Survey of Financial Professionals: Credit and Home Equity

THE ACADEMY
HOME EQUITY IN FINANCIAL PLANNING

ILLINOIS
Agricultural & Consumer Economics
COLLEGE OF AGRICULTURAL, CONSUMER & ENVIRONMENTAL SCIENCES

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Survey of Financial Professionals: Credit and Home Equity

The Academy of Home Equity in Financial Planning's mission is to develop and advance, for retirees and their financial advisors, a rational and objective understanding of the role that housing wealth can play in prudent planning for retirement income. The academy is comprised of thirteen academic and professional members who share common interest and expertise within the areas of housing wealth and retirement. The Academy's two primary objectives are to better understand how financial service professionals view client housing wealth and educate the financial industry and general public in a manner that is data driven and objective around housing wealth in retirement.

Purpose of Study

The purpose of this study is to identify how financial service professionals implement credit and home equity recommendations with their client. In identifying any credit implementation gaps, the study intends to further identify the impact compliance environments, compensation models and business structures have on credit and home equity recommendations. Lastly, the survey hopes to identify characteristics of FSPs making and implementing credit and home equity recommendations along with identifying characteristics of those who are not.

Description of Instrument and Distribution Methods

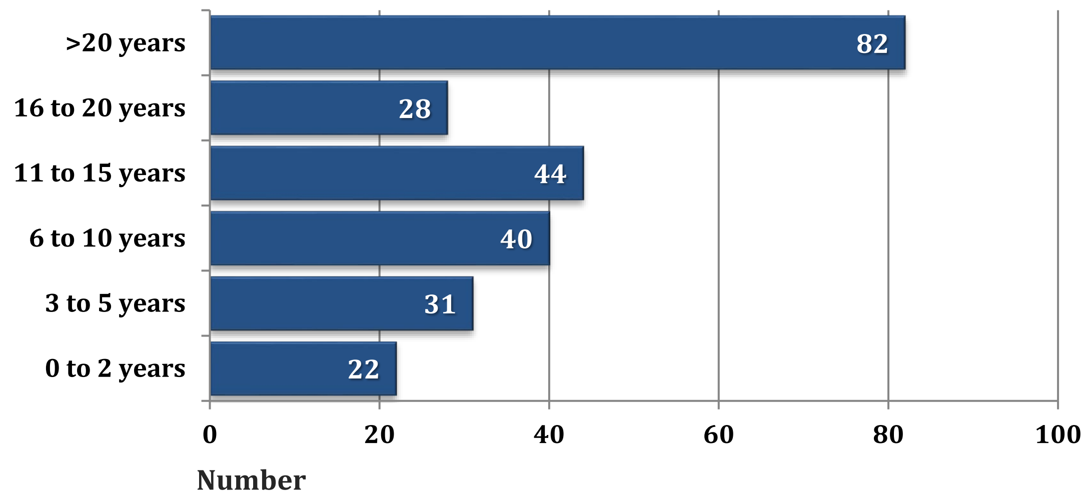
The Academy for Home Equity in Financial Planning (The Academy) created a 26 question instrument to better understand how financial service professionals make and implement recommendations about credit, mortgages and reverse mortgages. The instrument was developed with the assistance of two focus groups (one comprised of credit and reverse mortgage experts, the second of financial planning academic professionals) and was approved prior to launch by the University of Illinois Institutional Review Board in March of 2020.

The survey was opened April 1st and closed April 15th. The Academy utilized email as well as paid and organic social media channels to gather a sample representative of the greater client facing financial service professional community. Timing followed a period of significant market volatility in the first quarter of 2020, due to the COVID-19 lockdown. This timing effect will be followed up with a similar survey to longitudinally study how opinions of income-producing credit products change in times of negative market conditions. Over 500 participants began the survey generating a data set of 314 meaningful and complete responses.

Description of Sample

Participant gender was representative of the overall financial service profession (76% male, 24% female). [1] A majority of respondents reported having achieved an undergraduate degree (63%) or graduate degree (33%). Financial service professional (FSP) experience favored those in the industry greater than 20 years.

Figure 1: FSP Experience



Respondents were asked what year they were born. Those who answered (n=221) skewed slightly younger than a total population of Certified Financial Planners[2], which might be attributable to the nature of an online instrument distribution.

Figure 2: Age Distribution of Respondents

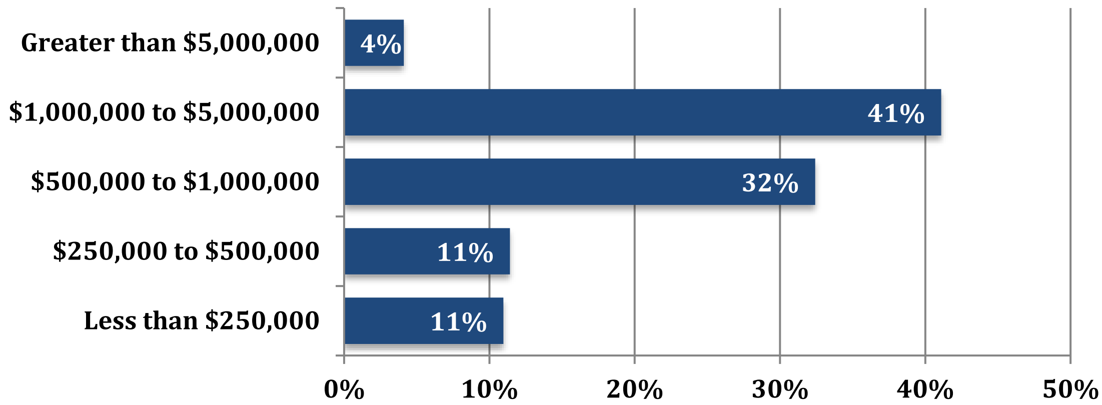
20-29	10%
30-39	29%
40-49	22%
50-59	26%
60-69	10%
70+	4%

Survey participants tended to work with clients who had a net worth between $500,000 and $5,000,000. The sample reflects professionals working with upper middle to high net worth markets, but does not represent ultra-high net worth clients or advisers working in middle markets.

[1] https://www.investmentnews.com/the-rise-of-the-female-financial-adviser-75472

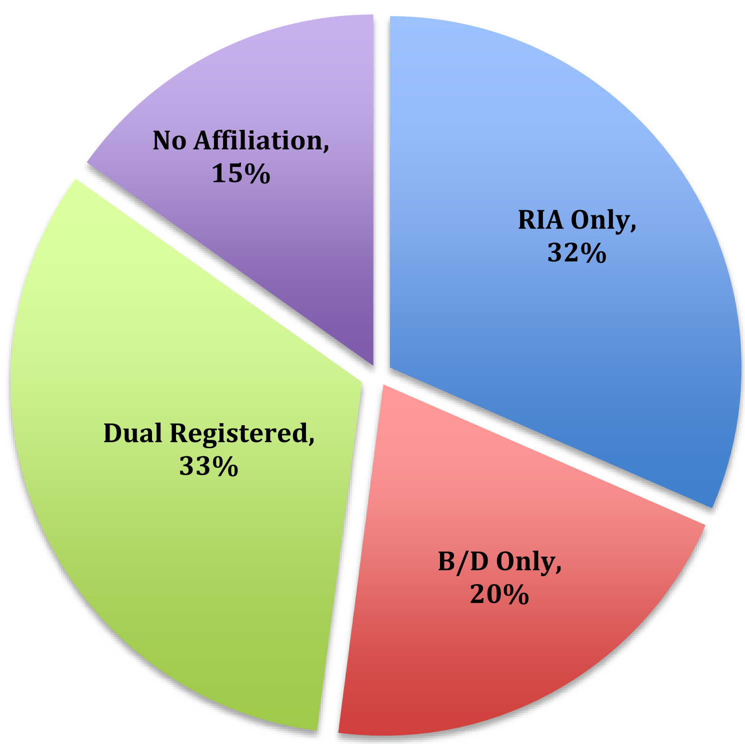
[2] https://www.cfp.net/knowledge/reports-and-statistics/professional-demographics

Figure 3: Average Client Net Worth



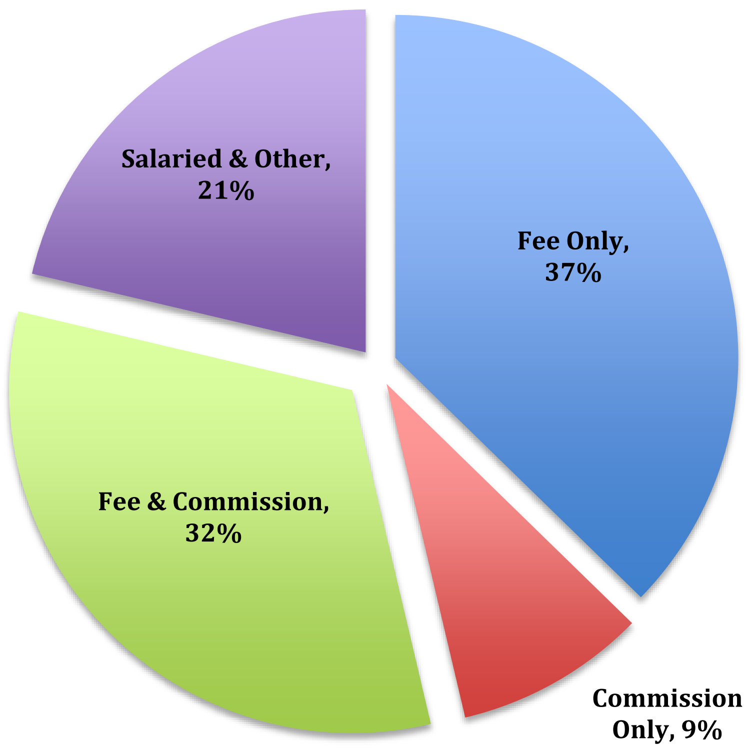
Respondents are associated with different arms of the financial service industry. A majority of participants reported being in the RIA Space (65%), either exclusively or dual registered with both an RIA and Broker Dealer. Almost half of total survey participants (48%, n=151) actively hold a life insurance license.

Figure 4: FSP Affiliation



Participants chose which compensation model best fit their practice. Answers were then aggregated into fee-only; those who exclusively charge clients hourly (5%), using an assets under management model (25%), flat fee or retainer fee (7%). Non fee-only advisers comprised of those who charged both commission and fees, commission only and participants could select salary/other category. Compensation model is a meaningful topic under Regulation BI and October 2019 CFP® Board rules[3], it is particularly relevant in a time of financial uncertainty[4]. A majority of the sample was compensated in some capacity from client fees (69%).

Figure 5: Participant Compensation Model

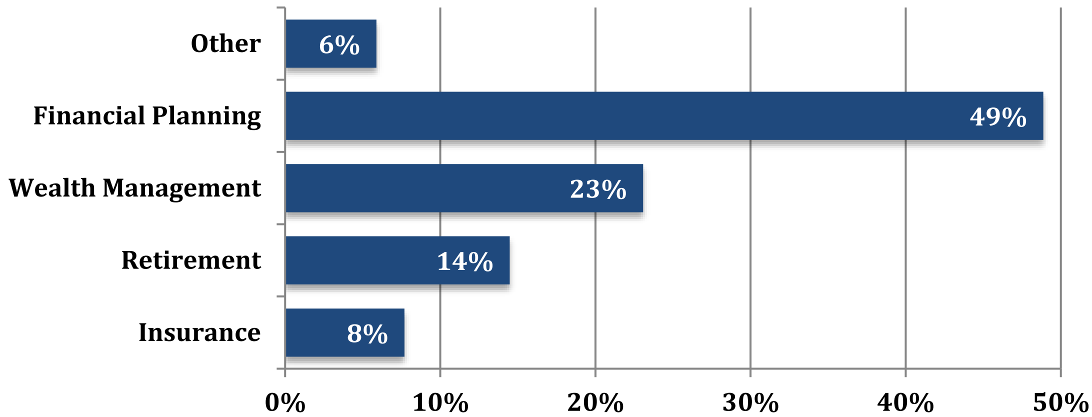


Participants were asked to self-identify their "specialization" from a slate of choices. This question did not provide respondents with categorical definitions but better helps understand the mindset and perspective of survey respondents. A majority of respondents chose Financial Planning (n=108).

[3] https://www.investmentnews.com/adviser-compensation-involves-a-conflict-that-can-be-managed-but-not-avoided-75299

[4] https://www.onefpa.org/journal/Pages/MAR19-Examining-Asset-Flows-and-Type-of-Adviser-Compensation-After-an-Economic-Downturn.aspx

Figure 6: Specialization



A large number of Certified Financial Planner™ professionals responded to this instrument (n=143) and a moderate number of ChFC® (n=41), CLU® (=38) and RICP® designees (n=28).

Limitations of Sample

The sample of complete responses (n=314) creates a rich dataset to study credit, home equity and reverse mortgage across business models, compensation models and specializations. This data set will identify how financial service professionals provide home equity and credit advice to their clients and provide fresh perspectives on credit strategies, usage, compliance environments and product opinions.

The sample is most representative of the overall industry when studying middle aged FSPs (30-60) working in the $500,000 to $5,000,000 net worth space. The sample size coupled with an abundance of financial planning certifications in today's market limits drawing meaningful and significant conclusions to those holding CFP®, ChFC®, CLU® and RICP® designations.

Financial Service Professionals, Credit and Home Equity

The landscape of consumer facing financial service professionals is vast, and is expected to grow faster than average over the next decade when contrasted to other industries[i]. The industry has found more overlap within recent regulatory frameworks (SEC BI and updated CFP® Board Ethics Rules). Insurance agents and securities agents remain beholden to a suitability oriented best interest standard of care while financial advisers and those holding the CFP® designation are charged with being fiduciaries. Both models have unique compensation and product trade-offs.

The purpose of this white paper is to explore credit, mortgage and reverse mortgage recommendations across the financial service profession. Results will provide a richer understanding of how financial professionals work with credit products and provide insight to better educate professionals in the credit space. Understanding how FSPs work with credit products is the first step in building meaningful relationships between FSPs, their clients and lenders.

Figure 7: Number of Professionals and Estimated Industry Growth Rate

Industry	***2018 Number of Professionals***
Insurance agents (8%)	475,000
Securities, commodities and Financial Service Sales Agents (4%)	442,200
Personal Financial Advisors (10%)	271,700
Certified Financial Planner™ Professionals	87,270

Compliance Environments, Mortgages and Reverse Mortgages

Participants were asked which credit and mortgage strategies they recommended to clients. Options included:

- Utilize a Mortgage for the Purchase of a Residence
- Refinance Housing Debt using a Residential Mortgage
- Utilize a Reverse Mortgage for Income or Retirement Sustainability
- Utilize a Reverse Mortgage for the Purchase of Real Estate

Participants were also asked if they were allowed or prohibited from making mortgage or credit recommendations to clients. Options included:

- My firm prohibits me from providing advice about home equity loans, mortgages or reverse mortgages.
- I am unsure if my firm allows me to provide advice about mortgages, home equity loans or reverse mortgages.
- My firm allows me to make mortgage and home equity loan recommendations to my clients, but not reverse mortgage recommendations.
- I can provide advice about home equity loans, mortgages and reverse mortgages to clients.

H1: FSPs prohibited from providing credit advice or unsure if they are prohibited from providing credit advice (n=55, 25% of those answering this question) would not provide mortgage or reverse mortgage recommendations to their clients.

A Chi Squared test of best fit found a significant relationship (p=.035) between compliance environments and likelihood of making a mortgage recommendation for the purchase of property. FPSs who are allowed to provide mortgage advice made more proportional recommendations than those who are not. However, this result is complicated A majority of FSPs who are prohibited (52%) from making mortgage recommendations or who were unsure (63%) if they are allowed to make mortgage recommendations reported making them to clients anyway.

The test was repeated for mortgage refinancing. Results were limited (only 24% of participants recommended clients refinance mortgages) and not significant. In the area of mortgage refinancing compliance environment was not meaningful.

A Chi Squared test of best fit found a significant relationship (p=.037) between compliance environment and likelihood of making a reverse mortgage recommendation for income or retirement sustainability. FPSs who are allowed to provide reverse mortgage advice made more proportional recommendations than those who are not. However, FSPs who are prohibited (25%) from making mortgage recommendations or who were unsure (20%) if they are allowed to make mortgage recommendations reported making them to clients anyway.

The test was repeated for utilizing reverse mortgages for the purchase of property. Results were limited (only 8% of participants recommended this strategy) and not significant.

Figure 8: Compliance Environments and Making Mortgage Recommendations

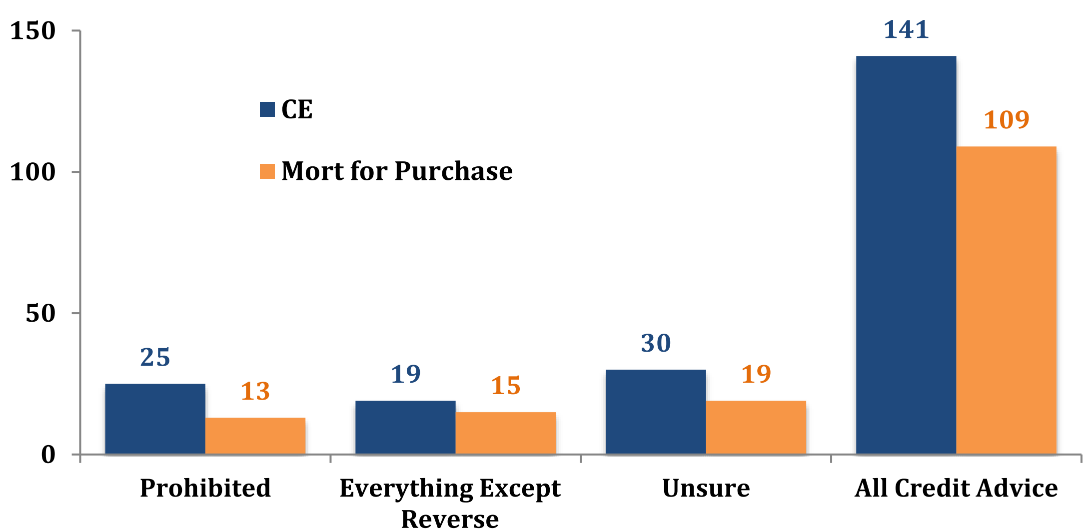
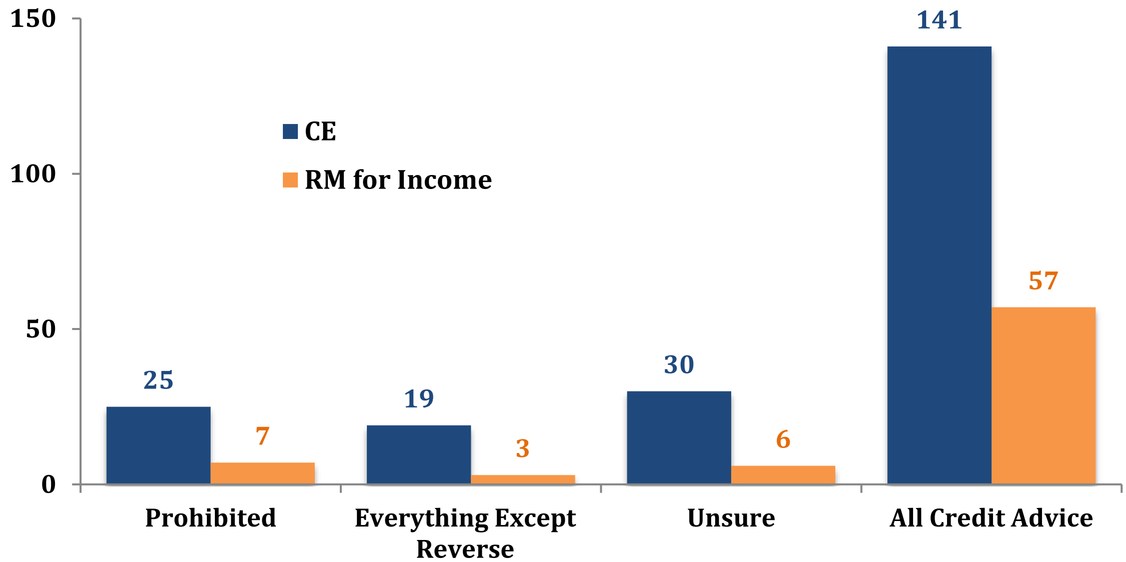


Figure 9: Compliance Environments and Making Reverse Income Recommendations



An interpretation of the tests is that uncertainty remains in compliance environments. FSPs who are allowed to make credit recommendations make them at a greater frequency than FSPs who are unsure, but compliance environments do not completely eliminate the recommendation of mortgage and reverse mortgage products to clients.

Financial Service Professional Experience and Credit Recommendations

Experience is a proxy for client engagement and persistency. To more meaningfully analyze student experience and credit recommendations, participants were grouped into three buckets; New (0-5 years), Intermediate (5+-15 years) and Experienced (15+ years).

Figure 10: Three levels of experience

	Number	Percentage
New	53	21%
Intermediate	84	34%
Experienced	111	45%

H2: FSPs with more experience recommend higher levels of credit and mortgage strategies than those with less experience.

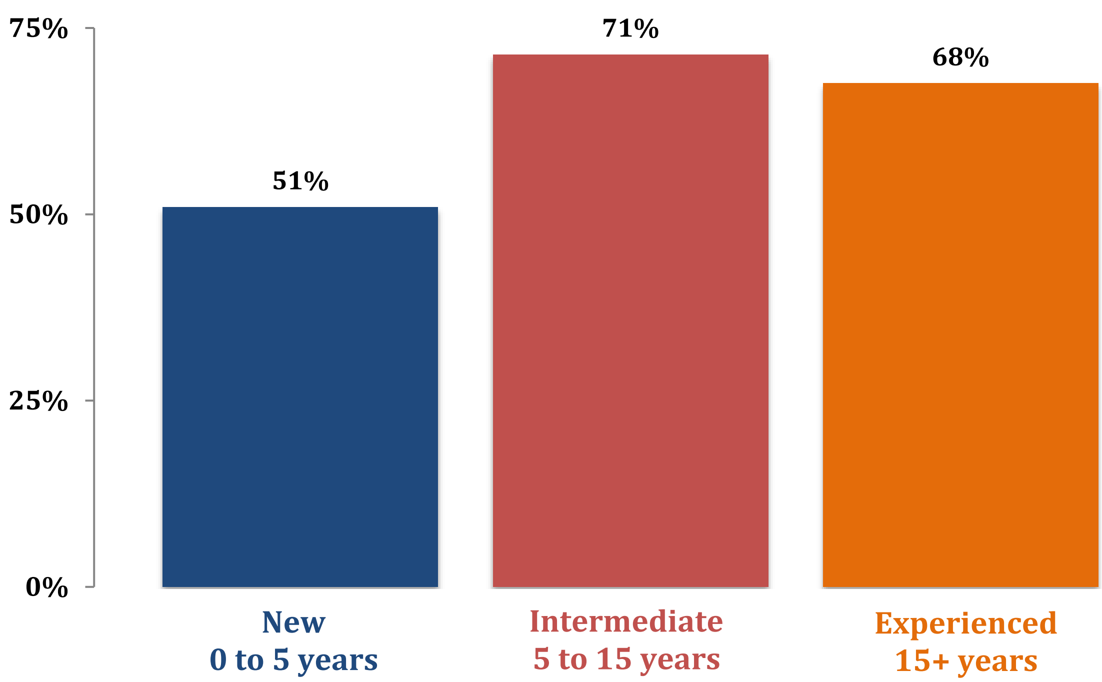
Participants were asked which credit and mortgage strategies they recommended to clients. Options included:

- Refinance Consumer Debt Using a HELOC or Home Equity Line of Credit
- Utilize a Home Mortgage for the Purpose of a Residence
- Utilize a Reverse Mortgage for Income or Retirement Sustainability

A Chi Squared test of best fit found a significant relationship (2, n = 248, p=.00370) between FSP experience levels and recommending refinancing consumer debt using a HELOC or Home Equity Line of Credit. Experienced FSPs were more likely (48%) to recommend refinancing consumer debt using a housing asset than intermediate (43%) or newer FSPs (21%).

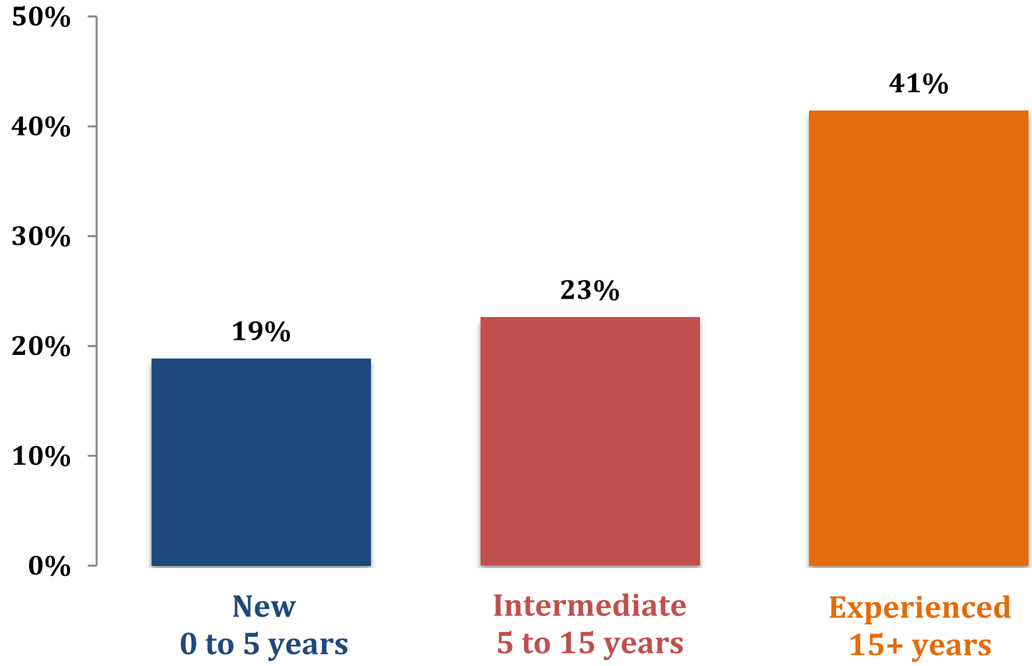
Results were also significant (p=.0392) between FSP experience levels and recommending home mortgages. New FSPs (51%) made fewer mortgage recommendations than their intermediate (71%) or experienced (68%) colleagues.

Figure 10: FSP Experience and Mortgage Recommendations



Lastly, a Chi Squared test of best fit found a significant relationship between FSP experience levels and recommending a reverse mortgage for retirement income and security. Experienced FSPs were more likely (41%) to recommend a reverse mortgage refinancing strategy than intermediate (23%) or newer FSPs (19%).

Figure 11: FSP Experience and Reverse Mortgage Recommendations



H2 is supported; experience matters when it comes to credit. Experienced FSPs recommend refinancing, mortgage and reverse mortgages more frequently than new ones.

Participants were asked to provide answers along a seven-point Likert-scale (answers ranging from strongly agree to strongly disagree) regarding two reverse mortgage statements:

- I view reverse mortgages as a positive tool that can improve client retirement security
- I view reverse mortgages as harmful to seniors

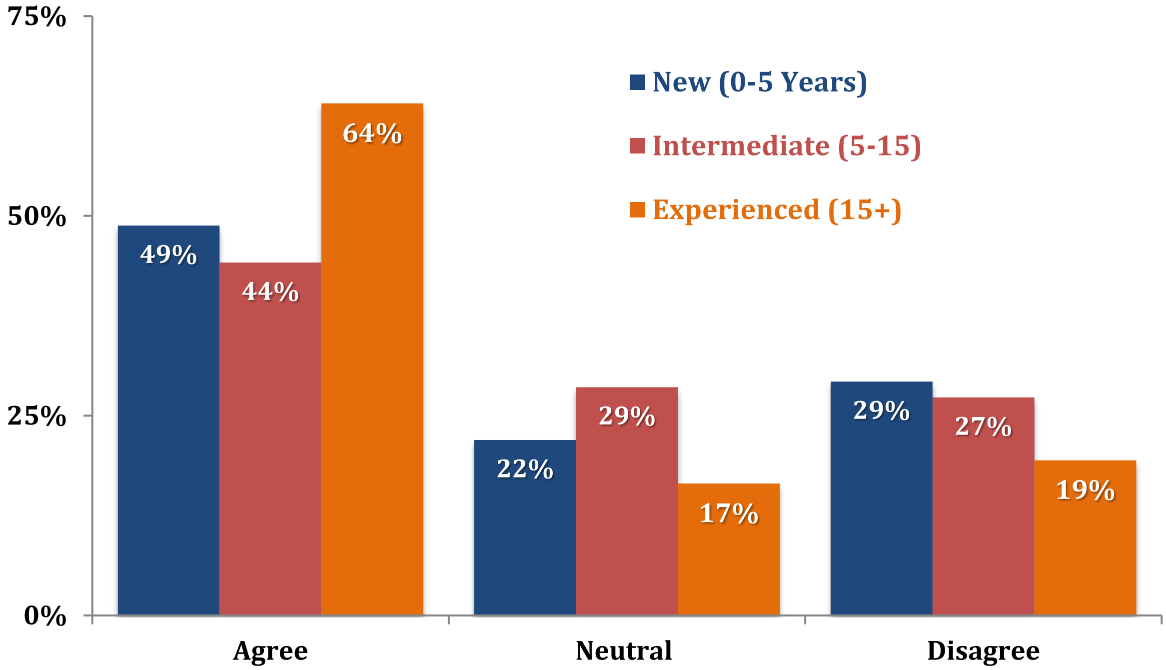
Building on significant findings of the second hypothesis H3: FSPs with more experience have more positive opinions of reverse mortgages than those with less experience.

To test H3 Likert-scale results were bucketed into three new variables.

- Strongly Agree, Agree and Somewhat Agree were recoded as" Agree"
- Neither Agree nor Disagree was recorded as "Neutral"
- Strongly Disagree, Disagree and Somewhat Disagree were recoded as "Disagree"

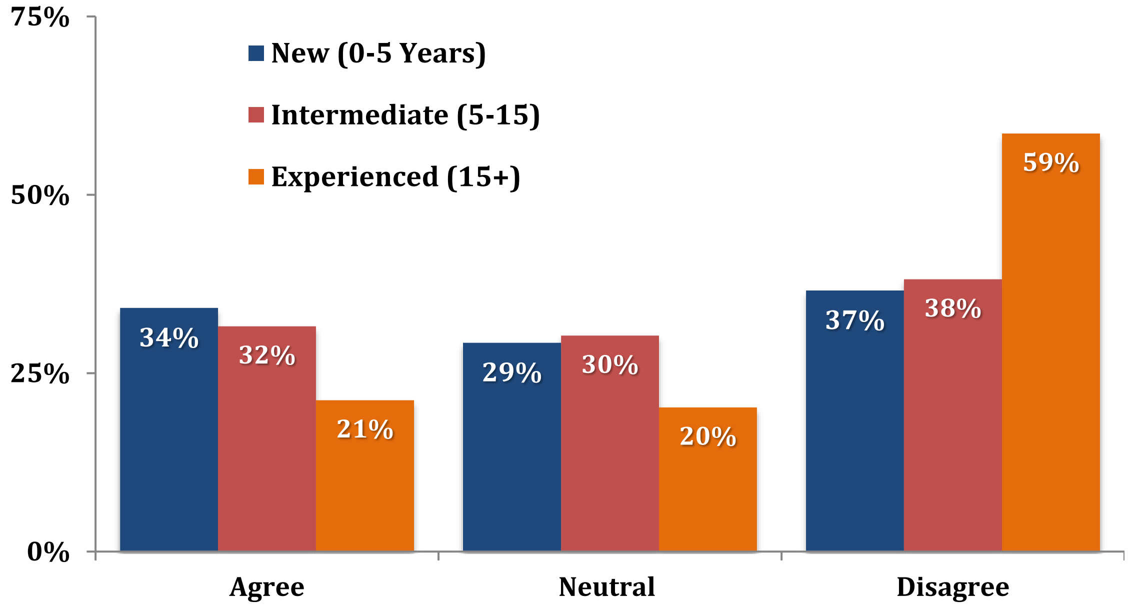
A Chi Squared test of best fit between categorical variables (n=221) was performed between FSP experience levels and viewing reverse mortgages as positive tools to improve client security. The test found a significant relationship (p = 0.0062) between experience groups. 64% of experienced FSPs agreed that reverse mortgages are a positive tool contrasted with less experienced advisers. Conversely only 19% of experienced FSPs disagreed that reverse mortgages are a positive tool. More new and intermediate FSPs disagreed than their more experienced counterparts.

Figure 12: Reverse Mortgages are a Positive Tool and FSP Experience



A Chi Squared test of best fit between categorical variables was performed between FSP experience levels and viewing reverse mortgages as harmful to seniors. The test found a significant relationship (p = 0.01784) between experience groups and viewing reverse mortgages as harmful. Experienced advisers disagreed that reverse mortgages are harmful (59%) at a higher rate than less experienced colleagues. Fewer experienced advisers agreed that reverse mortgages are harmful (21%) than their less experienced colleagues.

Figure 13: Reverse Mortgages are Harmful and FSP Experience



H3 was supported when considering experienced advisers. More experienced advisers appear to have more positive opinions of reverse mortgage products than those with less experience.

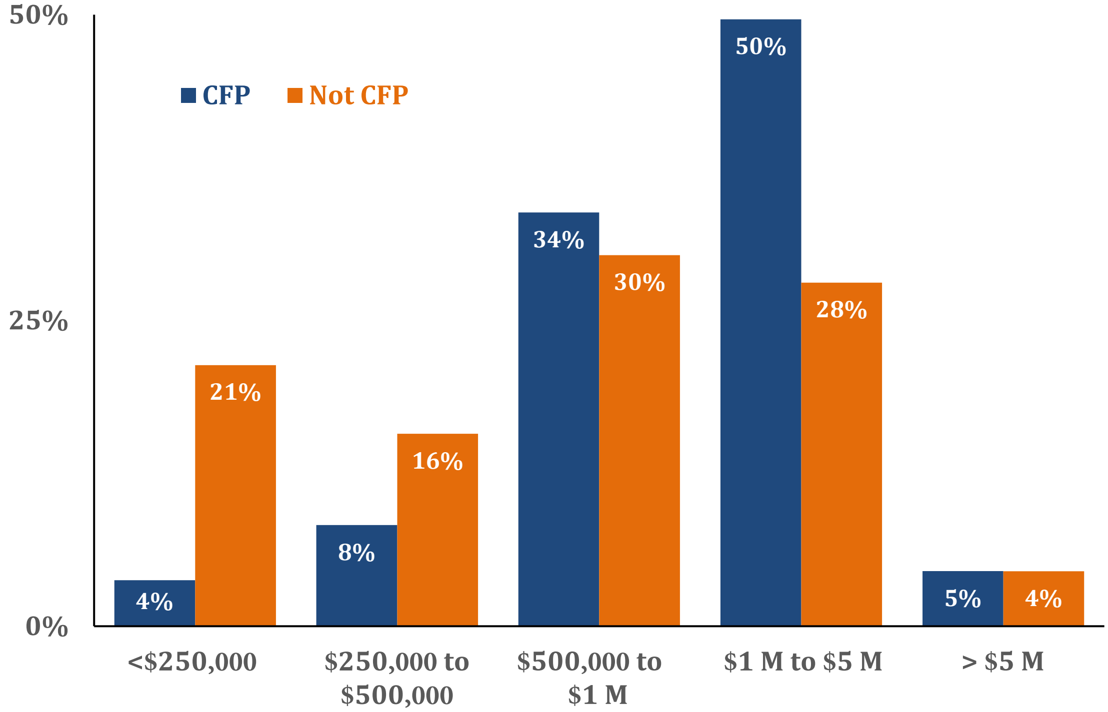
A Financial Service Professional's experience matters, both in frequencies of credit product recommendations and in having positive opinions of reverse mortgage products. Showcasing experienced advisers within firms and association groups may help drive positive reverse mortgage perceptions. Likewise, additional education and messaging to less experienced FSPs may help to lower negative perceptions and increase usage of credit and reverse mortgage products.

The complicated relationship between Certified Financial Professionals™ and Reverse Mortgages

The CFP® designation is a significant designation in the investment advisory, insurance and brokerage communities. This designation requires holders to pass a meaningful exam, complete a minimum three year experience requirement, hold an undergraduate degree and adhere to a code of ethics with a fiduciary standard. As of May, 2020 over 87,000 financial professionals actively held the CFP® Designation. These higher standards bring additional questions that often challenge product recommendations. Where mutual funds and annuities may be "suitable" from a compliance perspective, a CFP® Professional may avoid types of these products if they do not also align with a "fiduciary" duty. Understanding how CFP®'s view home equity products shines a bright light on mortgage and reverse mortgage products from a fiduciary lens.

The population of CFP® respondents is different than overall respondents. They tended to manage larger clients, more frequently (50%) managing clients in the 1 to 5 million space.

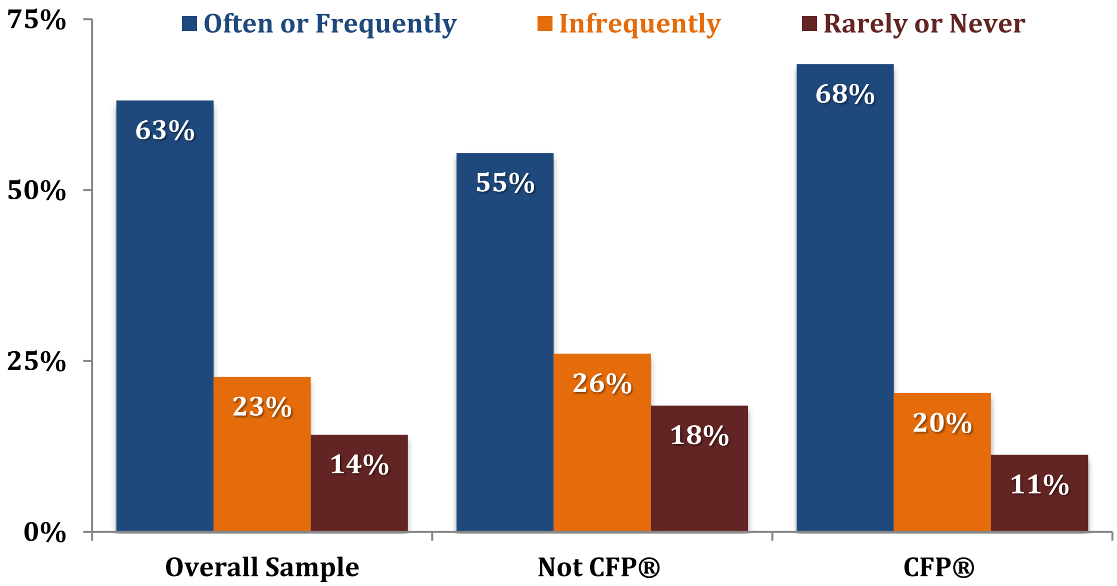
Figure 14: Client Net Worth, CFP® and Non-CFP®



More CFP® Professionals completed the survey than any other listed designation (n=145). This result is not surprising given the nature of the sample. CFP® survey respondents skewed towards fee-only (46.2%) and fee-based (34%) compensation models, with only one of the 95 respondents indicating they were a CFP® professional who was compensated exclusively on commission.

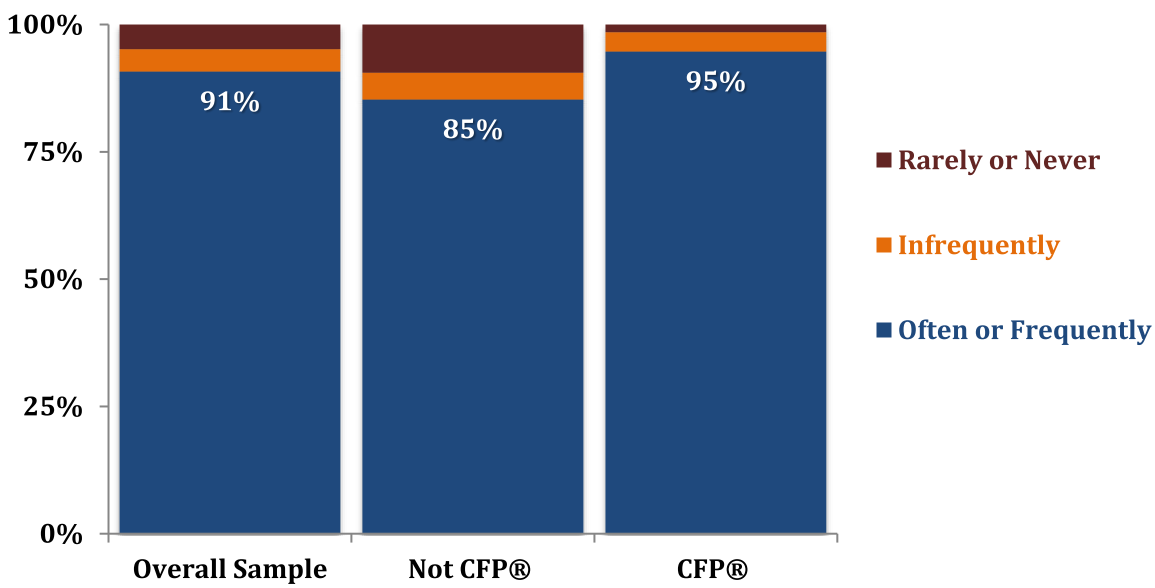
CFP® professionals talk about housing with retirees. CFP® professionals made housing recommendations in early or later stages of retirement more frequently (68%) than the overall sample (63%) or those who are not CFP® professionals (55%). This result is not statistically significant.

Figure 15: Percentage of CFP® Professionals who make housing recommendations during Retirement



CFP® professionals are significantly more likely (n =227, p=0.018) to provide retirement account withdrawal or distribution advice than non-CFP®s. CFP® professionals provided retirement advice often or frequently 95% of the time, contrasted with 85% of non-CFP® professionals) This finding is significant and reinforces that CFP® professionals are working with high net worth retirees.

Figure 16: Percentage of CFP® Professionals providing retirement advice



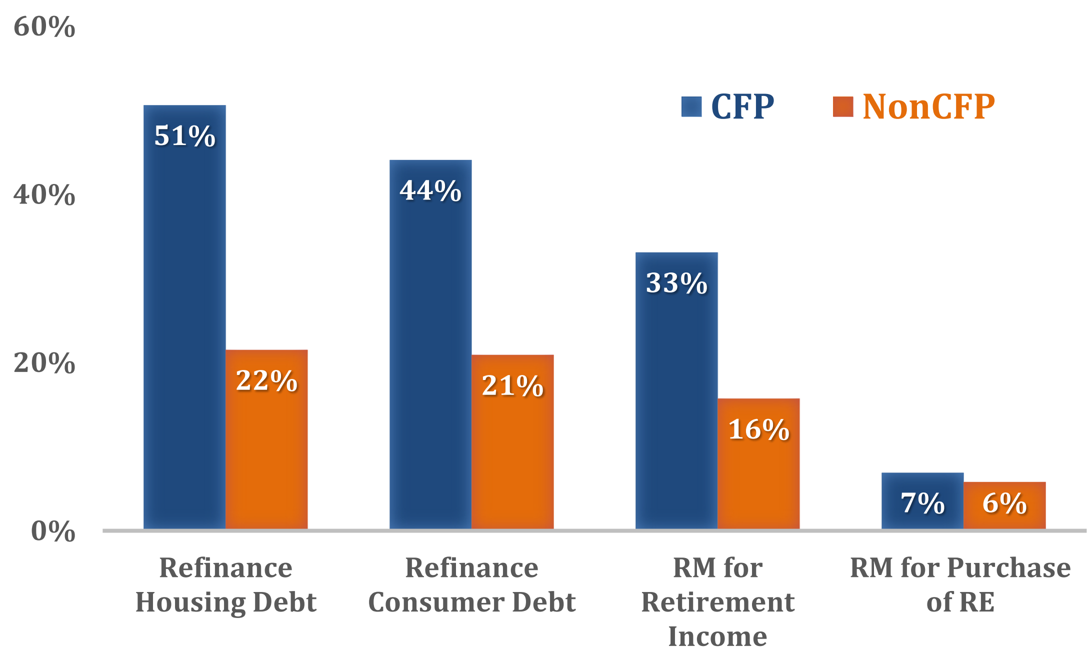
CFP® professionals make retirement and housing recommendation to their clients. They are required to uphold a fiduciary level code of ethics and work with higher net worth clients than non CFP® professionals. Acting as a fiduciary requires putting the client's interest first and acting with skill and prudence. Skill and prudence, along with making housing recommendations, should require more fluency with credit and home equity products. This fluency is tested in our forth hypothesis.

H4: CFP® Professionals make credit recommendations more often than non-CFP® professionals

To test H4 a Chi Squared tests of best fit was performed between categorical variables (df 3, n=317) comparing CFP® and non-CFP® respondents across four credit recommendation strategies:

- **Refinancing housing debt using a residential mortgage***
- **Refinancing consumer debt using a HELOC or home equity line of credit***
- **Utilizing a reverse mortgage for income or retirement sustainability***
- **Utilizing a reverse mortgage for purchase of real estate**

Figure 17: CFP® and Non-CFP® Housing Recommendations



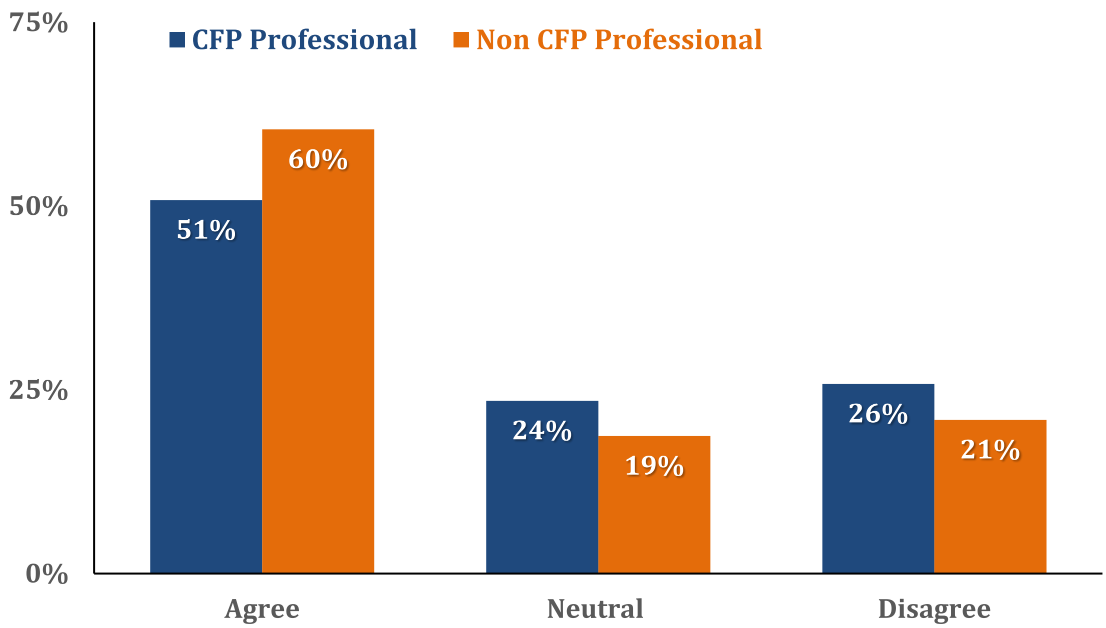
H4 was supported. CFP® professionals made significantly more ($p < .01$) credit and housing recommendations other than using a reverse mortgage to purchase real estate. CFP® opinions on reverse mortgage products did not follow a similar path.

Participants were presented with the statement "I view reverse mortgages as a positive tool that can improve client retirement security" and asked if they agreed or disagreed with the statement on a seven point Likert-scale. The Likert-scale was grouped into three categories:

- Agree grouped (consisting of somewhat agree, agree and strongly agree)
- Neither agree nor disagree
- Disagree grouped (consisting of somewhat disagree, disagree and strongly disagree).

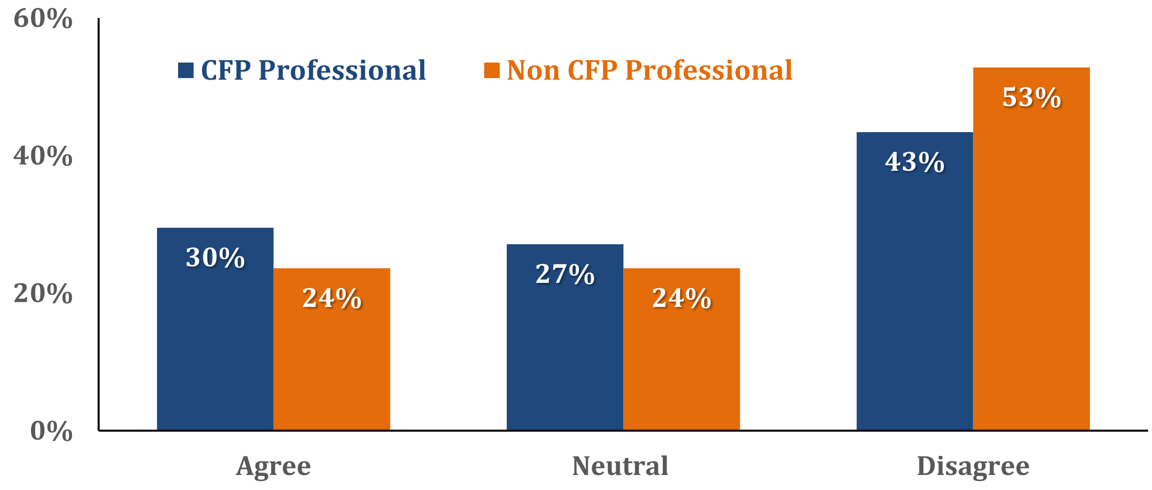
CFP® respondents (n=132) agreed with the statement less often and disagreed more often than non-CFP® respondents (n=91).

Figure 18: CFP® Opinions are Reverse Mortgages Positive Tools?



A similar pattern emerged when presented with the statement "I view reverse mortgages as harmful to seniors". CFP® respondents (n=129) agreed with the statement more often and disagreed less often than non-CFP® respondents (n=89).

Figure 19: CFP® Opinions are Reverse Mortgages Harmful to Seniors?



The survey dug deeper into why negative opinions persisted. Both CFP® (n=38) and non-CFP® respondents (n=19) who agreed reverse mortgages were harmful to seniors were asked why.

Figure 20: CFP® Reasons for Negative Opinions

	CFP® Professional	Non CFP® Professional
Bank will take my client's home	**10.5%**	**5.3%**
Excessive costs and fees	**57.9%**	**52.6%**
Not safe and place clients in jeopardy	**5.3%**	**15.8%**
Unsuitable product	**26.3%**	**26.3%**

CFP® professionals have a complicated relationship with reverse mortgages. They discuss housing and retirement more often than non-CFP® professionals. Over a third of CFP® professionals who participated in the survey have recommended a reverse mortgage for retirement income. At the same time CFP® professionals have more negative opinions about reverse mortgage products. Opinions fueled out of cost and fee and compliance considerations.

Helping financial service professionals better understand the cost structure of reverse mortgage products contrasted with other income solutions may help overcome less positive viewpoints.

Financial Service Professional Business Models and Credit Recommendations

Three regulatory structures weave together in the financial service profession. Insurance Agents must be appointed to insurance companies and are regulated by states. Registered Representatives of Broker Dealers are regulated through FINRA and the SEC. Investment Advisers are regulated either through states or the SEC. These three business models have different standards of care, or requirements the financial service professional must follow when providing advice to a customer. Insurance agents are registered representatives who do not charge fees and must uphold a suitability standard, where those affiliated with investment advisers are required to hold a fiduciary standard of care. A suitably standard of care generally requires professionals to gather a client profile including risk tolerance, experience and goals as well as understanding products recommended to clients. A fiduciary standard of care incorporates those elements and additionally requires the fiduciary put the best interest of clients before their own.

Conflicts of interests arise in both suitability and fiduciary environments. In suitability settings, insurance agents and registered representatives are not charged with making “Prudent” recommendations but “Suitable” ones. This may limit the number of and type of solutions offered to a client and consider only in-house proprietary products or those approved by a broker-dealer or insurance agency. Fiduciary model conflicts arise when investment advisers are paid a percentage of assets under management and are therefore incentivized to make client recommendations that result in additional managed assets.

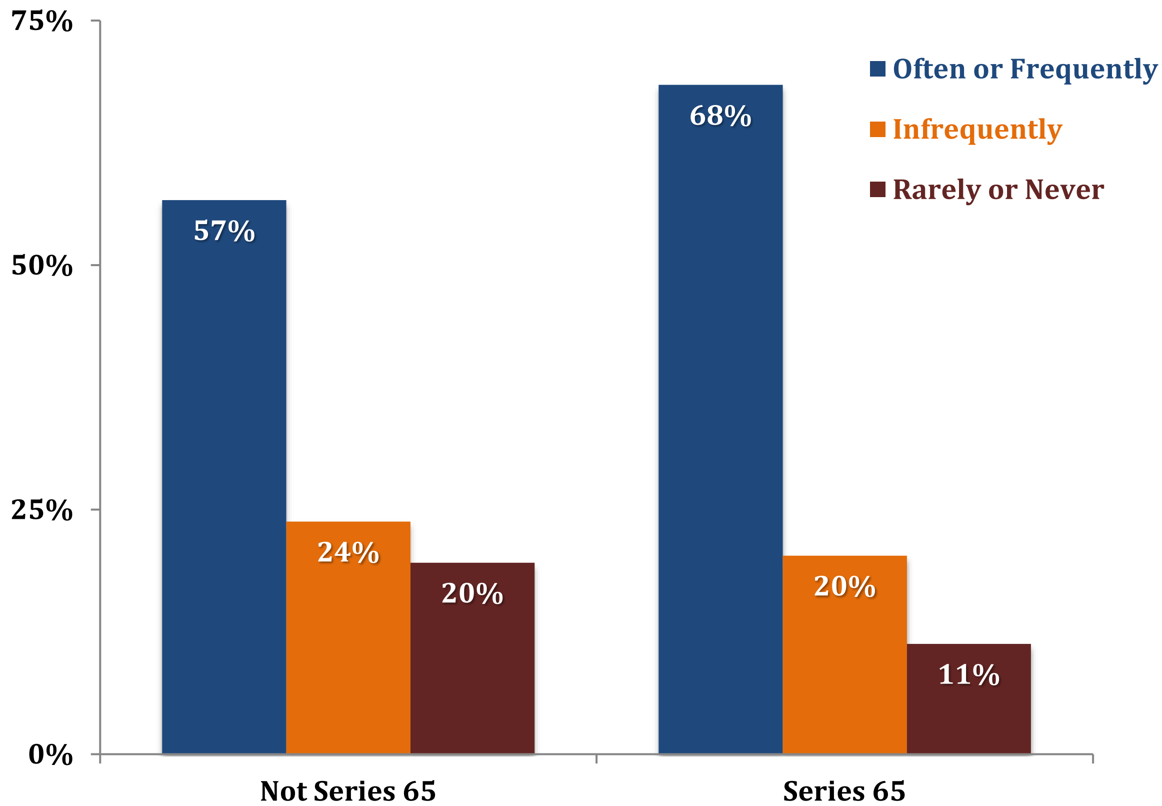
H5: Fiduciary model financial service professionals recommend credit products differently than suitability model financial service professionals.

A comprehensive test of H5 considers framing participants into different groups. The test is somewhat complicated by dual registered investment advisers who are associated with both a broker and investment adviser. Understanding licensing helps unravel the mystery to some extent.

State or nationally registered investment advisers who are not associated with a broker-dealer generally maintain a Series 65 license. This license is required by the SEC and most states before an individual can work with clients.

Participants were asked about licensure and 85 reported holding a series 65 license. A chi-squared test of best fit (df=3, n=225, p =<.001) found a significant relationship in making housing recommendations during retirement for those who held the series 65 and those who did not. Series 65 participants made housing recommendations more often (68.5%) than those not holding the 65 (35.5%).

Figure 21: Series 65 and non-Series 65 housing recommendations



A second test of best fit was run comparing those who indicated they were affiliated with an investment adviser (n=147) and those who were not (n=75). This second test did not delineate which investment advisers were dual-registered, and results were not significant. This is an important difference. Being affiliated with an investment adviser did not increase the likelihood of providing housing recommendations during retirement, being associated with a non-BD affiliated investment adviser did increase the likelihood of making housing recommendations to clients. H5 was partially supported.

Participants associated with investment advisers (n=222) made credit and home equity recommendations more often than non-investment advisers across every type of credit technique. Survey participants affiliated with Broker/Dealers were also more likely to make credit recommendations, but less often than their RIA counterparts. Insurance agents made fewer credit recommendations.

Figure 22: Recommendations by Business Line Visualized

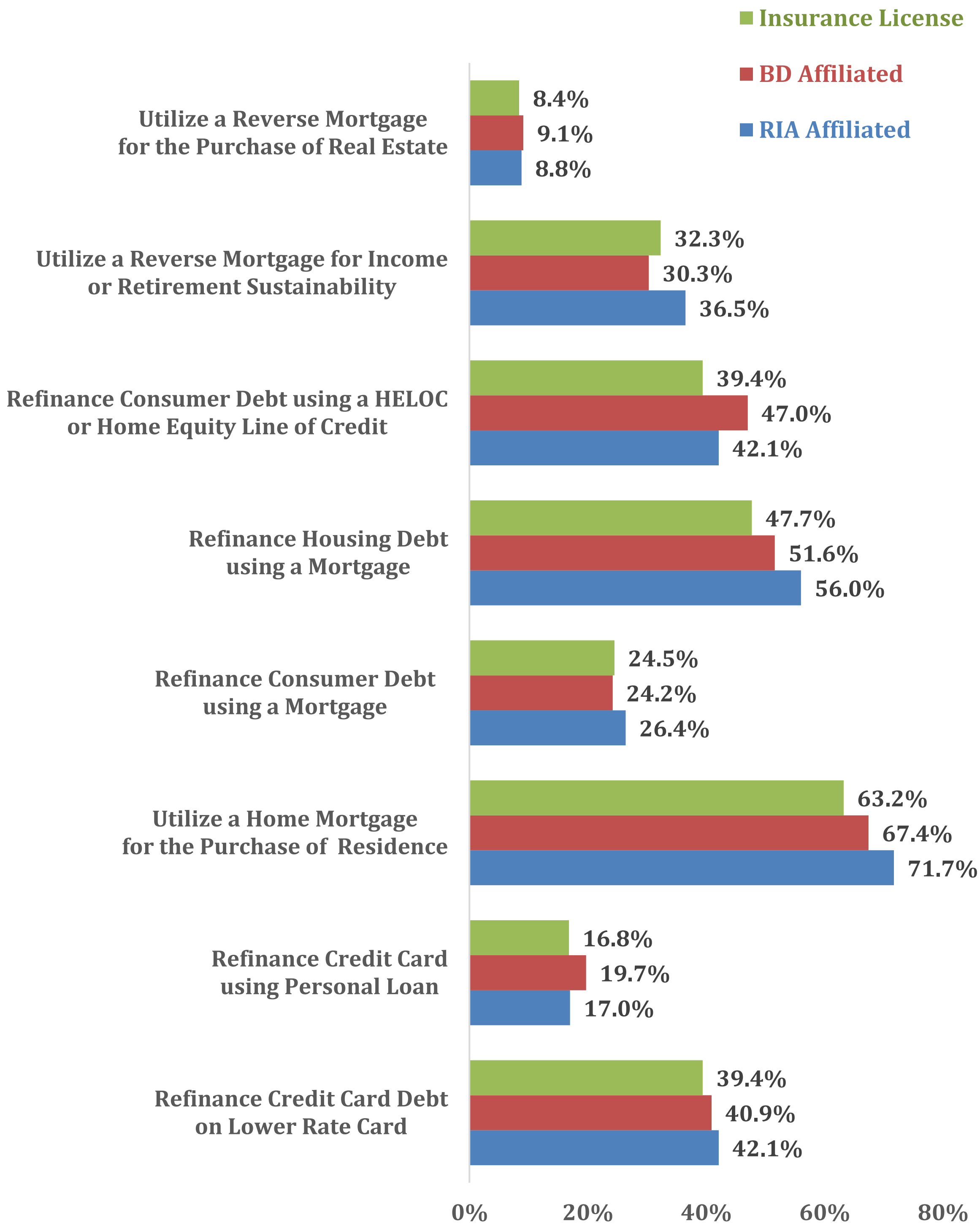


Figure 23: Recommendations by Business Line

	RIA Affiliated	BD Affiliated	Insurance License
Refinance Credit Card Debt on Lower Rate Card	42.10%	40.90%	39.40%
Refinance Credit Card using Personal Loan	17.0%	19.70%	16.80%
Utilize a Home Mortgage for the Purchase of Residence	71.70%	67.40%	63.20%
Refinance Consumer Debt using a Mortgage	26.40%	24.20%	24.50%
Refinance Housing Debt using a Mortgage	56.00%	51.58%	47.70%
Refinance Consumer Debt using a HELOC or Home Equity Line of Credit	42.10%	47.00%	39.40%
Utilize a Reverse Mortgage for Income or Retirement Sustainability	36.50%	30.30%	32.30%
Utilize a Reverse Mortgage for the Purchase of Real Estate	8.80%	9.10%	8.40%

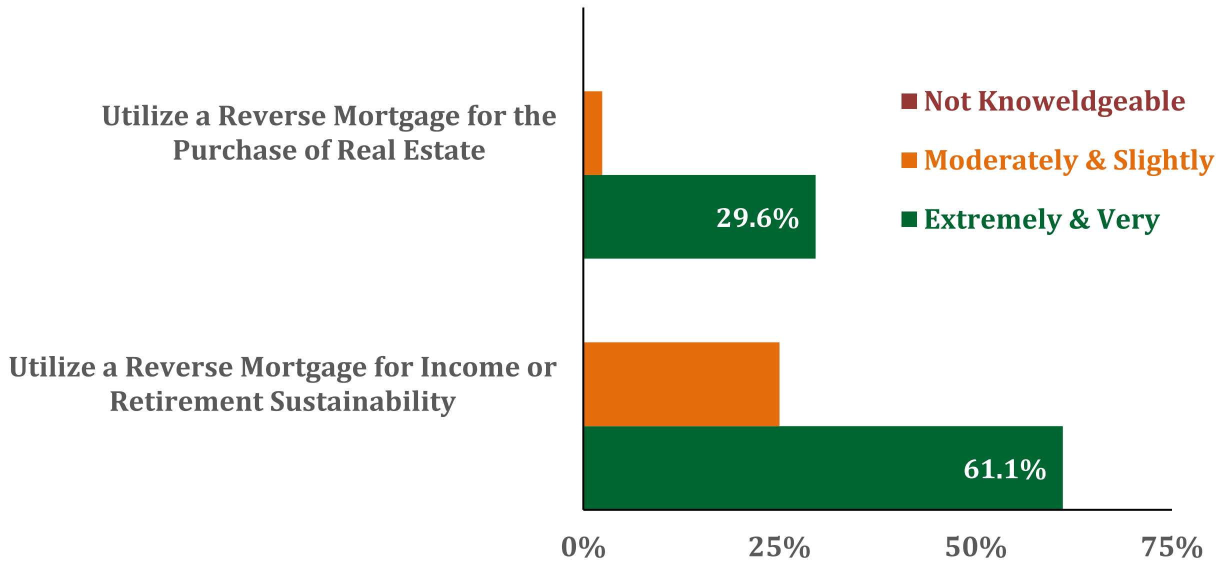
Knowledge, Discussion and Conclusions

Financial service professionals from every walk of life make credit recommendations to their clients. The level at which they make recommendations is shaped significantly by compliance environments, experience, professional certification and to a lesser extent business line.

Overall investment professionals do utilize credit and reverse mortgage products. Those who are fiduciary driven tend to utilize them more frequently (RIAs and CFP® professionals) than suitability models.

A leading driver of reverse mortgage usage remained self-assessment of knowledge. Those who indicated they were extremely & very knowledgeable of reverse mortgaged utilized them significantly more than less knowledgeable professionals. Increasing overall product knowledge is critical to increase usage.

Figure 24:Reverse Mortgage Usage and Knowledge



The key to wider implementation and acceptance of credit and reverse mortgage solutions in the financial service community is a combination of more favorable compliance environments and a greater understanding of strategies and products. A friendlier landscape appears to exist amongst experienced financial service professionals and those in the investment advisory space.

Additional research opportunities abound studying financial service professionals, home equity and credit. Testing product knowledge and contrasting to that of consumers[ii] would set a baseline to develop meaningful education program. Additional depth into specific business model spaces and in-depth qualitative research provide opportunities for deeper discussions.

The Academy would like to thank our sponsors at Mutual of Omaha Mortgage, Finance of America Reverse, One Reverse Mortgage and Longbridge Financial for supporting our research efforts.

[ii] https://www.forbes.com/sites/jamiehopkins/2019/06/24/busting-three-half-truths-about-reverse-mortgages/#54162b2c61a6