C.1 Important Information about Reverse Mortgage Counselors

The materials in Attachment C are for the potential HECM borrowers and their advisors who are counseling clients. Counselors must provide these materials to the clients.

The role of reverse mortgage counselors in HUD's reverse mortgage counseling program is to discuss information with you that will help you make your own decisions about getting a reverse mortgage and other available alternatives. The counselor can help you to decide whether or not a reverse mortgage may be appropriate for you, and which options may be most appropriate given your financial circumstances.

Reverse mortgage counselors do not promote, represent or recommend any specific lender or loan. They do however provide general information on factors you may want to consider in selecting a lender or a loan.

Reverse mortgage counselors can tell you:

- the types of costs that are required for reverse mortgages (both HECMs and proprietary products),
- which types of reverse mortgage costs may vary from lender to lender, and
- the maximum amount that HUD permits HECM lenders to charge for certain loan costs.

Counselors do **NOT** provide any information on the prices charged by any individual lender or loan officer. The prices that a lender or loan officer charges one borrower at one time may be different from what they would charge another borrower or at another time. The costs also vary among other available reverse mortgage products.

Lenders and loan officers are the best source of information regarding the prices they charge and the loan products they offer, while counselors can help you understand any reverse mortgage loan that is offered to you.

C.2 Reverse Mortgage Eligibility Requirements

Typically, to be eligible for a reverse mortgage, you must meet the following requirements:

- ☐ You must be of a certain age (for HECM loans, the age is 62).

  Note: *If both you and your spouse are on the title to your home, you must both be at least 62 years of age in order to qualify for a HECM and many other reverse mortgage products. An ineligible spouse can take his/her name off the title of the property in order to allow an eligible spouse to participate in the program. However, this choice is very risky. If the borrowing spouse should die or otherwise become ineligible, the reverse mortgage will become due and payable and the non-borrowing spouse may be forced out of the home.*

- ☐ You must maintain primary residence in the property for a HECM loan. This is often a requirement for proprietary loans, but some loan products may not have this requirement.

- ☐ If you have debt against your home from an existing mortgage, you must either pay it off before getting a reverse mortgage or use an immediate cash advance from the reverse mortgage to pay it off. If you do not pay off the debt beforehand, or do not qualify for an adequate cash advance to do so, you will not be able to get a reverse mortgage.

- ☐ Investment Requirement for HECM to purchase a home
  At closing, you must provide a monetary investment, which is the difference between the amount of money you will receive from the HECM and the sales price for your current property, plus any loan related fees that are not financed. Your lender will verify that the funds you use to close on the purchase are the result of money from the sale of your home, cash on hand, or from the sale of personal assets. You may not borrow money or take out a temporary loan to close on a HECM.

  Note: *If you will not have enough funds to close a HECM loan, you cannot incur additional debt, such as a credit card cash advance or an additional lien against the property from a home equity loan, to make the loan work. FHA regulations require that you have no outstanding financial obligations connected to the HECM transaction.*

- ☐ HECM borrowers must receive reverse mortgage counseling from a HUD-approved housing counseling agency. Some states and proprietary products require this.

- ☐ Your property must meet certain FHA requirements.

  Note: *For HECM loans, eligible property types include single-family homes, 2-4 unit properties, manufactured homes (built after June 1976), condominiums and townhouses. You, as the homeowner, should confirm the eligibility of your property type with your lender.*

C.3 Home Equity Conversion Mortgage (HECM) Features

A Home Equity Conversion Mortgage (HECM) is a loan that allows homeowners that are age 62 or older to convert their home's equity into available cash. A HECM is a reverse mortgage, which works much like a traditional mortgage, only in reverse. Reverse mortgages are "rising-debt, falling-equity" loans, because as debt increases, home equity falls. Rather than making a payment to the lender each month, the lender can send you a loan advance each month if you choose. Unlike a conventional home equity loan, a reverse mortgage does not require any repayment of principal, interest or servicing fees as long as you live in your home. You may use the cash you obtain from a reverse mortgage for any purpose.

Homeownership
Through a HECM, you remain the owner of your home. As with any home, you must continue to pay property taxes and homeowner's insurance. Alternatively, you can arrange for the lender to pay your taxes and insurance and deduct this amount from your reverse mortgage loan proceeds. You will also be responsible for maintaining your home and making necessary repairs.

Debt Payoff
A HECM must be a first mortgage. If you have an existing mortgage, it must be paid off prior to closing or paid off at closing with funds you receive from the HECM. Any additional lien against your property must be subordinated to the HECM.

Principal Limit
The amount of money you may be eligible to borrow depends on your age, home value, and the interest rate. Typically, the older you are, the more cash you will be able to receive. Also, the greater the home value or the lower the interest rate, the more cash you will be able to receive.

Loan Costs
HECMs typically involve four types of costs: an origination fee, closing and other third party costs, servicing fees, and the mortgage insurance premium. You may finance these costs as part of your loan by having them added to the loan balance. Your lender must provide you with a Total Annual Loan Cost (TALC) disclosure for any loans that you are considering prior to your loan closing.

Interest Rates
Interest is charged on all money that you receive and on all loan costs that have been financed, i.e., added to the loan balance. You may select an interest rate that is fixed or that adjusts monthly or annually. However, not all lenders offer all options. Your lender must provide you with the index, the margin and the periodic and lifetime caps for adjustable interest rates.

Payment Plans
You may receive the cash from a HECM in a variety of ways. You can receive the money as a line of credit or through fixed monthly payments for as long as you live in the home or for a shorter specified period of time. Through a line of credit, you may choose to receive the cash all at one time as a single draw on the loan. You may also choose to receive cash at times and in amounts of your choosing through a line of credit or a combination of the different options.

Reverse mortgage loan advances are not taxable and generally do not affect Social Security or Medicare benefits. However, you must be careful that any loan proceeds you retain do not exceed the monthly liquid resource limits for Supplemental Security Income (SSI) and Medicaid.

You have the option of changing your payment plan type at any time for a fee not to exceed $20.00. You should ask your lender about the procedures for changing your payment plan in the future.

Cancellation
After closing a HECM, you, as the borrower, have 3 days to cancel the mortgage if you choose. This is also known as the "rescission period," an important measure implemented to protect you, as the consumer. If you are purchasing a new property with a HECM, you will not have the three-day cancellation period. Your closing will be final.

Repayment
HECMs do not have to be repaid until the last surviving borrower dies, sells the home or permanently moves from the home. You may partially or fully repay the loan balance at any time. There are no prepayment penalties for a HECM.

Some products allow "open-end" credit: you may pay back some or the entire loan and then re-borrow the money at another time (a line of credit). Other products have "closed-end" credit, meaning that you may not re-borrow principal that is paid on the loan. Ask your lender which type of credit your loan provides.

Reverse Mortgage Loan Payoff
When the loan becomes due and payable, you or your estate must pay back all of the cash advances, any fees or costs financed as part of the loan, and all interest that has been charged to date. The loan becomes due and payable when the last surviving borrower:

1. Passes away
2. The property is no longer the primary residence of the borrower
3. The last surviving borrower has been unable to occupy the home for more than 12 consecutive months
4. The borrower sells or otherwise transfers ownership of the property, or
5. The borrower fails to perform an obligation under the mortgage

If your home is sold to pay off the loan, you or your estate will not have to pay back more than the amount received from the sale of the home. However, if your heirs or your estate choose to keep the home, they must pay the entire loan balance even if it is greater than the value of the home. This may occur if the home's value depreciates, if interest rates go up, or if the total payments made during the life of the loan exceed the value of the home.

C.4 Steps in the Reverse Mortgage Lending Process

1. APPLICATION

- **You must receive counseling before the lender may process your application for a HECM loan.**

- **When you apply**, you will be asked to select a payment plan: a line of credit, monthly advances (term or tenure), or a combination of a line of credit and monthly advances. You may be asked to choose between a fixed interest rate and a monthly or annually adjustable interest rate. You also may be asked if you want your property taxes and homeowner's insurance paid directly by advances from your loan.

- **You will need to provide information** required by the lender, which may include photo ID, verification of your Social Security number, a copy of the deed to your home, information on any existing debt (liens) on your home, and your counseling certificate. You could be asked to pay a loan application fee, and could be required to pay other fees, including the cost of a home appraisal and the cost of a credit check. The lender also determines your eligibility to be a HECM or a reverse mortgage borrower, according to the appropriate program guidelines.

2. PROCESSING

- **Your lender orders** an appraisal, title search and insurance, lien payoffs, and any other services needed to complete the loan. An appraiser comes to your home to assess its value and physical condition. If the appraiser finds structural defects or conditions that may affect your health and safety that require repair to be eligible for the loan, you must hire a contractor to make the repairs. If the repairs are relatively minor, it is possible that they will be delayed until after you get the loan.

- **Your lender submits** all required information to the lender's underwriting department, which determines if everything necessary to close the loan is completed correctly.

3. CLOSING

- When your loan is approved by the underwriter, **a date for closing the loan is set** and the final loan documents are prepared. A closing is a meeting at which you sign all the loan documents. It is generally handled by the title company or the lender. Some states require that an attorney be present at closing.

- **After closing, you have 3 business days in which you may cancel the loan except if you are purchasing a home with a HECM.** When these 3 business days are over, you can begin receiving money from the loan and you can use money from the loan as you choose, including paying off any existing debt on your home as required. Two new liens are placed on your home to secure the reverse mortgage (these two liens are explained in the

"Frequently Asked Questions" handout). Your loan is then sent to the "servicing" department, or to another company that specializes in servicing reverse mortgages.

4. AFTER CLOSING

Unless you have arranged to have your taxes and homeowner's insurance paid directly from your loan proceeds, **you are still responsible** for making these payments. If you do not, the lender can use loan proceeds to make the payments for you. **If no loan proceeds remain, you should be aware that the entire loan is due and payable, for nonpayment of taxes and insurance.** Additionally, the real estate taxing authority, i.e. city or county, can sell your home for nonpayment of taxes.

- If you have selected a monthly payment plan, the lender will send your payments on the first business day of the month. If you have selected a line of credit, the lender will wait for a request from you before sending any loan advances. You should receive instructions from the lender on how to make requests for funds from your line of credit.

You may request to **change the payment plan** at any time during the life of the loan. The lender may charge a fee, not to exceed $20.00 for HECM borrowers, for changing your payment plan. You may change the term of payments, receive an unscheduled payment, suspend payments, establish or terminate a line of credit, or receive the entire net principal limit (i.e., the difference between the current principal limit and the outstanding balance) in a single, up-front payment.

C.5 Reverse Mortgage Warnings for Consumers

The following list includes several aspects of the reverse mortgage lending process that you, as a consumer, must be particularly cautious of:

Lender Involvement
Beware of a lender's advice steering you towards or away from a particular reverse mortgage product before you are familiar with reverse mortgage products generally. Lenders cannot be present during counseling sessions nor do they need to be a part of your decision to take out a reverse mortgage.

You should also be cautious of a lender's recommendations on how you use your loan proceeds, particularly if they are recommending a costly annuity or other investment.

Income and Benefits
Keep track of your sources of income, especially if you are receiving any income-based government benefits such as Supplemental Security Income (SSI) or Medicaid. If you allow your reverse mortgage payments to accumulate into liquid assets, it could affect your benefits.

Lender or Product Steering
Beware of lender or product steering by your counselor. During the counseling session, make sure that the counselor has informed you of various options and alternatives that may be available to you. A counselor should not recommend a particular course of action and should help you look at all available options (for example, selling your home or seeking other sources of financial help). A counselor should not tell you what specific loan products may be appropriate but should inform you about all reverse mortgage features generally.

Borrower Obligations
You should be aware of your obligations under a reverse mortgage after you have taken out your loan. You should know what will happen once you begin receiving loan payments each month and what you are responsible for. Consider creating monthly and annual checklists, which should include your obligations such as monthly payments and normal upkeep requirements.

Role of the Reverse Mortgage Broker
The reverse mortgage broker is not a lender. The broker is an independent agent who accepts the loan application on behalf of the lender and deals with the consumer. For HECMs, brokers must be FHA approved. The broker does not fund the loan nor provide money to the borrower. The broker is not responsible for establishing or remitting loan payments. Therefore, do not sign over funds to the broker to set up the line of credit for you.

C.6 Questions to Ask Your Lender about Reverse Mortgages

Here are questions and guidelines to assist you in your discussion of reverse mortgage products with lenders. Your counselor should educate you on all reverse mortgage features, including how the interest rate (fixed vs. adjustable) and payment plan you choose should be based on your unique financial needs and circumstances. You will also be educated on the meaning and implications of each of the various products, costs, and issues mentioned below.

For each product:

- What is the appraisal fee?
- What are the closing costs?
- What is the origination fee? (The origination fee must cover all origination activities. HECM product defines the origination fee as the greater of $2,500 or two percent of the maximum claim amount of the mortgage, up to a maximum claim amount of $200,000, plus one percent of any portion of the maximum claim amount that is greater than $200,000. The total loan origination fee may not exceed $6,000. The lender may accept a lower origination fee when appropriate.)
- What is the servicing fee? (HECM products maximum: $35 per month for a monthly adjustable HECM and $30 per month for an annually adjustable or fixed rate HECM)
- What is the mortgage insurance premium? (For a HECM, it is 2 % of the Maximum Claim Amount plus an Annual Premium of 0.5 % of the loan balance)
- What is the current interest rate? What is the expected interest rate?
- Is the interest rate adjusted monthly or annually? Do you offer any products that have a fixed interest rate?
- How much money do I need to close on a HECM to purchase a property?
- What payments options do you offer? By law, a lender must offer all payment options, term, tenure, line of credit or any combination.
- If there is a credit line payment option, what is the rate of credit line growth?
- Is there a fee to change payment plans?
- What will be my monthly obligations with this reverse mortgage?
- What will be my yearly obligations with this reverse mortgage?

- Am I eligible for a reverse mortgage? Is my spouse eligible?
- Is my home eligible for a reverse mortgage?
- Can I set aside tax and insurance payments so that you can make payments on my behalf?

C.7 Reverse Mortgage Borrower Obligations

This handout covers your obligations under a reverse mortgage. The next handout provides a sample checklist that will help you keep track of your obligations and prevent the loan from becoming due and payable.

Paying Property Taxes
Reverse mortgage borrowers are required to make timely payments on their property taxes. Failure to do so could result in the loss of your home.

- You must pay property taxes yourself or you can ask your lender to pay your property taxes with funds from the reverse mortgage.
- In the case of a term, tenure or modified payment plan, the lender will estimate the annual costs, add the amount to the loan balance and make monthly payments equal to 1/12 of that amount.
- In the case of a line of credit plan, you can ask your lender to pay your taxes using draws on the line of credit when taxes are due.
  - If you choose a line of credit plan, and the line of credit is exhausted, the lender will no longer be able to make payments on your behalf. You will then be responsible to pay the taxes and insurance directly.
  - Note: *that if you do not leave enough money to pay your taxes and insurance once your line of credit is exhausted, you may not be able to meet your loan obligations and you could lose your home.*

- The lender may charge a small fee for paying the taxes and insurance on your behalf. You should inquire about the specific costs with the lender. Paying a nominal fee for this service may help you keep your home in the long run.

Paying Homeowner's Insurance
Homeowner's insurance protects you and the lender from loss in the event that your home is damaged or destroyed by a fire or storm. Reverse mortgage borrowers are required to make timely payments of premiums towards their homeowner's insurance. Flood insurance is also required if the property is located in a flood zone. Failure to do so could result in the loss of the home.

- It is your responsibility as the borrower to maintain active homeowner's insurance.
- You can pay the insurance directly or ask the lender to pay using your loan funds.
- The policy must remain active even if you are absent from the home for a period of time.
- If you find out that your house is in a flood zone, you will be required to maintain flood insurance. You should check on the status and costs of your homeowner's insurance and flood insurance policies. For example, with the rash of hurricanes in recent years, some areas have been rezoned as flood zones requiring flood insurance for the first time. Some insurance companies have also changed the geographic areas where their insurance is available.

Regular Review of Loan Documents

- The HECM adjustable interest rate will adjust every month or year depending on the period selected by the borrower. This is also the case with many other reverse mortgage products. In the case of a HECM, the lender will notify you of a change at least 25 days before the new rate is charged to the loan. It is your responsibility to review this notice.
- The lender is required to send a statement that summarizes your mortgage activity. Statements for HECMs are issued at least annually and may be issued more frequently by some lenders. You should review this statement when you receive it.

Maintaining the Property

Your property must be maintained in at least the condition that it was in when the reverse mortgage was issued. Lenders may perform “drive-by” inspections. If problems are identified, you will be required to remedy them. One suggestion for you is to create a checklist of normal maintenance procedures, and go through this list 4 times each year to make sure that you are keeping your home in good shape.

Repaying the Loan

- Reverse mortgages are typically not due and payable until the last surviving borrower dies, or the home is sold or is no longer the primary residence of the borrower.
- Your estate must pay off the loan if you pass away.
- You may change your payment plan at any time. The fee charged in association with this change will be applied to the loan balance.
- The lender does not own the home, and does not “get” the home when you die. This is a common consumer misconception. The borrower owns the home and title throughout the life of the reverse mortgage, just the same as with a forward mortgage.
- A HECM, and most proprietary reverse mortgage products, can be repaid in a variety of ways. The loan can be paid in one payment from the proceeds of the sale of the home. Alternatively, your heirs might take out another mortgage on the home and pay off the loan with those funds or they may have other funds available to pay off the loan. If the heirs choose to retain ownership of the home and the loan balance exceeds the value of the home, they must pay the full loan balance.
- Prepayment policies may vary depending on the reverse mortgage product. You should discuss prepayment policies with your lender. You may be able to prepay the loan, in whole or in part, without penalty.
- For a HECM, you may prepay all or part of the outstanding balance at any time without penalty. Repayment in full will terminate the loan agreement.
- You may choose to make a partial prepayment to preserve more of the equity in the property, or to increase monthly payments, if a payment plan with monthly payments was selected.
- Most products allow “open-end” credit: you may pay back some of the loan balance and then re-borrow the money at another time.
- Other products have “closed-end” credit, meaning that you may not re-borrow principal that is prepaid on the loan.

C.8 Reverse Mortgage Borrower Obligations: A Checklist for Borrowers

There are many things that you need to do and consider after you have closed on your reverse mortgage. For example, failure to make timely payments of taxes and insurance may make your reverse mortgage due and payable immediately. Here is a checklist to help you keep your reverse mortgage current.

□ Pay property taxes on time

□ Pay hazard insurance premiums in a timely manner

□ Pay flood insurance (this is applicable only if the home is located in a flood zone)

□ Maintain the property in good condition and make any necessary repairs

□ Review interest rate change notices

□ Review annual mortgage statement

□ Maintain your permanent residence status

□ Change your payment plan if necessary

□ Prepay the loan (if applicable)

C.9 Using a Reverse Mortgage to Buy an Annuity

If you are considering using your reverse mortgage to purchase an annuity, here are some facts and features you need to know about:

- your loan options
- annuity benefits
- annuity costs
- public benefits
- annuity choices

Your Loan Options
You may have options on how to have a reverse mortgage loan paid to you. These options may include:
- an immediate cash advance
- a credit line account that lets you take cash advances at times and in amounts that you select
- a fixed monthly cash advance for a specific number of years or for as long as you live in your home
- any combination of immediate cash, credit line, or monthly advance

Clearly, buying an annuity in order to get monthly cash advances is not always necessary. You may get this type of payment plan directly from a reverse mortgage.

Annuity Benefits
An annuity can give you monthly cash advances for life, regardless of where you live. By contrast, reverse mortgages can only last for as long as you live in your home. If you sell or move, your reverse mortgage becomes due and payable. When considering an annuity, you should think about how long you expect to remain in your home.

If you want annuity advances that are the same amount every month, be sure to get a “fixed" annuity. Cash advances from a “variable” annuity may depend on the stock market or other investments that are more risky or volatile. Although they may provide a fixed monthly advance for a while, “variable” annuities can result in a smaller monthly advance after their guarantee periods end.

Fixed monthly annuity advances that continue for life no matter where you live may be smaller than the fixed monthly loan advances you can get from a reverse mortgage for as long as you live in your home. A lender can show you how much you can get each month from a reverse mortgage. You may want to compare this monthly loan advance to the annuity advance you could get.

You may also want to consider the fact that if you were to move into a nursing home and qualify for Medicaid, most of the annuity advances and proceeds from any sale of your home would be used to pay for nursing home costs.

Annuity Costs
Using a reverse mortgage to buy an annuity is generally more expensive than getting monthly reverse mortgage advances. If you buy an annuity with loan proceeds, you will have a larger immediate loan balance, and that means greater interest charges, especially in the early years of the loan. But if you live beyond your life expectancy, a reverse mortgage/annuity combination can become less costly than a HECM alone.

If lenders know that you intend to buy an annuity with a reverse mortgage, they are required by Federal Truth-in-Lending law (12 CFR 226.33) to give you a Total Annual Loan Cost (TALC) disclosure that includes the annuity. If you want to make certain that you get it, send your lender a letter requesting a TALC disclosure that includes the annuity.

Generally, the least expensive reverse mortgage/annuity plans work like this: You take a reverse mortgage in two parts - as a single draw at closing and as a "term" monthly advance for a specific number of years. You then use the draw on the loan to buy a "deferred" annuity that will begin sending you monthly annuity advances in the first month after the reverse mortgage loan advances end.

A “deferred” annuity is less costly than an "immediate" annuity, which sends you monthly annuity advances immediately after the loan is closed rather than defer such payments to a later date. As long as you do not move before the annuity advances begin, a deferred annuity would give you continuing monthly advances for life. This approach is likely to cost less or provide greater monthly advances than you would get by purchasing an immediate annuity.

On the other hand, if you die before the advances from a deferred annuity begin, you and your heirs would get no cash benefits from a deferred annuity unless you select an optional “period certain” or “death benefit” (see **annuity choices**).

Note: *A “deferred” annuity should not be confused with a “tax-deferred” annuity, which may or may not provide fixed monthly advances for life.*

Anyone who sells you an annuity will be paid a sales commission from the money you use to buy the annuity. If you want to know how much they will be paid, ask them what their sales commission would be. Also, ask if the annuity includes a “surrender” fee that you would have to pay if you later decide to discontinue the annuity.

Public benefits
Annuity income does not affect your Social Security or Medicare benefits under current law. However, if you are eligible for Supplemental Security Income (SSI), you need to understand that annuity income may jeopardize your benefits from this and possibly other programs such as Medicaid.

<u>Annuity</u> advances are counted as income for SSI. Therefore, they can reduce SSI benefits dollar-for-dollar, and might make you ineligible for other programs. By contrast, <u>loan</u> advances generally are not counted as income for SSI, and are not counted as assets if you spend them within the calendar month you receive them. (Source: American Bar Association, Reverse Mortgages: A Lawyer's Guide, 1997, p. 36)

If you now receive, or expect to become eligible for SSI or similar programs (for example, Medicaid), be sure you understand exactly how annuity income would affect your eligibility and benefits.

Annuity Choices
An annuity is only as safe and sound as the company that provides it. You may want to ask the annuity company for its ratings from the firms that provide them. For example, one recognized consumer finance specialist suggests that consumers should look for companies with at least three of these five ratings: A+ from A. M. Best, AA+ from Fitch, Aa3 from Moody's, Aaq from Standard & Poor's, and a B from Weiss.

Many annuity plans offer an optional cash refund (or "death benefit") to your heirs upon your death. This reduces the overall cost to your estate, but it also reduces the amount of your guaranteed monthly annuity advance. Be sure to consider these options carefully.

Some annuities provide monthly advances for a fixed period of time. If you are considering this type of "period certain" annuity, you may want to compare it with the monthly loan advance you could get for the same amount of time from a reverse mortgage "term" plan. You may also want to compare how much you would end up owing in each case.

Conclusion
Only you can decide what best fits your needs, but it makes sense to be careful when considering a major financial decision about choices that may be new to you. You should take as much time as you need to:

- learn what you need to know
- get answers to your questions
- compare your choices carefully
- discuss your choices with people you trust who have no financial interest in your decision

This information was developed by the AARP Foundation's Reverse Mortgage Education Project under a grant (HC 02-0000-011) from the U. S. Department of Housing and Urban Development (11/03). Neither AARP nor the AARP Foundation endorses any specific reverse mortgage lender, product, or annuity. But they want you to have the information you need to make an informed decision about these options and other, less costly alternatives.

The following publications can provide you with additional information:

AARP: www.aarp.org Telephone: (888) 687-2277
"Money Matter: Annuities",

The Securities and Exchange Commission: www.sec.gov, email: PublicInfo@sec.gov

- "Variable Annuities: What You Should Know",

Written Requests: Office of Investor Education and Advocacy
SEC
100 F Street NE
Washington, DC 20549

National Association of Insurance Commissioners: www.naic.org, Email: prodserv@naic.org

- "Seniors: Educate Yourself on Annuities"
- "Variable Annuities: Beyond the Hard Sell"
- "Equity-Indexed Annuities- A Complex Choice"
- "Should You Exchange Your Variable Annuity?"

Financial Industry Regulatory Authority (FINRA)
Publications Customer Service: (816) 783-8300 Select Option 2

C.10 Reverse Mortgage Counseling Frequently Asked Questions

Why are reverse mortgages "rising debt, falling equity" loans?
Reverse mortgages are called rising-debt, falling-equity loans, because as debt increases, home equity falls. Lenders, or investors who buy the loans, recoup this debt - the accumulated principal and interest payments - when the home is sold.

Why do I need an appraisal?
An appraisal is needed to determine the market value of your home and to ascertain any required repairs. The property must meet minimum property standards in order to provide adequate security for the loan. If repairs are necessary, they must be made as a condition loan approval. The appraisal must be ordered by the lender and completed by a HUD-approved appraiser.

The appraised value of the home is used to determine the maximum claim amount, which is equal to the lesser of the appraised value of the home or the maximum FHA loan limit in your community.

What if the amount of the loan is different from the lender's estimate?
The amount of your loan at closing is based on the value of your home and the interest rate. At the time you apply for the loan, you and your lender will probably not know what the appraised value of your home is going to be. Because of this, the estimate that the lender gives you will most likely change once the appraisal is completed.

In addition, the interest rates change from week to week; however, the lender can lock the interest rate at the time you sign the loan application for 120 days. This would keep the rate from changing between the time of the application and the time of closing.

In addition, the loan amount might change if you, as the borrower, choose to let the interest rate "float" or change with the market. In this case, if rates decrease between the time of the application and closing, the principal limit may be recalculated at closing and may result in a larger loan amount.

What if I change my mind and no longer want the loan after I go to closing? Can I back out of the loan?
By law, you have 3 business days to change your mind and cancel the loan. Saturday counts as a business day and Sunday does not. This is called a 3 day right of rescission. Be sure to ask the lender for instructions on this process, as the process for canceling a loan may differ from one lender to another. You should get names of the appropriate people, phone numbers, fax numbers, addresses or written instructions on whatever process the company has in place. You may still be responsible for some of the loan costs if you decide to back out, such as the cost of the appraisal.

Note: *If you are closing on a HECM to purchase a home, you will not have three days to change your mind. The loan transaction is finalized at closing.*

What annual expenses will I have in connection with this loan?
The annual expenses that you are responsible for are all property taxes, flood and hazard insurance premiums, and special assessments, such as your homeowner's association or condominium fees. These charges may not be escrowed by the lender so paying them would be your responsibility. It is important that you budget for these expenses throughout the year so that when payment is due you will have enough money available.

Once the loan closes, how soon can I access my line of credit?
The lender can disburse funds to you after the 3-day right of rescission ends. The disbursement date will appear on page 1, Block I of the Settlement Statement. After the first disbursement, payments from the lender will be made within 5 days of receiving a written request for payment from you. Term and tenure payments will be made on the first business day of each month beginning with the first month after closing.

How soon after loan closing do I have to complete repairs?
The lender determines the length of time you will have to complete repairs after loan closing. The exact date by which you need to have all repairs completed will be on the Repair Rider attached to the Loan Agreement. You will be given a copy of these documents at loan closing.

What happens if the repairs are not complete on the date specified on the Repair Rider?
If the required repairs are not completed by the date specified on the *Repair Rider* to the *Loan Agreement*, the lender must discontinue payments on the loan. The loan will be frozen at a line of credit status, available only to fund repairs and mandatory items such as property charges and Mortgage Insurance Premium (MIP). Upon satisfactory completion of the repairs, the loan may be converted back to the borrower's selected method of payment.

Are any repair inspections required?
The lender is responsible for ensuring that the repairs are inspected by an FHA-approved inspector one or more times before the funds to pay for the repairs are disbursed. The lender must also complete a form HUD-92051, *Compliance Inspection Report*, before funds can be disbursed. The lender may charge an administrative fee and compliance inspection fees.

How will the lender disburse any funds in excess of the cost of the repairs?
The lender will transfer any remaining balance to a line of credit and inform you of the amount available. At that time, if you choose, you can send the lender a written request for an amount not to exceed the amount available and the lender will send a disbursement 5 days after receiving your written request for the funds. Otherwise, the remaining balance will remain in the line of credit.

C.11 How You Can Access Your Home's Equity with a Reverse Mortgage: Payment Options

Reverse Mortgage Payment Options
You can receive reverse mortgage loan proceeds through various payment plans, which may vary depending on which reverse mortgage product you choose.

HECM loans permit the following payment plans:

- term
- tenure
- line of credit
- combinations: modified term/modified tenure

With a HECM loan, you can also change the payment plan at any time during the life of the loan.

Not all of these options may be available for proprietary (non-HECM) products. In addition, a borrower may be required to pay a fee if he or she decides to change payment plans for a proprietary product

This handout provides descriptions and graphics of various payment plans. You should ask your counselor if you have additional questions. If you want to know more about specific reverse mortgage product details, which payment plan options are available for specific products, or how much equity may be available to you through a reverse mortgage, you should contact a lender

Line of Credit
You can choose to have the entire loan placed into a line of credit. With this line of credit, you can access the money at any time until no funds remain.

For HECM loans, the unused portion of the line of credit grows at the "credit line growth rate," or "note rate," which is the same rate at which the principal limit grows (the current rate plus half a percent divided by twelve). A proprietary product may have a lower credit line growth rate than that of a HECM, which will affect the amount of cash available to you. You should ask your lender about the line of credit features if you are considering a proprietary product.

Tenure
Under the tenure option, the borrower can receive equal monthly payments as long he or she remains in the home. The amount of each monthly payment is determined by subtracting the age of the borrower (or the age of the youngest borrower on the loan) from 100, and dividing the amount of money made available by the reverse mortgage over that time period. Even if the loan balance exceeds the value of the home, or if he or she lives past age 100, the borrower will continue to receive payments as long as he or she stays in the home and meets the obligations of the loan.

Term
A borrower may choose a term option where he or she would receive equal monthly payments for a fixed period of time of the borrower's choosing, e.g. 5 years or 10 years. The borrower will no longer receive payments at the end of the term, but may remain in the home as long as he or she chooses.

Combinations
Borrowers may also choose a combination of an up-front draw, line of credit, term and tenure payment options. Modified Tenure combines a line of credit with monthly payments as long as the borrower remains in the home. Modified Term combines a line of credit with monthly payments for a fixed period of time determined by the borrower.

C.12 Preparing for Your Counseling Session

Handout for clients appears on the following Page

Preparing for Your Counseling Session

The decision to get a reverse mortgage is an important one. The Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) want to ensure you are able to make an informed decision and that you are able to choose a course of action that will meet your needs. For this reason, housing counseling for HUD's Home Equity Conversion Mortgage (HECM) is required. The purpose of this overview is to provide introductory information on counseling and the HECM program, to help you prepare for your counseling session. After your counseling session, you will have a better understanding of the features of a reverse mortgage; the impact a reverse mortgage will have on your particular circumstances; and whether services or programs other than a reverse mortgage might better meet your needs.

What You Can Expect from Your Reverse Mortgage Counselor

Understanding what to expect from reverse mortgage counselors is an important first step in setting your expectations for your counseling session. Remember, only you can decide if a reverse mortgage is right for your situation. The counselor provides information to assist you in making that decision.

- The counselor is responsible for helping you understand reverse mortgages and the appropriateness of a reverse mortgage to meet your particular need as well as alternatives to a reverse mortgage.

- Reverse mortgage counselors will discuss your financial and other needs for remaining in your home, the features of a reverse mortgage and how it works, your responsibilities with a reverse mortgage, the impact of a reverse mortgage on you and your heirs, and the availability of other assistance you may need.

- The job of the counselor is not to "steer" or direct you towards a specific solution, a specific product, or a specific lender.

- Counselors will help you understand your options and their impacts.

Reverse mortgage counselors are required to follow specific practices, which are designed to ensure you receive quality counseling services and are protected against fraud and abuse. HUD requires that HECM counselors do the following:

- Send you required materials(i.e., this packet) prior to you counseling session,
- Follow established protocols when conducting the counseling session, and
- Follow up with you after the session has concluded.

What You Can Expect from the Reverse Mortgage Counseling Process

Step 1. Schedule an appointment. The counseling process begins when you schedule your appointment for a counseling session. You must schedule an appointment directly with the counseling agency. Your lender cannot initiate or participate in the counseling session. This session is conducted in person or over the telephone; however, HUD advises that, if possible, you meet with your counselor face-to-face to gain greater benefit from your session.

Step 2. Counselor will contact you and send information. Once you have set up an appointment, the agency sends you a packet of information so that you can prepare for your session. Before you begin, you should also know that some agencies charge a fee for counseling; if you cannot afford to pay this fee, you should discuss your inability to pay with the agency at the outset of your session to understand your options.

Step 3. The counselor will collect from you: Your name, contact and other key information, including your interest in obtaining a reverse mortgage, for the counseling session.

Step 4. Counseling session: The counselor will discuss with you your needs and circumstances; provide information about reverse mortgages and other alternative types and sources of assistance that might be available to you. During the session, you will work with the counselor to develop an assessment of your current financial situation using the Financial Interview Tool, which will assist you in determining the best course of action. You should be prepared to discuss your income, debts and expanses. You will also be offered the opportunity to obtain a BenefitsCheckUp which may provide information on funds and services in your area for which you may qualify.

Step 5. Certificate of Completion: Once you complete your session and you and your counselor are comfortable that you understand the essentials of a reverse mortgage, the counselor will issue a certificate which verifies for a lender that you have successfully completed counseling.

Step 6. Follow up: Your counselors will follow up with you to learn if you need further assistance and to understand the outcome of your counseling session. You may also call your counselor to seek further assistance after your session.

How a Reverse Mortgage Works

Before you begin your counseling session, it is helpful if you understand a few basics about a reverse mortgage.

Reverse mortgages enable homeowners age 62 or older to convert their home’s equity into available cash – a lender advances you money (the loan) based upon the equity in your home. The amount of money you are eligible to receive generally depends upon the amount of equity in your home and your age at the time you get the loan.

With a reverse mortgage, you remain the owner of your home. You must continue to pay property taxes and homeowner's insurance. You are also responsible for maintaining your home in good condition.

You will not have to repay your loan balance for as long as you live in your home. You can choose to pay off the loan through the sale of the property or prepayment of the loan at any time without penalty. Your estate may retain ownership of the property and must pay off the loan in full or the property can be sold to an unrelated party for the lesser of the unpaid mortgage balance or 95% of appraised value.

Types of Reverse Mortgages

There are three types of reverse mortgages shown in the chart below.

Single purpose reverse mortgage	Typically offered by state and local government agencies to be used in only one specific way, for example, home repairs
Proprietary reverse mortgage	Can be used for any purpose and may be suitable for borrowers with high cost homes
Home Equity Conversion Mortgage (HECM)	Can be used for any purpose and is **insured by the Federal Housing Administration.**

Payment Plan Options

There are several types of HECM loan plans available, including monthly and annually adjusting interest rate loans as well as fixed interest rate loans. Borrowers can decide to take a line of credit with flexible draw down options, a term loan with fixed monthly payments for a specified number of years, or a tenure plan with guaranteed payments for life or a combination of these options.

Choosing a Reverse Mortgage to Meet your Needs

HECM payment plans are flexible. The best payment plan for you will depend on your current and future financial needs and circumstances. For example:

> *If you have a small balance on your existing mortgage and would like to pay it off with the reverse mortgage*, a line of credit plan would allow you to draw all the funds at loan closing and pay off the current mortgage.
>
> *If you need a set amount of money every month to supplement your income to help meet monthly expenses*, then a tenure or term payment plan might be a suitable option for you.
>
> *If you know you will have some large health care expenses in the near future and want to have the funds available when needed*, a line of credit may also meet your needs.

Your reverse mortgage counselor will discuss your goals for a reverse mortgage with you and will explain the different options available to help meet your needs.

Costs to Obtain a HECM

Costs associated with HECMs are the same as those for "forward" mortgages used to purchase a home. These costs include lender fees to originate the mortgage, servicing fees for ongoing administration of the loan and interest on the money you use from the loan. There are also closing costs, which include all the usual and customary expenses associated with obtaining a mortgage, for example, the appraisal, title searches and insurance. HECMs also include a fee for FHA mortgage insurance.

Impact on Tax/Social Service Benefits

Reverse mortgage loan advances are not taxable and do not affect Social Security or Medicare benefits. However, you must be careful that any loan proceeds you retain do not exceed the monthly liquid resource limits for Supplemental Security Income (SSI) and Medicaid.

Alternatives to a Reverse Mortgage

Your HECM counselor will also help you consider options available to meet your needs other than a reverse mortgage. These options include:

- selling your home and moving to a more suitable residence,
- renting as well as other financial options, and
- support services and public benefits that may be available to you in your community

HUD encourages you to learn as much as possible about your options, before you decide on a reverse mortgage. Listed below are resources you can access to learn more about reverse mortgages and elder care.

AARP's web site at www.aarp.org/money/revmort provides more information on reverse mortgages and calculators that will provide general estimates of the amount of money you might receive from a reverse mortgage. You may also contact AARP at 1 (800) 424-3410.

The National Reverse Mortgage Lenders Association provides consumer information on their website at http://www.reversemortgage.org/default.aspx and can be reached by calling (866) 264-4466.

FHA DISCLOSURES
AMENDATORY CLAUSE / REAL ESTATE CERTIFICATION

Buyer(s) ______________________ ______________________ Date of Agreement: ___________

Seller(s) ______________________ ______________________ File No.: ____________________

Property Address : ____

FHA AMENDATORY CLAUSE

It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise unless the purchaser has been given in accordance with HUD/FHA or VA requirements a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than $. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value nor the condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.

Borrower	Date
Borrower	Date
Seller	Date
Seller	Date

Note: The dollar amount to be inserted in the amendatory caluse is the sales price as stated in the contract. If the borrower and seller agree to adjust the sales price in response to an appraised value that is less than the sales price, a new amendatory clause is not required. However, the loan application package must include the original sales contract with the same price as shown on the amendatory clause, along with the revised or amended sales contract.

REAL ESTATE CERTIFICATION

We, the borrower, seller, and the selling real estate agent or broker involved in the sales transaction certify by our signatures below that the terms and conditions of the sales contract are true to the best of our knowledge and belief, and that any other agreement entered into by any of these parties in connection with this real estate transaction is part of, or attached to, the sales agreement.

Borrower	Date
Borrower	Date
Seller	Date
Seller	Date
Listing Agent (as applicable)	Date
Selling Agent (as applicable)	Date

WARNING: Our signatures above indicate that we fully understand that it is a Federal Crime punishable by fine, imprisonment or both to knowingly make any false statements concerning any of the above facts as applicable under the provision of Title 18, United States Code, Section 1012 and 1014.

Figure 1 - Image of the FHA Disclosures Form