Winter 2019
Do Reverse Mortgages Deserve Their Bad Rap?

By: Mat Ryan, MBA, CFP®
Financial Planning Specialist

Many preconceived notions surround the term "reverse mortgage," and a lot of them are negative. In fact, it's practically become taboo to broach the topic within the context of financial planning. But why is that?

Here's what a reverse mortgage is and how it works. Simply put, a reverse mortgage allows borrowers to tap into their home's equity (similar to a home equity loan) without having to make a monthly payment. To qualify, you must meet the following requirements:

- At least one borrower must be 62 years of age or older.
- The home must serve as your primary residence.
- You need the financial resources to cover taxes, insurance and maintenance for the house.
- You must participate in a consumer information session given by a Department of Housing and Urban Development (HUD)-approved Home Equity Conversion Mortgage (HECM) counselor.

This all seems practical and clear cut. So why are so many people hesitant to explore the reverse mortgage as a viable financial planning tool?

In This Issue

Much of that apprehension stems from the first versions of the product.

An Unbecoming History

While it may seem like a rather new option, the first reverse mortgages were written back in the early 1960s. At that time, fixed-rate options weren't available, there weren't any restrictions on equity distributions, and credit checks weren't run. But for many, the primary negative issue with reverse mortgages was this: If your spouse didn't meet the required lending age of 62 years at the time the loan was processed, he or (typically) she had to be removed from the house title. And that was a big deal because the loan was due, in full, once the borrowing spouse died. If the surviving spouse didn't have the means to satisfy the loan, he or she was forced to vacate the home, which would then be placed in foreclosure. You can see why reverse mortgages earned their tarnished reputation! Added to this less than ideal situation were numerous misconceptions surrounding the product.

A Tool of Last Resort—No More!

Fortunately, reverse mortgages have evolved with the times. Once viewed as a "loan of last resort," the reverse mortgages of today bear little resemblance to those of the '60s. Today, limits are in place to curtail excessive spending. HUD-approved counseling is required and credit checks (to a limited scope) are run to help prevent foreclosures. Also, fixed-rate options are now available (for the lump sum option). Costs have been re-structured in this manner:

- Origination fees are capped at $6,000.
- Mortgage insurance premiums are limited to 2 percent of the appraised home value.
- Ongoing premiums are set at 0.5 percent of the loan balance, which can be rolled into the loan.

Upon qualifying for a reverse mortgage, a lender will determine the amount available for borrowing. This is based on the borrower's age, the value of the home and current interest rates. The loan can also be structured so you receive income (tax-free, mind you) in three different ways:

- Lump sum. (Only up to 60 percent can be taken in the first 12 months.)
- Annuity payouts.
- A non-callable line of credit.

Participating borrowers are using reverse mortgages in multifaceted ways. The reverse mortgage will eliminate your existing mortgage, freeing up income for you to use for other needs or desires. For example, you can use this income to delay receiving Social Security payments until you are eligible to receive your maximum benefit. You can also draw from the line of credit in times when market returns are down so you won't have to deplete your retirement assets too quickly. Another potential option: Use the income stream for long-term care premiums.

Is a Reverse Mortgage for You?

The stigma surrounding reverse mortgages is slowly being eradicated, and the new-and-improved product is finding its way into more financial plans. It is important to work with a Federal Housing Administration (FHA)-approved lender when implementing a reverse mortgage.

If this is something you would like to explore, contact us. We can determine if a reverse mortgage is a viable strategy in your comprehensive financial plan.

Contact Mat if you have questions or would like additional information regarding this topic.

BLT Corner

Reflecting on 2018 and Looking Forward to 2019

We hope everyone had a joyful holiday season, spent with family and friends. With all the traveling, shopping and sharing of moments, it can sometimes be difficult to slow down and cherish it all. Here at Bedel Financial, we would like to reflect, recap and share our holiday season and 4th quarter of 2018 with you.

Our second annual BFC Time with Santa was once again a big hit with clients and friends! Held at Meridian Hills Country Club, our event included unlimited time with Santa, complimentary photos, cookie decorating, arts and crafts and three generations of Bedel Financial clients creating new memories. Our firm could not be more thankful for such wonderful clients—clients we consider family. If you missed last year's event, don't worry. We're already planning this year's event. Your time with Santa will never be rushed, as we purposefully keep the event to a comfortable size.

Upcoming BFC Events:
This year's Ladies Luncheon will be held on Tuesday, April 23rd at Meridian Hills Country Club and features professional Story Performer and award-winning local storyteller, Sally Perkins. In celebration of the upcoming 100th anniversary of the 19th amendment in 2020, Sally will be performing her one-woman act *Digging in Their Heels: An Energized, Eye-Opening Story of Women's Battle for the Vote*. Sally has been known to make an audience laugh, cry and nearly jump out of their skin—all in one sitting! On a personal note, Evan has known Sally for years and she has never been known to disappoint an audience. She even helped him write a best-man speech back in 2013. However, that storytelling was much different than this one will be! Ladies, keep an eye on your mailbox - a formal invitation will be mailed to you later in February.

From everyone at Bedel Financial, we hope you have a prosperous 2019 and beyond. Please let us know if we can assist in advancing your financial lives. Our firm serves all generations and financial stages. So, if you have a family member or friend who needs help accumulating wealth or preserving established wealth, consider sharing our contact information with them. Better yet, direct them to BedelFinancial.com. This newsletter and all our previous articles can be found on our website.

Thank you for trusting us as your financial advisor.

With warmest regards,

The Bedel Leadership Team

Be sure to follow us on social media for important industry updates, relevant articles, announcements and more!

Industry News

How Student Debt Is Affecting the Housing Market

By: Austin Stagman
Investment Analyst

United States student loan debt has steadily increased over the years, climbing to more than $1.5 trillion—surpassing America's credit card and car loan bills. As millennials enter the workforce and begin to pay off these loans, they have less money to spend—in some cases, a lot less—on other items. Ultimately, this will impact the economy, including the housing market. A recent study published by the Federal Reserve (the Fed) highlights the link between rising student debt burden and the drop in homeownership among young Americans.

The Stats Behind the Study
The study looks at homeownership in the United States between 2005 and 2014. In this time period, homeownership for the overall population fell four percentage points, from 69 percent in 2005 to 65 percent in 2014. However, homeownership among young Americans (ages 24 to 32 years) fell nine percentage points, from 45 percent to 36 percent, in the same timeframe. The decline is more than double that of the overall population! The average student debt for this age group also doubled from about $5,000 in 2005 to about $10,000 in 2014.

So what's the implication of this study? It suggests a negative correlation between increasing student loan debt and homeownership. While numerous factors play into this decline, about two percentage points, or just over 20 percent of the decline, is directly attributable to the rise in student loan debt. To quantify this in terms of homeowners lost, the Fed estimated that more than 400,000 millennials could have owned a home in 2014 had it not been for their student loan debt.

The Fed also explored the relationship between increased student borrowing and the likelihood of homeownership in this age group in the same study. These results revealed that a $1,000 increase in student loan debt causes a one to two percentage point drop in homeownership. Not surprisingly, the report concluded that student loan debt is a direct deterrent to purchasing a home.

The Snowball Effect
There could be numerous reasons for the declines in homeownership in this age group, but the Fed highlighted just two.

1. Higher student loan debt means increased monthly payments. Higher monthly payments can lead to more borrowers defaulting on their student loans. When that happens, it hurts their credit score and subsequently, their ability to qualify for a mortgage.

2. Those young adults who do possess good credit and want to purchase a home may not be able to save for a down payment, since their finances are strained by the large student loan debt.

So what should young adults do? There's an argument for both sides where student loans are concerned. You could argue that student loans are an investment in higher education, resulting in higher income and lower unemployment. But you could also argue that the student loan burden may reduce the borrower's ability to save for a home or qualify for a mortgage. Regardless, research clearly indicates the burden student loan debt has placed on the housing market.

Contact Austin if you have questions or want additional information regarding this topic.

GenerationNeXt

Young Adults - On the Road to Financial Success or Disillusionment?

By: Anthony Harcourt
Portfolio Manager

A recent financial literacy survey conducted by Charles Schwab discovered some interesting findings about how young adults (ages 16 to 25) view their current and future financial well-being. Overall, the 2,000 young adults who responded to the survey are optimistic. But should they be?

Young Adults and Inheritance

You may have heard there'll be a major shift in wealth to the millennial generation as more baby boomers approach retirement. But if you're a young adult, don't celebrate prematurely! The Schwab survey found that more than half (53 percent) of young adults believe their parents will leave them with an inheritance. However, in 2011 the U.S. Bureau of Labor Statistics reported that between 1989 and 2007, only 21 percent of Americans actually received an inheritance of any kind—much less a windfall.

Why is this worth noting? Misplaced optimism about an inheritance could influence young adults' financial decisions in the short and intermediate term. Ultimately, it could adversely impact their financial futures. Inherited assets are certainly beneficial. However, if you're a young adult, it typically isn't wise to depend on an inheritance as a part of your overall financial plan.

Relationship to Debt

The survey also analyzed the topic of debt for early-college to post-grad age young adults. In the survey sample, the average savings was $1,628. The average amount of debt, $8,003. This front-loading of debt compared to savings can be somewhat expected for young adults ages 16 to 25. After all, many of them have rapidly been accumulating student loan debt instead of earning full-time wages.

The concerning part of Schwab's debt analysis, however, was this age group's insufficient understanding of debt and lack of motivation to pay it down. More than half (51 percent) said they currently had some sort of debt, but only 3 percent would pay down that debt if given an extra $1,000.

Here's where it starts to get really interesting. Despite a lack of knowledge about debt and an unwillingness to pay their debt down, these young adults expect to retire at age 60—seven years earlier than full Social Security benefit eligibility for their age bracket! That's rather unrealistic given the survey results!

The Reality of Student Loan Debt

Some people may attribute the negative findings in the survey to a broad sense of entitlement among millennials and young adults. Statistics show that regardless of their optimism or current understanding of debt, student debt is rising at an alarming rate. It now ranks as the second-highest consumer debt category, behind only mortgage debt. That makes it higher than both credit card and auto loan debt!

According to the personal finance site "Make Lemonade", the total U.S. student loan debt is $1.52 trillion and encompasses 44.2 million Americans. Another telling statistic: The average graduate in the class of 2016 accumulated more than $37,000 in student loans. That's a lot of debt to be saddled with before you've even begun your career! The younger generation needs to be better prepared than their predecessors to navigate through these financial obstacles early in their adult lives.

It's Not All Negative

One positive note from the survey is that young adults are not averse to receiving financial advice. In fact, it found that 69 percent of young adults trust their parents to give them sound advice. Of course, this trust is only beneficial if the parents are providing sound advice and making sound decisions themselves! One of the best things parents can do for their young adults is to provide them access to an education session with a financial advisor. That's a great stepping stone for getting the next generation up-to-speed on their financial futures.

You can take the numbers and percentages from this survey for what they are. Admittedly, the small number of survey respondents may or may not give a good overall indication of the total population in that age range. But it's certainly something to think about.

The overall optimism unveiled in the study can be dangerous if paired with bad financial habits. But that optimism can also be harnessed in a positive way. Setting a solid financial foundation in the beginning stages of adulthood can make the next steps far easier. If your child is entering this stage of life, offer them the right resources for building that foundation. If you're a young adult, there's no better time to start than now!

Give us a call - we can help young adults navigate the financial issues and establish a solid financial foundation through our GenerationNeXt™ advisory services.

Want to know more about our GenerationNeXt™ services? Head on over to www.bedelfinancial.com and check out the following:

- **Young Affluent Professionals page under the Services tab**
- **Sign up for the GenNeXt blog at bedelfinancial.com/gennext-blog**

Be sure to also follow us on social media for relevant articles, industry news, special announcements, and more!

Friendly Reminders:

The first Required Minimum Distribution (RMD) from retirement accounts at age 70 1/2 can be taken up until April 1st after the year you turn 70 1/2.

You may make 2018 contributions to the following accounts up until either April 15, 2019 or the date you file your taxes, whichever comes first:

- **IRA**
- **Roth IRA**
- **SEP-IRA**
- **Solo 401k**
- **Health Savings Account**

- **Ladies, please be on the lookout for your mailed invitation for our 2019 Ladies Luncheon, taking place on Tuesday, April 23, 2019. We hope to see you there!**
- **Congratulations to Kate Arndt for completing her requirements to become a CFP® Professional! We're so proud of all her hard work!**

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Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

May 27	**Memorial Day**
July 4	**4th of July**
Sept. 2	**Labor Day**
Nov. 28	**Thanksgiving Day**
Nov. 29	**Day After Thanksgiving**
Dec. 25	**Christmas Day**

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