Reverse Mortgage Market Opportunity Report

Market Dynamics For A Changing World

Reverse Market Insight, Inc.

www.rminsight.net

Overview

The reverse mortgage market is more competitive than ever with over 1,500 companies originating loans last year. At the same time the market also presents bigger opportunities than ever before with baby boomers entering the market every day, while the vast majority of senior homeowner households are without an active reverse mortgage loan in place.

As you evaluate the market, RMI has put together the data and analysis to show the best opportunities across the nation and within each state to put your resources to best use by using the right strategy in the right places. Each of the tables and charts to follow identifies clear market opportunities for you to capture, all built on RMI's data warehouse containing the most comprehensive set of reverse mortgage information in the industry and our team's lengthy experience and solid understanding of your challenges as an originator in the reverse mortgage market.

The companies better able to target the opportunities available will be the ones who have more success growing their business. The Reverse Mortgage Opportunity Report from RMI helps you do just that. By combining statistics of the number of senior homeowner households at various levels of detail, along with statistics from the active loans in service today, we can help you identify the areas of opportunity that best apply to your marketing strategy or strategies.

The RMI Team

Foundation Table

This table shows the 50 states and DC with the foundation statistics you need to evaluate each market for origination activity potential.

- **Target Market**: How big is the potential market for reverse mortgages in this area?
- **Penetration**: What percentage of eligible seniors currently has a reverse mortgage loan?
- **Endorsements** – Units: How many seniors bought a reverse mortgage last year and how has this number grown in recent years?
- **Refi Rates**: How much of the current activity in this area is a result of refinances of prior reverse mortgage loans?
- **Active Lenders**: How many lenders are competing in this area and how has this number grown?
- **Mkt/Comp**: How big is the potential market for reverse mortgages in this area after adjusting for the number of competitors already present?
- **Origination Fee Opportunity – New Fundings**: If all the eligible seniors currently without a reverse mortgage purchased, how much money would that generate in origination fees?
- **Origination Fee Opportunity – Per Competitor**: How enticing is the opportunity to attract new reverse mortgage customers if adjusted for the number of competitors in the area?
- **Refi HECM/HECM**: If all seniors that could receive substantial additional funds by refinancing a HECM did so, how much origination fee revenue could that generate? (Excludes those which qualify for HECM/Prop).
- **Refi HECM/Prop**: If all seniors with home values substantially above their HECM MCA and current lending limit refinanced into a proprietary loan, how much origination fee revenue could that generate?

Penetration by Market Size

Which markets are underserved yet represent significant business opportunity? By illustrating the relative penetration, market size and average origination fee per loan on one chart, it's much easier to see that the data in the foundation table can highlight clear opportunities visually. Each area of the chart is broken down below, in order of attractiveness.

Upper Left represents markets that are relatively untapped, but for a reason – there just aren't that many customers here. If a market fits here, evaluate competitive characteristics on a later chart only if the bubble is reasonably sized. Non-refinance strategies for new customer growth are a better bet than refinance strategies.

III

Upper Right represents the most attractive markets (lots of untapped customers), particularly if the bubble is also large (high average revenue per loan). Prime areas for non-refinance strategies for new customer growth.

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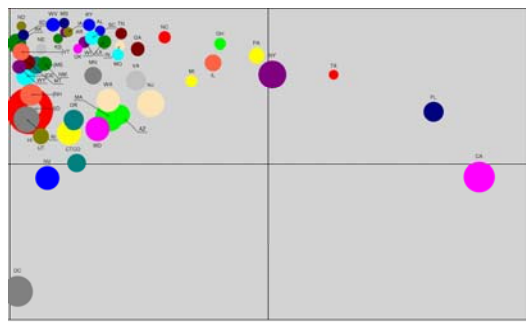

Lower Left represents the least attractive markets, as there are fewer potential customers and you're more likely to find prospects who have already purchased. Refinance strategies are more likely to work well here, particularly in markets with larger average revenue opportunities.

IV

Lower Right represents large markets that are already relatively penetrated – these are likely areas where you'll have to work harder than those higher on the chart, and will likely find more success from a refinance strategy.

II

Penetration by Market Size: Adjusted for Competition

What happens if the markets are adjusted for the level of competition in each area? By taking the previous chart and changing just the horizontal axis to show target market divided by number of competitors, the landscape changes dramatically as areas with a large customer base that have already attracted swarms of originators show less opportunity than areas with a smaller customer base but smaller still numbers of competitors. Each area of the chart is broken down below, in order of attractiveness.

Upper Left represents competitive markets with potential for new customer growth due to lower penetration. If a market fits here, evaluate competitive characteristics on a later chart only if the bubble is reasonably sized. Non-refinance strategies for new customer growth are a better bet than refinance strategies, but deals are likely to run into discounting and price competition.

III

Upper Right represents the most attractive markets (less competition for customers), particularly if the bubble is also large (high average revenue per loan). These are prime areas for non-refinance strategies for new customer growth. For smaller bubbles in this area, consider a lower cost direct sales strategy to profitably attract customers where overall revenue is lower. For larger bubbles, a traditional sales force is likely to offer the greatest transaction volume potential and make up for the potentially lower margins of this sales strategy.

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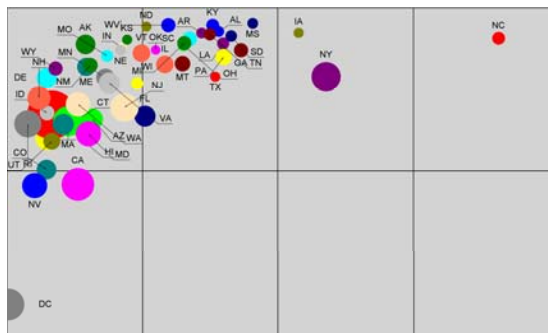

Lower Left represents the least attractive markets, as high competition would be expected and many customers have already purchased a reverse mortgage. Refinance strategies are more likely to work well here, although discounting and price competition are expected be significant factors.

IV

Lower Right represents areas where relatively fewer lenders have substantially penetrated the customer base – these are likely areas where you'll have to work harder than those higher on the chart, and will likely find more success from a refinance strategy

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II

Growth: Market vs. Competitor

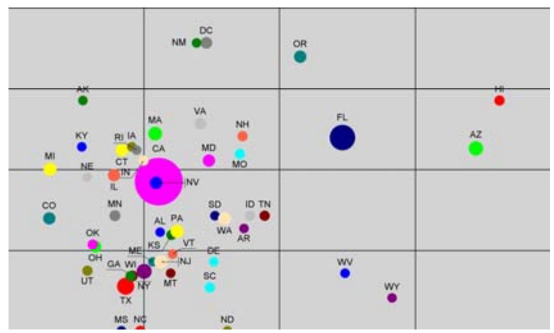
Are new competitors growing the market or just splitting the pie into more and more pieces? By illustrating growth rates for endorsements vs. competitor counts in each area, it becomes clear whether competition is entering or leaving. Lastly, the largest bubbles represent markets with the most transaction volume. Each area of the chart is broken down below, in order of attractiveness.

IV

Upper Left represents areas that are likely to be most competitive from a price and discounting perspective, as new entrants are not growing the overall market and both new and existing originators struggle to attract a shrinking base of customers. All originators in this market need to pay considerable attention to differentiating themselves in a crowded market that is less appealing to consumers in the recent period.

II

Upper Right represents areas where new originators are finding new customers and growing the market rather than stealing customers from existing originators. Customers are demonstrating readiness for the product and should be considered for growth opportunities, with a relatively lower level of discounting and price competition.



III

Lower Left represents areas where the transaction volume is shrinking and originators are leaving the market. These areas should be considered for entry only if an originator strongly believes their customer acquisition model is substantially different from previous competitors' efforts in this area.

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Lower Right represents areas where transaction volume is growing rapidly for existing originators but new entrants have not yet swamped the market. Customers are demonstrating readiness for the product and discounting is likely limited; consider these markets for new, full-fee growth opportunities.

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New Market Opportunity

Which markets present the best opportunities for business volumes among eligible customers without an existing reverse mortgage? By illustrating origination fees and market size (adjusted for competition) on one chart, market segments stand out for the type of strategy best suited to each area. Each area of the chart is broken down below, in order of attractiveness.

Upper Left represents areas with strong average revenue per transaction potential but also relatively high competition leading to price competition and discounting. These areas are <u>susceptible to price competition</u> from newer entrants and existing originators should focus on referral marketing to limit exposure to discounting wherever possible.

III

Upper Right represents the most attractive markets (less competition for customers), where revenue per loan is also highest. A <u>traditional sales force</u> is likely to offer the greatest transaction volume potential and make up for the potentially lower margins of this sales strategy.

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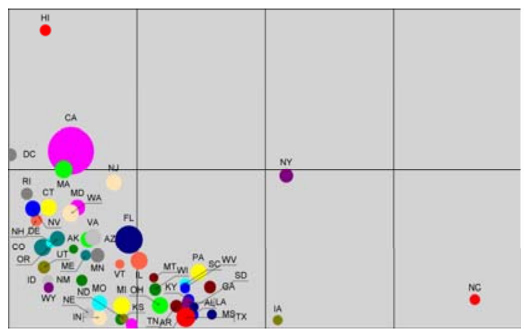


Lower Left represents the least attractive areas, where a combination of low revenue per transaction and higher competition combines to limit opportunity for existing and new originators. A <u>strong focus on cost containment</u> is needed to profitably compete in these areas, with emphasis on higher productivity loan officers and fulfillment and/or a lower cost direct sales strategy.

IV

Lower Right represents areas with low competition but also low average revenue opportunities, so a <u>lower cost direct sales strategy</u> is advisable to profitably address the volume potential here.

II

<u>**HECM to HECM Refi Opportunity**</u>

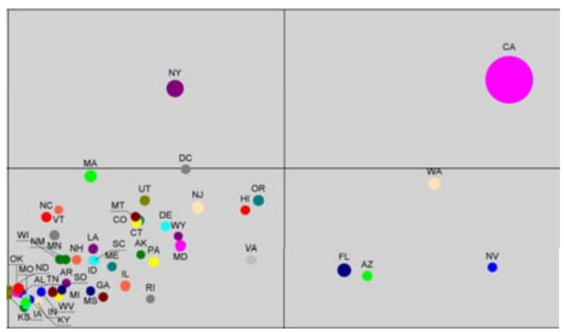
Which markets present the best opportunities for refinancing HECMs? By illustrating the share of existing HECMs fitting a refinance opportunity model against the current level of refinance activity, each area can be clearly shown in attractiveness for executing a refinance campaign. (Excluding those which qualify for HECM'Prop). Each area of the chart is broken down below, in order of attractiveness.

I

Upper Left represents areas with many current active reverse mortgages but relatively little refinance activity – a prime area for a refinance campaign. Originators in these areas should <u>review current customer lists and contacts that purchased from another lender</u> to direct a refinance campaign. Both existing originators and new entrants should also consider <u>purchasing lists of existing reverse mortgage customers</u> for refinance campaigns.

II

Upper Right represents areas with high potential for refinance activity, but also having relatively high levels of refinance activity ongoing. Originators practicing a refinance strategy in these areas are likely to encounter price competition and discounting as competitors mine the same vein of customers for transaction volume, enhancing the need to manage costs and/or streamline data mining capabilities of the refinance strategy to increase quality of leads and resulting conversion rates.



III

Lower Left represents areas with relatively lower levels of both refinance potential and current refinance activity. Any refinance strategies pursued in these areas should focus first and foremost on retaining an originator's existing client base. The higher level of information available for the current loan can be effectively used to offer highly targeted solicitations that keep conversion rates reasonably high and therefore cost per funded loan within a tolerable range.

IV

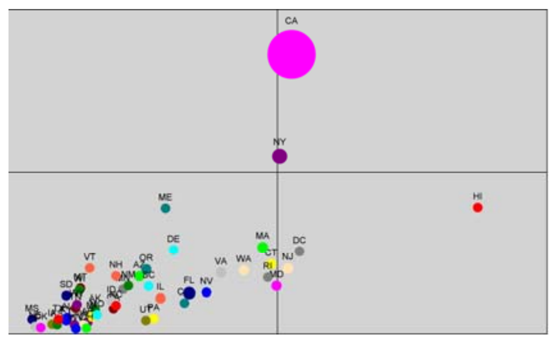
Lower Right represents areas with the somewhat paradoxical combination of low refinance potential and relatively high current refinance activity. New originators should avoid these areas due to the low conversion rates to be expected here as well as the inherent risks of generating refinance activity with substantially decreased consumer benefit. As always, existing originators should monitor existing customers for refinance potential and selectively solicit the highest quality prospects based on customer benefit.

HECM to Proprietary Refi Opportunity

Which markets present the best opportunities for refinancing existing HECMs to proprietary products? By illustrating the share of existing HECMs fitting a proprietary refinance opportunity model and average home value of these prospects on the same chart, it is much easier to identify areas with the greatest potential for a HECM to proprietary refinance campaign.

Upper Left represents areas where many current active HECMs contain the potential for refinance into proprietary loans that can leverage the home value above the existing lending limit, despite the relatively lower average home values. Transactions here can be expected to have lower revenue values but can be profitably farmed for external refinance campaigns as the higher conversion rates offset the lower revenue per transaction.

Upper Right represents areas with high potential for HECM to proprietary refinance activity at a higher average transaction value. These highly attractive areas lend themselves to field sales force structures that can effectively and profitably negotiate the local area dynamics.



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