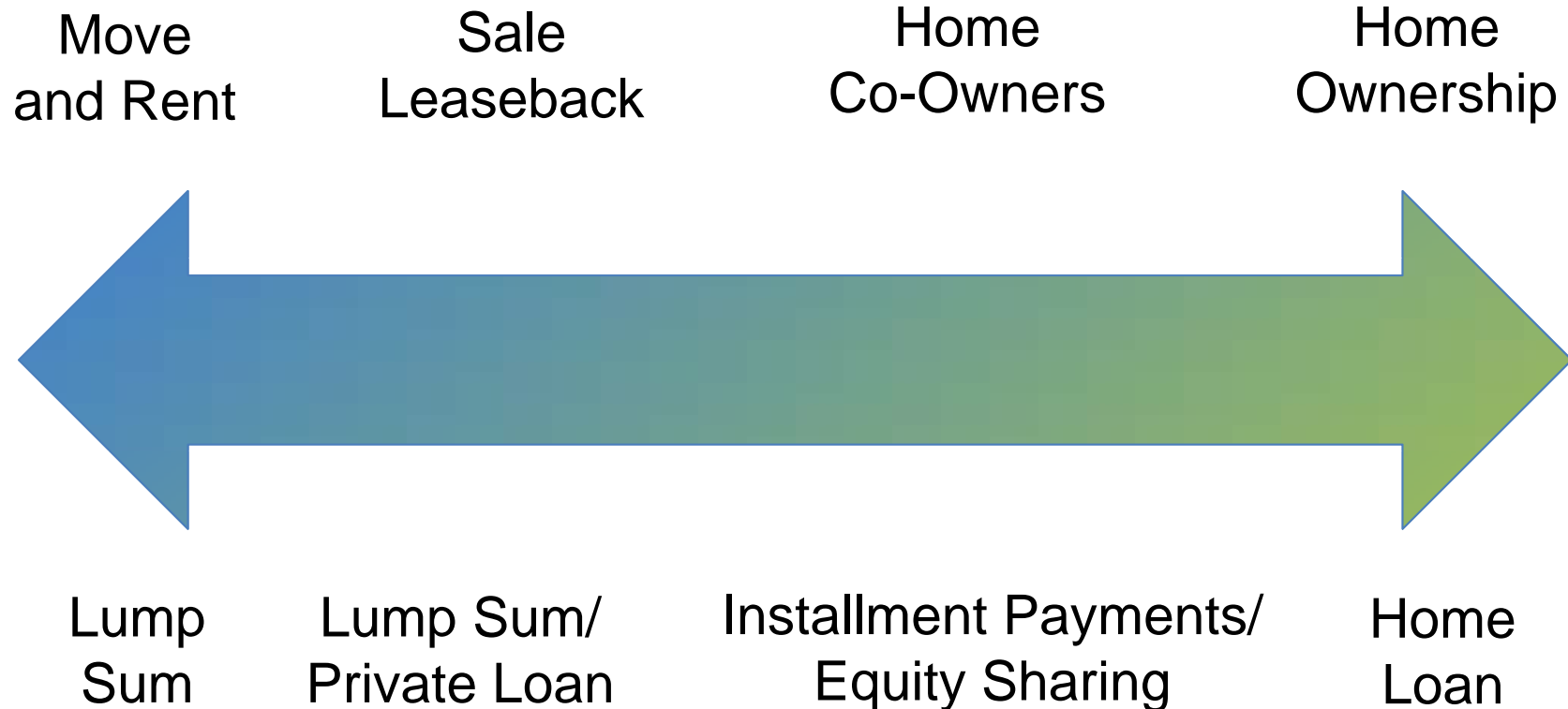
- Orderly release of home equity can be a good way to address this new retirement reality.
- Access to home equity can help middle-income seniors to meet their LTC needs, and supports family and community caregivers.
- Shared housing finance provides protection for homeowners and can bring the capital market into LTC financing.

# Homeowner Household Wealth, Age 62+



	Affluent	Middle Income			Poor
	House rich and cash rich	House rich or cash rich	Moderate wealth	House rich and cash poor	House poor and cash poor
Median household values					
Age of householder	69	70	73	76	76
Home value	\$409,000	\$175,000	\$125,000	\$350,000	\$65,000
Household income	\$81,900	\$49,800	\$25,324	\$12,468	\$12,000
Total					
Homeowner households age 62+	4,353,625	6,449,825	6,562,602	1,037,121	3,348,454
% of total households (21.75 M)	<b>20.0%</b>	<b>29.7%</b>	<b>30.2%</b>	<b>4.8%</b>	<b>15.4%</b>
Source: MetLife 2009 - <i>Tapping Home Equity in Retirement</i> ; based on 2007 American Housing Survey data					

# Home Equity Release Continuum





# Benefits of Sharing Ownership



- Can be designed specifically to meet the needs of homeowners with a disability, unlike a loan.
- No monthly payments so more homeowner cash flow.
- Eliminate most of the risk of foreclosure.
- Upside appreciation is not guaranteed, while the improved cash flow is real, with the benefits received now.
- Investors share the risk that the property loses value as well as benefiting from potential appreciation, much like buying a stock.

# Home Equity and LTC Insurance



- Expands access to the middle market.
  - Wrap around to shorter-term LTCL policies.
  - Helps preserve LTC insurance for catastrophic needs.
- New option for short-term planning.
  - “Just in time” financing that supports prevention efforts.
  - Allows for more of a managed care approach.
- Cost effective and efficient.
  - Manages the risks of homeownership and improves the home environment.
  - “Supported aging in place” can increase well-being, and reduce expenses for fall, and rehospitalization.

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## **New Financing Strategies and Sources for Assistive Technology**

John Nelson

Wall Street Without Walls

[John.nelson@WallStreetWithoutWalls.com](mailto:John.nelson@WallStreetWithoutWalls.com)

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# Current State of Assistive Technology (AT) Loan Financing



- Currently 36 Programs across 32 states and 4 U.S. Territories
- Each program reflects variations in Lead Agencies, Loan Models, and Lender Relationships
- Types of Loan Models: Direct, Buy-Down, Guarantee, Non-guarantee

# Current State of Assistive Technology (AT) Loan Financing



- Federal requirement that programs be sustainable and function in perpetuity.
- Many programs have expanded their capacity to include asset development, individual retirement accounts, credit counseling and beyond.
- Programs have not received additional federal funds and need continues to grow along with advances in AT Limited amounts provided in recent years.
- Annual reporting is provided on specific data elements to federal government.

# New Thinking



- Can technology creatively launch a new online marketplace that connects those in financial need with loans that offer a lower cost of borrowing?
- Can impact investors be enlisted to attract new capital to make AT loans more available and affordable?
- Can existing AT loan programs be made more efficient by standardizing loan documents and underwriting procedures?
- Can a secondary market be created that bundles AT loans and attracts new investors that enhances the availability of capital?

# Securitizing or Credit Enhancing Assisted Technology Lending



- Promoting assisted technology lending at scale.
- Develop standardized loan documentation, credit levels, performance data to access impact investors.
- Increase lending capacity for AT products by non-profits, public agencies, commercial banks, others.
- Lower costs for borrowers and expand size of loans.
- Improve opportunities, productivity, quality of life.
- Credit enhancements from manufacturers and vendors
- Appeal to impact investors: insurance companies, pension funds, university/foundation endowments, individuals
- Create “flow model” of lending through at scale.

# New Collaboration to Build Solutions



- White House Office of Social Innovation.
- Consumer Financial Protection Bureau.
- Rehabilitative Services Administration.
- National Cooperative Bank.
- National Federation of Community Development Credit Unions.
- Community Reinvestment Fund.
- Ten Alternative Finance Programs.
- Assistive Technology Industry Association.
- National Mobility Equipment Dealers Association.



# Securitization



- Financial assets with similar performance characteristics and predictable cash flows are pooled and packaged into securities for purchase by investors
- Repayment relies on performance of financial assets

# Examples of Assets That Have Been Securititized



- Home mortgages
- Auto loans
- Student loans
- Leases
- Time shares
- Death benefits
- Commercial loans
- Insurance premiums

# Who Buys Securitizations?



- Banks
- Insurance Companies
- Pension Funds
- Corporations
- Impact Investors

# Investment Product Continuum

