



Equity Advantage

Homeowner Introduction

Seniors Reverse Mortgage Cal DRE # 01388968 and 01141345

1. Transaction Description

When a homeowner enters into an Equity Advantage Agreement, NestWorth agrees to make monthly payments to them for as long as twenty years or as few as five. The homeowner may also select a “Lifetime at Home” option. The homeowner selects the payment term; shorter terms enable larger payments.

In exchange, the homeowner grants NestWorth the right to receive a share of the proceeds from the sale of their home. The home may be sold by the owner at any time or by NestWorth if the homeowners move out during the term of the agreement, or when the last homeowner passes away.


2. Highlights

- Homeowners receive substantial monthly payments that they may use as they choose.
- Homeowners continue to own their home until they sell it.
- Eligible existing mortgages do not need to be paid off.
- The owner may terminate the agreement at any time.
- Homeowner pays no origination fees or closing costs to enter into an Agreement.
- Homeowner may choose to receive an initial lump sum payment.

3. Eligibility

- The youngest Homeowner must be at least 60 years old.
- The home must be occupied as a primary residence.
- The home must be a 1-4 unit, single family dwelling. Condominiums are eligible.
- The home must be typical for the area.
- Title must be held by a natural person or inter vivos trust
- The home must be located in an eligible NestWorth geographic area.

4. Monthly Payments



The owner may elect to receive monthly payments for a period of between 5 to 20 years. The homeowner may select a “Lifetime at Home” payment option. The number of payments selected will determine the amount of each payment and the total of all payments. Here is an example of the maximum monthly payment options for a 75 year old female homeowner for a \$1 million home. Assume this homeowner does not have any existing mortgage liens, and she has decided to sell her home at the end of her payment term.

Number of payments	Monthly Payment	Total Scheduled Payments
60	\$4,346	\$260,760
120	\$2,678	\$321,360
180	\$2,288	\$411,840
240	\$2,047	\$491,280

5. Termination

Generally, an Equity Advantage Agreement ends when an owner sells the home, or the last owner passes away and NestWorth sells the home. The Agreement is not terminated when the last payment is sent to the owner.

An Agreement can also end if the owner moves out of the home during the term of the agreement, declares bankruptcy, upon the appointment of a conservator or receiver of any owner, if a lender commences foreclosure or if the owner otherwise breaches the Agreement.

The Agreement can also end if the property is destroyed or condemned. NestWorth can also terminate the Agreement at any time by notice to the owner. If NestWorth terminates unilaterally it does so without recourse to the owner and loses all rights to any interest in the property. The owner keeps all payments previously received without any obligation to NestWorth. The owner has a right to terminate the Agreement at any time by paying NestWorth.

6. The NestWorth Proceeds

In exchange for making payments to the owner, NestWorth receives a share in the home's sales proceeds. This is the NestWorth Proceeds.

The NestWorth Sales Proceeds are specified in the Equity Advantage Agreement. For example, at the date of this writing, these are the Beginning NestWorth Proceeds for each of these payment options. Again we will use the example of the 75 year old female from Section 4.

Number of payments	Monthly Payment	Total Scheduled Payments	Beginning NestWorth Proceeds
60	\$4,346	\$260,760	\$10,516
120	\$2,678	\$321,360	\$12,945
180	\$2,288	\$411,840	\$16,583
240	\$2,047	\$491,280	\$19,778

➔ The NestWorth Scheduled Proceeds will increase over time. Additionally, there will be an increase in the NestWorth Sales Proceeds if there is an increase in the defined home index where the home is located. The increase in the NestWorth scheduled proceeds depends upon an increase in the defined housing price index for the area in which the home is located. Housing price indexes track the movement of average home prices much like the Dow Jones Index tracks the average value of companies in the index. The NestWorth Proceeds from the Home Sales Proceeds will not decrease if the home price index decreases.

Below is an example of what the NestWorth Scheduled Proceeds will be when the home is sold if there are NO changes in the housing price index, again using the example from above of the 75 year old female. We will assume the homeowner will sell her home at the end of her payment term.

Number of payments	Monthly Payment	Total Scheduled Payments	Beginning NestWorth Proceeds	NestWorth Scheduled Proceeds at end of Term
60	\$4,346	\$260,760	\$10,517	\$327,744
120	\$2,678	\$321,360	\$12,945	\$378,028
180	\$2,288	\$411,840	\$16,583	\$515,921
240	\$2,047	\$491,280	\$19,778	\$656,174

➔ If there is an increase in the housing price index, the NestWorth Sales Proceeds will be equal to the NestWorth Scheduled Proceeds PLUS the change in the housing price index percentage multiplied by the Equity Advantage Factor. The Equity Advantage Factor is specified in the Equity Advantage Agreement.

For example, if the housing price index increased by 10% during the term of the Equity Advantage Agreement then the effective NestWorth Sales Proceeds will be equal to the NestWorth Scheduled Proceeds PLUS the result of the Equity Advantage Factor multiplied by 10%.

As of this writing, here are some examples of NestWorth Sales Proceeds assuming a 10% increase in the housing price index. Assume that the homeowner is a 75 year old female and she sold her home at the end of her payment term.

Number of payments	Monthly Payment	Total Scheduled Payments	NestWorth Scheduled Proceeds at end of Term	Equity Advantage Factor	Equity Advantage Factor X 10% =	NestWorth Sales Proceeds
60	\$4,346	\$260,760	\$327,744	\$1.852 mil	\$185,200	\$512,944
120	\$2,678	\$321,360	\$378,028	\$1.602 mil	\$160,200	\$538,228
180	\$2,288	\$411,840	\$515,921	\$1.511 mil	\$151,100	\$667,121
240	\$2,047	\$491,280	\$656,174	\$1.420 mil	\$149,056	\$805,231

7. Sales Proceeds

The distribution of proceeds from sale will be as follows when the home is sold.

To lender(s): Remaining mortgage balances

1. To vendors involved in the sale e.g. realtors: The cost of sale
2. To NestWorth: The NestWorth Sales Proceeds
3. Any Advances NestWorth has made to protect its share e.g. property taxes not paid by the owner
- ➔ 4. The owner receives all remaining proceeds

Here is an example of an owner that selected 240 scheduled payments of \$2,047 each. She sold her home after 20 years and received monthly Equity Advantage payments for a total of \$491,280. The change in the housing price index was plus 10% so NestWorth's Sales Proceeds at the time of sale were \$805,231. This homeowner did not have any mortgage liens on her home at the time she decided to sell.

Home Sales Price	\$1,104,896
Minus-Due lender	(0.00)
Minus-Cost of Sale	(\$66,294)
Minus-NestWorth Share When Home is sold	<u>(\$805,231)</u>
Equals-Owner Net Proceeds from Sale of Home	\$233,371

Remember, this homeowner has already received \$491,280 in payments.

***Note:** In this example, the percentage change in the home's value was the same as the index change. If the owner had improved the value of her home by say, adding a room and selling the home for more, then the value added would benefit her, not NestWorth. To the extent that she

had deferred maintenance at the time of sale and thereby, the home lost value and she sold it for less, this would impact the amount of equity available to her as well.



Additionally, the value of the homeowners property may have performed better or worse than the index for reasons that she could not control and ***this may also affect her net proceeds.***

8. The Cost of Equity Advantage

$$\begin{aligned} & \text{NestWorth proceeds from Sale} \\ & - \text{NestWorth payments to Homeowner} \\ & = \text{Homeowner's Equity Advantage Cost} \end{aligned}$$

For the owner, the cost of an Equity Advantage Agreement is the difference between the payments received and the NestWorth proceeds from the sale of the home. In the above example the owner received \$491,280 in monthly payments and NestWorth's sales proceeds were \$805,231. The difference between the total amount of monthly payments she received and the amount of money NestWorth received was \$313,951.

9. Annual Equity Advantage Cost-Important Concept

To understand Annual Equity Advantage Cost, it helps to consider a loan that generates the same cash flows. In both cases access to money has a cost. Assume a borrower draws \$2,047 monthly from a line of credit for twenty years for a total of \$491,280 Also assume he/she is not required to make any payments until the end of the 20 year term. If he/she were then required to pay the bank \$805,231 his/her cash flow would be the same as the Equity Advantage example in Section 8 above. In this case the difference between the amounts he/she received and the amount he repays is the interest charge \$313,951. The interest rate that this generates is 4.7%.

The annual Equity Advantage cost can be thought of in the same way.

Note: While lenders are guaranteed their interest payments, NestWorth's returns are at risk for home value change. Equity Advantage Agreements are not loans.



The Cost of Equity Advantage will, in part, depend on changes in the housing price index. The greater the increase in home values in your area, the higher your Equity Advantage cost will be. Here are other examples of the Equity Advantage cost for a twenty year payment term when the homeowner chooses to sell after 20 years. The table demonstrates the Annual Equity Advantage Cost for different average annual home price index changes. The Equity Advantage Factor is \$1.42 million.

Average Annual Compounded Change in Housing Price Index	Unchanged	1%	2%
NestWorth Proceeds	(\$656,174)	\$969,064	(\$1,346,705)
Equity Advantage Payments	\$491,280	\$491,280	\$491,280
Cost of Equity Advantage	(\$164,894)	(\$477,784)	(\$855,425)
Annual Equity Advantage Cost	2.8%	6.4%	9.2%

 **The Annual Equity Advantage Cost increases when the term of the Agreement decreases.**

Assume that an owner enters into an Equity Advantage Agreement with a twenty year payment term and payments of \$2,047 per month. She sells the home in **ten years**. To keep the example simple, we have assumed that the housing price index is unchanged.


The Cost of Equity Advantage

NestWorth Scheduled Sales Proceeds	\$301,334
Your Equity Advantage Proceeds before home is sold	<u>\$245,640</u>
Total Cost of Equity Advantage	\$55,694
Annual Equity Advantage Cost	4.1%

If this same owner sold her home in **seven years** then the total cost of the Equity Advantage Agreement would increase and her annual Equity Advantage cost would be 8.9%

The Cost of Equity Advantage

NestWorth Sales Proceeds	\$234,095
Your equity Advantage proceeds before home is sold	<u>\$171,948</u>
Total Cost of Equity Advantage	\$62,147
Annual Equity Advantage Cost	8.9%

 An Equity Advantage Agreement may not be your best option. Equity Advantage can be expensive relative to other options, especially if the value of homes in your area increase rapidly or if you sell your home soon. NestWorth requires you to consult an attorney and suggests you also speak with your heirs and other trusted advisors including your financial planner and or/accountant.

10. The Homeowner's Mortgage

Homeowners do not need to pay off their existing eligible mortgage when they obtain an Equity Advantage Agreement. Homeowners will continue making direct principal and interest payments on their mortgages as scheduled. NestWorth will subordinate the Equity Advantage Agreement to any new first or second mortgage that meets the debt limits established at the beginning of the agreement.

11. Home Ownership

Homeowners are responsible for paying the property taxes, association dues and Homeowners insurance premiums. If the homeowner fails to make these payments, then NestWorth will make them. If NestWorth makes any payments on the Homeowner's behalf, NestWorth will reduce the monthly payment by these amounts until they have recaptured those advances.