FAIRWAY

INDEPENDENT MORTGAGE CORPORATION

THE NEW REVERSE *Mortgage*

The Three Basics of Reverse Mortgages

1 Receive Tax Free Money from Your Home Equity:

A reverse mortgage is a loan that converts equity in your home into cash that can be used for many different purposes that will enhance and extend your retirement plan. If you currently have a mortgage, a reverse mortgage could eliminate your current monthly mortgage payment and also allow you to access any additional equity (over and above your mortgage balance) to create accessible cash which is not readily available while in the form of equity in your home. You must still pay property taxes, homeowners insurance, and maintenance.

You have spent many years putting your money into a special account called "home equity" and now with a reverse mortgage, you can convert that equity in to cash - tax-free!* Most reverse mortgages are insured by the Federal Housing Administration (FHA) and are called Home Equity Conversion Mortgages (HECM).

*This advertisement does not constitute tax advice. Please consult a tax advisor regarding your specific situation.

2 Eliminate your Monthly Mortgage Payment:

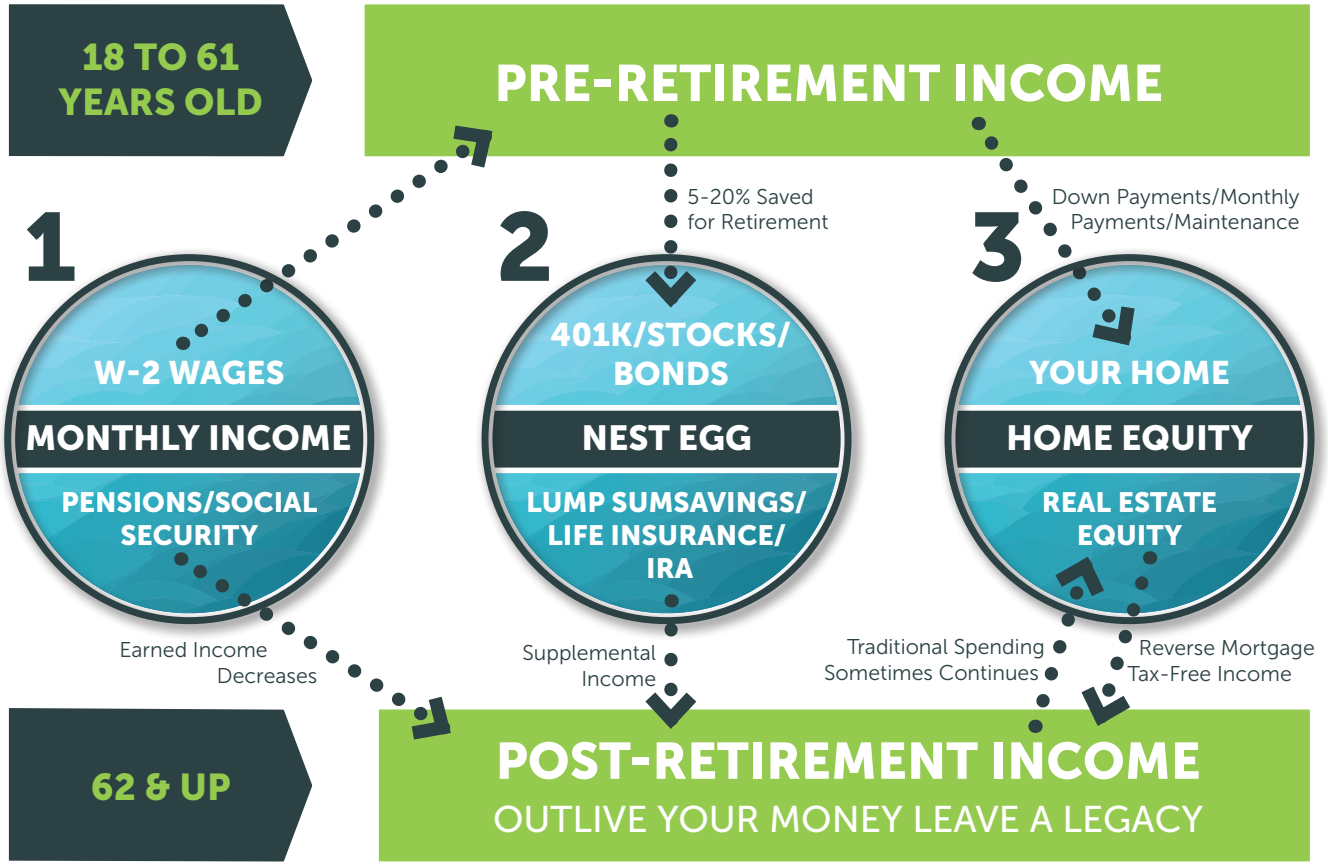
A HECM is the only mortgage that never requires a payment until you pass away or move out of your home. You are required to always pay taxes, insurance, and maintenance on your home, but whether you take a line of credit, monthly checks, or a lump sum, you will never be required to make a mortgage payment during your lifetime as long as you live in your home. However, should you choose a line of credit, you have the option of paying down the line should you wish to have less cash and increase your equity.

3 Never Owe More Than What the Home is Worth:

When you permanently move out of your home, whether you sell it or pass away, neither your estate or your heirs are responsible to pay the deficit if the balance owed on your reverse mortgage exceeds the home value. However, should your heirs want to keep your home, they may purchase it for 95% of the current appraised value.

The Three Buckets ... and The Sacred Cow of Home Equity

Many people feel that paying off their home and having no mortgage with lots of equity is the Holy Grail of retirement. Several people wait until their home is paid off before they retire and then feel they are safe to do so. The truth is that home equity is good— but it is not great because it is not liquid. In the face of fluctuating home prices along with nursing home and long-term care threats, it is typically better to have your equity in cash and in a form that you can control instead of relying on uncontrollable factors. With people losing their homes in the depression era of the 30s and in the latest round of the housing foreclosure crisis starting in 2008, there are many people who feel that having a paid off home in retirement is the safest way to go. The fact is that when a reverse mortgage enters the picture, the rules change because there is no payment and no risk of foreclosure as long as you live in the home as your primary residence and pay insurance, property taxes, and maintenance. (Of course you have to pay property taxes even if you don't have a reverse mortgage.) If you can use home equity without risk of foreclosure from missing payments, then the old rule of having a paid-off home in order to be secure may no longer be the best option. The truth is that a home is a great place to store memories but not a great place to store assets.



Once you understand that home equity is good, but cash is better, then the three buckets illustrated above will make a great deal of sense. During our earning years, we take money from the first bucket--W-2 Income-- and put it into the second bucket-- Retirement. What we also do is put quite a bit of our income into the third bucket-- our home-- purchasing it, making payments, improving it, etc. When we come to retirement, it is normal and expected to start drawing from bucket #2 (and stop contributing) when our first bucket decreases into just social security and pension income. However, most people continue to put money into bucket #3 when they don't need to. They sometimes continue to make payments, pay for taxes and maintenance when there is more than enough equity in bucket #3 that they should let that bucket take care of its own expenses as well as give them a cash flow that is not taxable. What they don't realize is that with a reverse mortgage, they can take cash out of bucket #3 just like bucket #2. Note the direction of the arrows and how they should change to maximize your retirement income on the lower rectangle. If you adopt this strategy as proven by the Texas Tech research[1] and Boston College for Retirement Research[2], your retirement funds will give you more income and be far more likely to outlast you! This is a big mental paradigm change. But, it is very important for you to understand that retirement rules, from taxation to home equity and especially long term care issues are simply very different from what happened during your earning years. Retirement is a different game and has different rules. The better you understand those rules, the better your retirement income will be. Let us explain why bucket #3 is so valuable for your retirement.

[1]Pfeiffer, S., Ph.D., Salter, J., Ph.D., CFP®, AIFA®, & Evensky, H., CFP®, AIF®. (2013). Increasing the sustainable withdrawal rate using the standby reverse mortgage.
[2]Ellis, C. D., Munnell, A. H., & Eschtruth, A. D. (2014). Falling Short: The Coming Retirement Crisis and What to Do About It.

What A Reverse Mortgage IS NOT

A Reverse Mortgage is NOT a Sale:

The deed is still in your name—the bank never owns the house and has no say as to what you do with the house as long as you keep it insured, pay the taxes, maintain it, and of course, live there. If you want to remodel it, paint it a different color, or even sell it, you are the one in control because your name is on the deed—just like it is now.

A Reverse Mortgage Gives You Tax Free Money But it is Not Free Money:

The money you receive is required to be paid back when you permanently move out of the house with the interest agreed upon in the beginning. The difference is that YOU will never be required to pay the loan back out of your money or your heir's money. It will be paid back by equity in the house which may increase with inflation over time. If it does not, the FHA will be responsible for the pay-off if your home does not have enough equity. You can never be required to pay more than what your home value is worth no matter what the time period or economic conditions at the time you want to move or you pass away. Your heirs can never owe more than the value of your home.

A Reverse Mortgage is NOT a Lifetime Commitment:

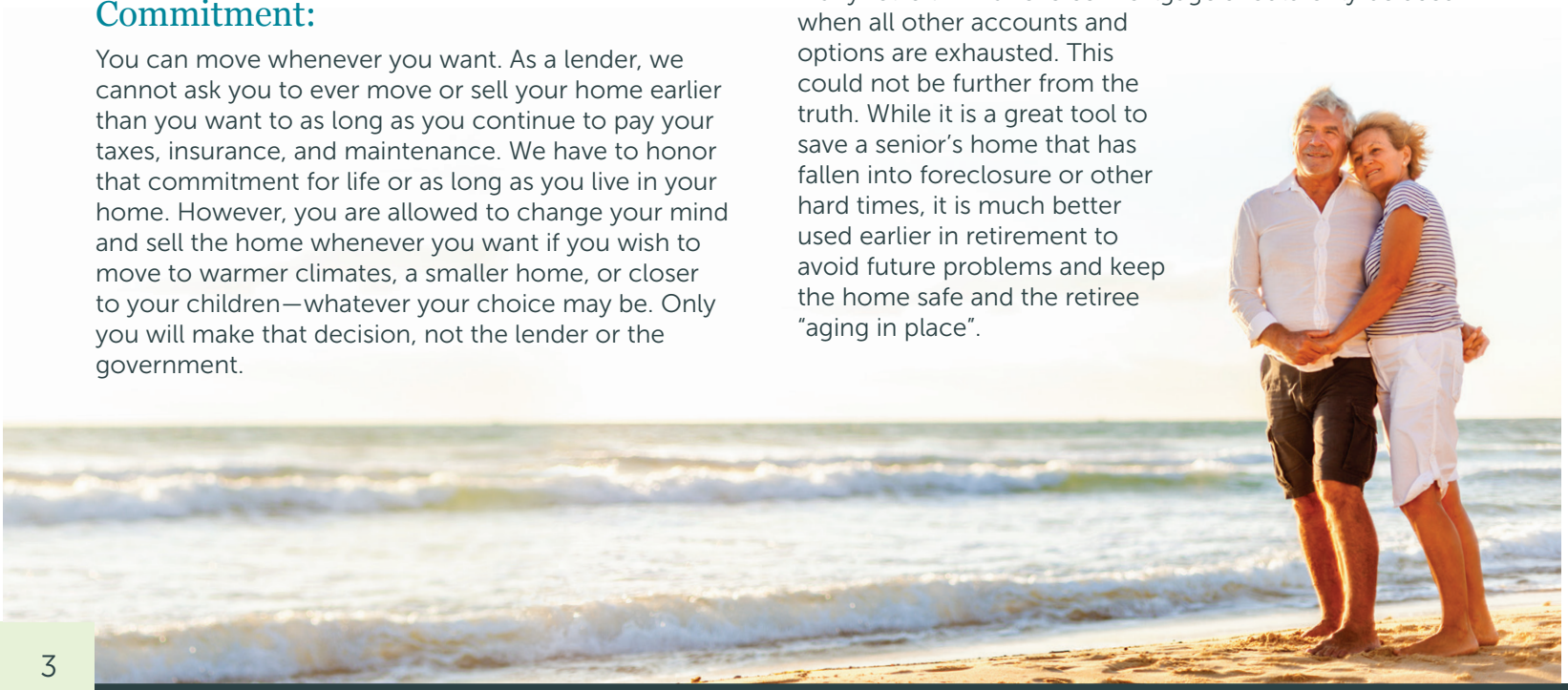
You can move whenever you want. As a lender, we cannot ask you to ever move or sell your home earlier than you want to as long as you continue to pay your taxes, insurance, and maintenance. We have to honor that commitment for life or as long as you live in your home. However, you are allowed to change your mind and sell the home whenever you want if you wish to move to warmer climates, a smaller home, or closer to your children—whatever your choice may be. Only you will make that decision, not the lender or the government.

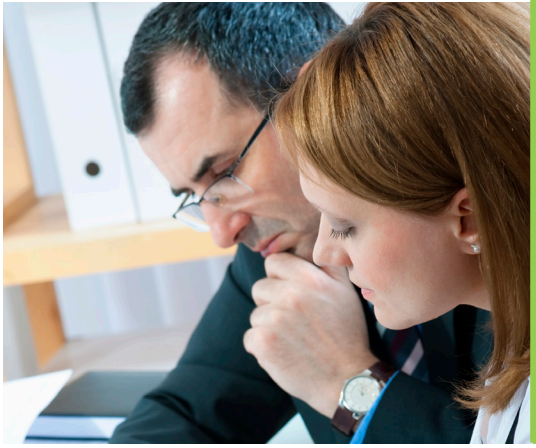
The HECM FHA Program is NOT a Failed Government Program or One that Costs the Taxpayers Money and Adds to the Deficit:

The HECM program is what is called in government-speak "Revenue Neutral". That means the guarantees are authorized by the government but the costs are paid by FHA mortgage insurance premiums which are part of every loan that is done and paid out of the equity of the home. The taxpayers do not fund the program, it is simply made possible by the Federal Housing Administration which monitors lenders to make sure seniors are being treated fairly and equitably.

The HECM is NOT a Loan of Last Resort for the Poor:

Many folks think a reverse mortgage should only be used when all other accounts and options are exhausted. This could not be further from the truth. While it is a great tool to save a senior's home that has fallen into foreclosure or other hard times, it is much better used earlier in retirement to avoid future problems and keep the home safe and the retiree "aging in place".





What a Reverse Mortgage IS

A Loan that Converts Equity to Cash for Many Different Uses:

Increases cash flow or pays off a mortgage when the payments are no longer as easy to make. As mentioned in the last section, the primary reason to use a reverse mortgage should be proactive not reactive to a cash flow problem. When things are good, it is a great time to get a lifesaver in case the financial waters get rough later in life.

Use for Lengthening or Increasing Retirement Income:

Everyone likes a raise so you can do some of the things that are fun and create memories that you will be glad to have at the sunset of life. It is sad when folks sit at home on top of thousands of dollars in equity and miss vacations, grandchildren's college graduations, or even a dinner out because the budget is too tight. No well-meaning child would ever ask you to pinch pennies so they could have a larger home equity inheritance when you pass away. They would rather have you enjoy life with them instead of dying a rich man or woman in the cemetery. Just ask them!

Strategic Estate Planning and Gifting:

Many clients will tell us that they are doing fine and they just don't need to use the equity that a reverse mortgage would give them. That is a wonderful place to be that affords many opportunities. No one wants their hard earned home equity to go to the nursing home, probate attorneys or the IRS. Yet that is what often happens. If you don't have an estate plan, the state has one for you. It is so much more enjoyable to gift your money now when you can offer wisdom and guidance while teaching your children and grandchildren some valuable lessons about what money can do for them. Ask your loan officer about the book or movie "The Ultimate Gift". Is it more important to leave a legacy of wisdom and great memories when you leave this earth or an empty paid-off home?

Opportunities that Need Cash NOW:

In any rough economic times, there are many things that you can take advantage of if you have cash. You can purchase a vacation home in Arizona or a condo in Florida when you see below market prices! You could help a grandchild save their home from foreclosure or help them with college as costs soar over $20,000 per year at public universities. Think about it—if you had an extra $100,000 in your hand today, whom would you give it to and what could you do with it? With your wisdom and experience, we know you can think of lots of options that you can accomplish.

Legacy for Charity or the Next Generation:

When you work with a professional financial advisor in the life insurance industry, you will find there are many products designed for the wealthy that have excess cash. These products, when used as part of an overall estate plan, can transfer wealth tax free and accomplish more than a paid-off house could by itself. There are also many new products that offer living benefits in case you need to handle long-term care costs without losing your home in the process.

Deferring Payments from Other Retirement Sources:

Of course you know the longer you defer filing for Social Security, the greater your monthly benefit. The more money you take out of your IRA or 401k in the early stages, especially when the market is down, the less you will have in your later retirement years, perhaps when you need it the most. If you use a reverse mortgage in your 60's the math will show that you will have more money in your 70's and 80's because of compound interest. A reverse mortgage can help you strategically avoid paying more taxes on your IRA than you need to because you only take money out when you keep it in the lowest tax bracket percentage. Ask a qualified, reverse mortgage educated advisor for more details. A reverse mortgage can help with health insurance from 62-65 before Medicare kicks in.

The information in this advertisement does not constitute financial planning advice. Please consult a financial planner regarding your specific retirement plan.

Should You Consider An FHA HECM Reverse Mortgage?

Some people never really take the time to sit down and ask these questions—some simple and some hard to see whether or not their life could be improved with this special program.

If you check yes to 2 or more of the questions below, we need to talk—soon!

- ☐ Am I purposely not doing special things like going out to eat or going on vacation because of my budget getting squeezed?
- ☐ Am I concerned about losing my house to nursing home/long-term care issues?
- ☐ Am I concerned about running out of money before I run out of life?
- ☐ Have I missed out on spending time with family and friends because of money issues?
- ☐ Am I a little afraid of how much I have in my nest egg and retirement accounts?
- ☐ Would I like to have a condo, lake house, or a place where it is warm in the winter?
- ☐ Would I like to live in a newer or smaller home on one level?
- ☐ Do I have enough money for my future lifestyle if I live into my 90's?
- ☐ Is there a certain legacy that I would like to leave to my family or a charity but don't really know how?
- ☐ Would I like to help out my family, my church, or other causes, but just don't feel I have enough for myself?
- ☐ Do I think reverse mortgages are for poor people, and would I be embarrassed for others to find out that I am looking into them?
- ☐ Have I NOT taken the time or the money to pay an attorney to do my estate plan, powers of attorney, etc. so my children will not have to pay double or triple costs in probate fees later?

> *The most difficult subjects can be explained to the most slow-witted man if he has not formed any idea of them already; but the simplest thing cannot be made clear to the most intelligent man if he is firmly persuaded that he knows already, without a shadow of doubt, what is laid before him.*
>
> **-Leo Tolstoy, 1897**

The Top Myths And Misunderstandings

Why is there so much anxiety and so many concerns voiced about reverse mortgages from friends, relatives, and the media?

It is very simple. In the beginning before HUD and FHA were involved in the program, some private reverse mortgages had fraud problems that hurt some retirees. The program is better and now heavily regulated making it much easier to understand than years ago, but some of those old stories are still circulating. People have always been afraid of the dark because there is uncertainty of what is there. You need to turn on the light when there is darkness to find out whether there are dangers or not. When you turn on the light, you will find a very different product – quite unlike the rumors and misunderstandings promoted by the news media and the simple gossip. Some of the people that pass on negative things about reverse mortgages are not mean spirited or purposely lying—they are simply misinformed and it is our job to give you the best education available with the most up to date facts so you can make a clear and unemotional decision. Our loan officers are very experienced and well trained in a variety of senior, real estate, and retirement issues so you can feel much more secure about making a decision with one of your most valuable assets—your home. Here is a quick rundown of the top myths we encounter.

MYTH: I could lose my home and be forced to move.

FACT: The Federal Housing Administration (FHA) guarantees that you can stay in your home for as long as you live as long as you maintain the home and pay taxes and insurance.

MYTH: Your home will be taken away when you pass away and the family loses the rights to the property.

FACT: Because the house is in your name, you or your heirs make the decision to sell or pay off the mortgage balance. If the mortgage balance is too high, your payoff is limited to the value of the house and the remaining amount is paid by the FHA mortgage insurance fund. Remember that your heirs can always purchase the home for 95% of the appraised value or the mortgage balance, whichever is lower.

MYTH: Your house must be debt-free to qualify for a reverse mortgage.

FACT: You can use a reverse mortgage to pay off a current mortgage provided the available FHA borrowing limit is high enough to cover your balance.

MYTH: The safest thing is a house "free and clear".

FACT: In the event of an extended nursing home stay or a lawsuit, all your home equity can be lost that you spent your whole life to create. A reverse mortgage can unlock that equity and allow you to properly manage it for the benefit of your family and protect you from nursing home expenses.

MYTH: I will be giving up the deed to my home and I won't own it anymore

FACT: The deed always stays in your name and you have all the rights that you do now. You can sell it, remodel it, and keep any equity that is left when you move.

MYTH: I can't afford making a payment on a mortgage—that's why I don't have a mortgage now!

FACT: You will have no monthly payments for as long as you live in the home—no matter what. You will just pay the taxes and the insurance just like you do now. A reverse mortgage is a "payment optional" mortgage. You can continue to make payments for tax purposes or manage equity when and for how much you want.

MYTH: Reverse mortgages are too expensive.

FACT: There have been major changes in the HECM FHA program in the last couple of years that dramatically reduced costs. While they are more expensive than a traditional mortgage, they are safer and guarantee more than any other mortgage available including no mortgage payments and a rising credit line. (You must continue to pay taxes, insurance, and maintenance.) Quite frankly you get what you pay for!

MYTH: My children could get stuck with a big mortgage debt if I live too long.

FACT: Your children can never be liable for any amount over the value of the home because the loan is guaranteed by the FHA Mortgage Insurance Fund (FHA/HUD).

MYTH: Only people that are in financial trouble get a reverse mortgage.

FACT: While we are always here to assist those who have run into some financial rough spots, many people use a reverse mortgage as part of their financial plan to better their lives today and their children's in the future.

Review Questions & Answers About Reverse Mortgages

When you have a reverse mortgage, who owns your house (whose name is on the title/deed)?

You remain the owner of your property. There is no change to the deed or title of your home when completing a reverse mortgage.

There are several "payment options" or ways to get money from a reverse mortgage. Which payment option do you think will best meet your needs?

It depends on your situation. Our trained loan officers have helped hundreds of seniors pick the best option for their personal situation. You can do a lump sum payment, ongoing monthly payment, or you may also choose a line of credit allowing you to access your money as you need it. Your line of credit will be guaranteed to grow every year that you don't use it.

What happens if you change your mind later and want to change your payment plan?

As long as you still have money available to borrow from your reverse mortgage, you can change your disbursement option for a small, one-time fee. Remember when the value of the loan is higher than the home value it does not trigger an early payoff or due date.

When you have a reverse mortgage, do you have to make a monthly mortgage payment to the bank?

No, but for tax or cash flow purposes including Medicaid planning you may wish to do so.

What basic responsibilities will you continue to have after you get a reverse mortgage?

The homeowner remains responsible for the payment of annual property taxes and homeowner's insurance as well as basic upkeep of the property.

What may happen if you do not keep up these responsibilities as a borrower?

If you do not continue to do these three basic things, the lender is required by HUD to foreclose.

When does the reverse mortgage have to be paid back?

Your reverse mortgage will become due when one of these things happen:

1. You sell your home.
2. You permanently move out of your home.
3. The last person on the title passes away. Your heirs will have two options. They can choose to sell the property, pay off the reverse mortgage balance and keep any remaining equity, or they can choose to keep the property by refinancing the balance of your reverse mortgage with a new mortgage in their name.

Remember if the loan balance ever exceeds the home value, it does NOT trigger an early payoff or cause you to have to move out of your home.

If you took all of the money from the reverse mortgage in a lump sum and spent every bit of it, would you be able to go on living in your home?

Yes, your reverse mortgage will not become due until you pass away, sell your home, or are no longer living in the home. If you use all of the available proceeds, you would not have any more money available and interest would accrue until one of the three events referenced above occurred.

What happens if at any time the amount you owe under a reverse mortgage is greater than what your home is worth?

Nothing as long as you still live in your home and pay taxes, homeowners insurance, and maintenance.

If you get a reverse mortgage, how does that change the amount of money that you will leave to your children (or other heirs)?

Most likely, it will decrease the amount of money the heirs will receive from the value of the home. However, your overall net worth will likely get better, because you will not be spending as much from your other accounts.

Review Questions & Answers About Reverse Mortgages Continued...

What if I live in Florida for half the year?

That's fine, you just need to live in your primary residence for six months and a day.

Will your children receive more or less after you pass away, than they would without the reverse mortgage?

It depends on what you do with your overall finances. Most families will receive more by being more efficient with the use of their entire portfolio of assets.

What if I go into a nursing home?

As long as you are simply rehabilitating and getting better, your home and reverse mortgage are still yours until two doctors agree it is impossible for you to ever return to your home.

REFINANCE QUESTIONS:

If you refinance your current HECM, will you still have to pay mortgage insurance? How does this work?

In general, mortgage insurance is paid for with an "up-front" premium that is included with your closing costs and a monthly premium that is added to your loan balance each month. When you refinance a reverse mortgage you will receive credit for the up-front premium you paid on the original loan; you would only have to pay mortgage insurance on the increased value of your home since you took out the original HECM.

What are some additional costs you will incur with a refinance?

Other than the reduced up-front mortgage insurance premium, closing costs associated with a HECM refinance are the same or lower as on your original loan. You may be charged an origination fee and all other third-party costs (appraisal, title insurance, etc).

QUESTIONS ABOUT HECMS FOR PURCHASE:

(Not available in all states)

When you purchase a home with a HECM, will the HECM be held on your existing home or your newly purchased home?

The HECM will be held on the newly purchased home as your primary residence. The down payment you will need to bring to closing is usually between 30-50%.

How will the lender determine how much money you will need at closing?

The down payment you will need to bring to closing will be determined based on your age, interest rates at the time and the sales price (or appraised value, whichever is less) of the home you are buying.

What sources of funds (money) are allowed when you purchase a home with a HECM?

The money must come from your own liquid assets (bank accounts, CD's, retirement accounts, etc.) or from the documented sale of other assets you may have (your present home for example).

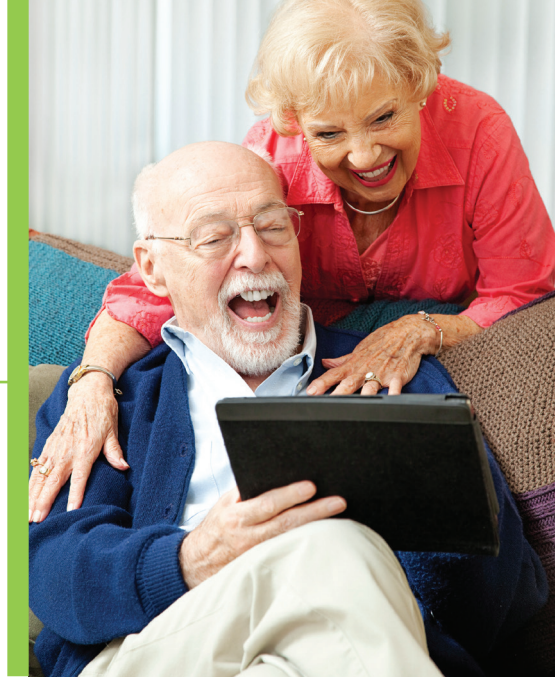
Why is my down payment higher with a reverse mortgage?

Your down payment is higher initially because you will never be required to make a monthly payment (except for taxes, insurance, and maintenance). With a traditional mortgage you will lose much more in cash flow over the years because of the consistent required payments.

Remember the HECM for Purchase also can allow you to purchase a more expensive home than what you would otherwise be willing to commit to in payments for the next 20-30 years.

So...What Do You Qualify for?

To be filled out by your Certified Reverse Mortgage Planner



Based on your estimated home value of

$

and the age of youngest borrower

and the current interest rates **(See attached Disclosures for APR and fees and costs allowed by HUD)**

You are eligible for about:

$ in a lump sum the 1st year after paying off your current mortgage of $

Or

$ in monthly disbursements that you receive for the rest of your life

Or

$ in a growing line of credit

Paying off your mortgage will eliminate your monthly payment of $

That is actually $ per year in cash flow

*Beware of lenders who tell you they will get you a higher amount of cash than anyone else. All lenders MUST follow FHA guidelines as to how much can be paid out to the borrowers. If there is a big difference ask your lender if the loan can be insured by FHA.

Loan Officer: _____

Phone Number: _____

NMLS: _____

Email: _____

The Checklist

What needs to be done next:

- ☐ Meet with a Reverse Mortgage Expert
- ☐ Sign an Application
- ☐ Provide Basic Income Documentation
- ☐ Approved FHA Counseling
- ☐ Appraisal
- ☐ Underwriting
- ☐ Closing
- ☐ Receive Checks or Payoffs

The average time period is 4-6 weeks.

So.. You Don't NEED A Reverse Mortgage Now?

The Financial Power and Safety of a HECM Line of Credit:

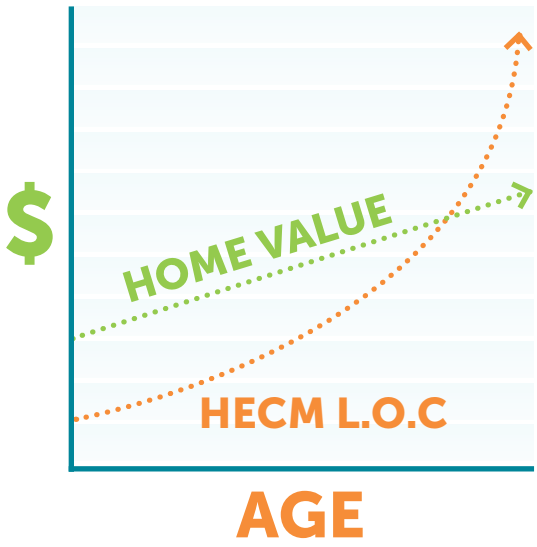
Most financial advisors will encourage you to have a line of credit for unexpected (or planned) purchases or shortfalls in cash flow. However, a HECM has a clear-cut advantage over the traditional credit line, which is the guaranteed growth that starts at about 4% per year. While the cost of setup for a HECM is higher, the advantages quickly outweigh any costs. Your line is guaranteed to grow regardless of the general economy, interest rates, or the underlying value of your home. If you take out a HECM at age 62 instead of 82, it's quite likely that your credit line could grow to be greater than the value of your home, especially in areas of the country where values don't increase substantially.

The earlier you set up your line of credit, the more compounding occurs so you will have a substantial available line in your later years when you may need it the most. Even though your cash flow and your investments are fine now, 20 to 30 years of retirement is a long time which is why it's prudent to ensure that your home equity, an important part of your nest egg, is readily available in cash without having to sell your home. You can draw out the home equity and still live in your home by only paying your taxes, insurance, and maintenance. This is an example of having your cake and eating it too!

The Financial Power and Safety of a HECM Line of Credit (L.O.C.):

Most common uses of a Reverse mortgage when you don't need the money now:

1. Use as a stand-by line of credit so you can keep your cash fully invested.
2. Delay filing for Social Security until you are 67-70 and use your credit line to fill any income gaps.
3. Bridge the Medicare gap from 62-65 for health insurance premiums or moderate your taxable income to increase the subsidy in the Affordable Care Act.*
4. Pay for life insurance with long-term care riders without impacting your overall cash needs.
5. Use for tax planning purposes by using optional payments strategically.*
6. Save on taxes by decreasing withdrawal rates on IRAs and other taxable accounts.**
7. Purchase a vacation home without increasing your payments and decreasing your investment assets.



Everyone has a different situation, sets of needs, wants, and challenges. It will be well worth your time to meet with one of our loan originators to receive personalized advice that can improve your retirement.

*This advertisement does not constitute tax advice. Please consult a tax advisor regarding your specific situation. **The information in this advertisement does not constitute financial planning advice. Please consult a financial planner regarding your specific retirement plan.

Copyright©2016 Fairway Independent Mortgage Corporation ("Fairway") NMLS#2289. 4801 S. Biltmore Lane, Madison, WI 53718, 1-877-699-0353. All rights reserved. Fairway is not affiliated with any government agencies. These materials are not from HUD or FHA and were not approved by HUD or a government agency. Reverse mortgage borrowers are required to obtain an eligibility certificate by receiving counseling sessions with a HUD-approved agency. Must be at least 62 years old. Loan proceeds are not considered income and will not affect Social Security or Medicare benefits. Your monthly reverse mortgage advances may affect your eligibility for some other programs. Consult a local program office or your attorney to determine how, or if, monthly reverse mortgage payments might affect your specific situation. At the conclusion of the term of the reverse mortgage loan contract, some or all of the equity in the property that is the subject of the reverse mortgage no longer belongs to you and you may need to sell or transfer the property to repay the proceeds of the reverse mortgage with interest from your assets. We will charge an origination fee, a mortgage insurance premium, closing costs or servicing fees for the reverse mortgage, all or any of which we will add to the balance of the reverse mortgage loan. The balance of the reverse mortgage loan grows over time and interest will be charged on the outstanding loan balance. You retain title to the property that is the subject of the reverse mortgage until you sell or transfer the property and you are therefore responsible for paying property taxes, insurance, and maintenance. Failing to pay these amounts may cause the reverse mortgage loan to become due immediately. Interest on reverse mortgage is not deductible to your income tax return until you repay all or part of the reverse mortgage loan. This is not an offer to enter into an agreement. Not all customers will qualify. Information, rates and programs are subject to change without notice. All products are subject to credit and property approval. Other restrictions and limitations may apply. Fairway is required to disclose the following license information. Alaska Mortgage Lender License No. AK2289; Arizona Mortgage Banker License No. 0904162; CA: Licensed by the Department of Business Oversight under the Consumer Finance Lenders Law; CO: Regulated by the CO Division of Real Estate; Illinois Residential Mortgage Licensee No. MB. 0005475; Kansas Licensed Mortgage Company. KS License #MC.0001375; MA Mortgage Broker and Lender License #MC2289"; Minnesota: MN-MO- MN-MO-20183136. This is not an offer to enter into an agreement. Any such offer may only be made in accordance with the requirements of Minn. Stat. Section 47.206 (3) and (4); Mississippi Licensed Mortgage Company; Licensed by the New Hampshire Banking Department Licensed by the NJ Department of Banking and Insurance; Licensed Mortgage Banker-NYS Department of Financial Services; OH MBA License #MB.802711.000; Oregon Mortgage Lender License ML-3791; Rhode Island Licensed Broker & Lender; VA: NMLS ID # 2289; Washington Consumer Loan Company License No. CL-2289.

EQUAL HOUSING LENDER