

# HECM Protocol

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# Chapter 1. Introduction to Reverse Mortgage Counseling

## Overview

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**Contents** This chapter contains the following topics.

<b>Topic Name</b>	<b>See Page</b>
1. General Information on Reverse Mortgage Counseling	1-2
2. Roles and Responsibilities of the Reverse Mortgage Counselor	1-4
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5. Providing HUD-Approved Counseling Agency Information to Clients and Restrictions on Lender Referrals	1-16

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# 1. General Information on Reverse Mortgage Counseling

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**Introduction** This topic contains general information on reverse mortgage counseling, including

- the objective of reverse mortgage counseling
  - required discussion topics for reverse mortgage counseling
  - a reference for additional reverse mortgage policies and resources, and
  - the use of the terms “client” and “borrower” in this protocol.
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**PROTCL 1.1.a  
Objective of  
Reverse  
Mortgage  
Counseling** The objective of reverse mortgage counseling is to educate clients on

- how reverse mortgages work and their implications
- the appropriateness of a reverse mortgage for their personal and financial situations, and
- possible financial alternatives to reverse mortgages.

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**PROTCL 1.1.b  
Required  
Discussion  
Topics for  
Reverse  
Mortgage  
Counseling** The following topics must be thoroughly covered in every reverse mortgage counseling session:

- client needs and circumstances
- features of a reverse mortgage
- client responsibilities under a reverse mortgage
- costs to obtain a reverse mortgage
- financial/tax implications of a reverse mortgage
- financial or social service alternatives to a reverse mortgage, and
- warnings about potential reverse mortgage/insurance fraud schemes and elder abuse.

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# 1. General Information on Reverse Mortgage Counseling, Continued

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**PROTCL 1.1.c  
Additional  
Reverse  
Mortgage  
Policies and  
Resources  
(Reference)**

For more information on

- current HUD reverse mortgage counseling policies, see [HECM Protocol 7.A](#)
  - resources for counselors, see [HECM Protocol 7.B](#), and
  - resources for clients, see [HECM Protocol 7.C](#).
- 

**PROTCL 1.1.d  
Use of the  
Terms “Client”  
and  
“Borrower” in  
This Protocol**

The terms “client” and “borrower” are used somewhat interchangeably in this protocol.

When dealing with a housing counseling agency, an individual is considered a “client” given that they are not “borrowing” from the agency. However, when referring to specific HECM program requirements (for example, the effect of a borrower’s age on eligibility) the term “borrower” is used.

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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor

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**Introduction** This topic contains information on the roles and responsibilities of the reverse mortgage counselor, including

- role of the reverse mortgage counselor
- responsibilities of the reverse mortgage counselor for client education and determining the client's financial situation
- requirement for counselors/agencies to follow this HECM Protocol and HUD's quality control measures
- requirement for counselor objectivity
- prohibited counselor activities
- detection and prevention of fraud and elder abuse
- counselor sensitivity to a client's disabilities and language/cultural issues
- withholding issuance of the Counseling Certificate
- reviewing the client's level of understanding before issuing the Counseling Certificate, and
- following up with clients.

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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.a**  
**Role of the**  
**Reverse**  
**Mortgage**  
**Counselor**

The role of the reverse mortgage counselor is to

- educate the client about
  - the features of reverse mortgages
  - the appropriateness of a reverse mortgage, and
  - other financial options that might meet the client’s needs
- provide guidance and resources to enable the client to make an informed decision, and
- provide ongoing support to the client throughout the process.

It is *not* the role of the counselor to tell the client

- whether or not to proceed with a reverse mortgage, or
  - which reverse mortgage product to use.
- 

**PROTCL 1.2.b**  
**Responsibilities**  
**of the Reverse**  
**Mortgage**  
**Counselor for**  
**Client**  
**Education and**  
**Determining**  
**the Client’s**  
**Financial**  
**Situation**

The reverse mortgage counselor must

- become familiar with the client’s financial situation by working with the client following the requirements of [HECM Protocol 7.B.12](#)
  - provide the client with a discussion of reverse mortgage products and other financial, social service and housing options within the context of his/her financial situation
  - counsel the client on reverse mortgage features covered in [HECM Protocol 5.D](#), and
  - provide an overview of financial and/or housing alternatives outlined in [HECM Protocol 5.F](#).
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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.c**  
**Requirement**  
**for Counselors/**  
**Agencies to**  
**Follow This**  
**HECM**  
**Protocol and**  
**HUD's Quality**  
**Control**  
**Measures**

Counselors must

- follow this HECM Protocol when counseling their clients, and
- ensure that clients receive
  - HUD's required handouts as listed in [HECM Protocol 7.B](#), and
  - any additional information the clients need to assist in their decision-making.

The counseling agency must also agree in its housing counseling plan to HUD's quality control measures, which may include

- mystery shopping
  - performance reviews, or
  - other actions as determined by HUD.
- 

**PROTCL 1.2.d**  
**Requirement**  
**for Counselor**  
**Objectivity**

The counselor

- must consider each client's unique needs and circumstances when discussing the appropriate options for the client
  - must remain objective when discussing various products and options, and
  - *must not* steer the client in a particular direction or to a particular lender or loan originator.
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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.e  
Prohibited  
Counselor  
Activities**

Counselors must *not*

- participate in sales or lending transactions as real estate agents, loan officers or appraisers, or as agents who sell long-term health insurance policies or annuities, or
- perform, or offer to perform, any services that conflict, or appear to conflict, with the best financial interests of the client.

The Housing and Economic Recovery Act of 2008 prohibits lenders or any other party from requiring HECM borrowers to purchase insurance, annuities or any other additional products as a requirement or condition of eligibility for a HECM loan.

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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.f**  
**Detection and**  
**Prevention of**  
**Fraud and**  
**Elder Abuse**

The counselor must be sensitive to the client's intentions for obtaining a reverse mortgage and the client's particular needs and circumstances.

The counselor must request that other individuals who have no financial interest in the reverse mortgage be present during the counseling session (for example, family members, attorney, trusted advisor, and so on) to help protect the client's best interests if the counselor believes that the client is being pressured by

- a family member
- a lender
- an investment or financial consultant
- an insurance agent, or
- any other party.

The counselor must remind the client that it is his/her decision to go forward with a reverse mortgage and not the decision of others.

**Note:** If fraud is suspected, please contact the HUD Homeownership Center (HOC) and HUD's Office of Inspector General as listed in [HECM Protocol 7.B.13](#).

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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.g**  
**Counselor**  
**Sensitivity to a**  
**Client's**  
**Disabilities and**  
**Language/**  
**Cultural Issues**

The counselor must be sensitive to a client's engagement in the counseling session. If the counselor believes that the client is not benefiting from the counseling session because of hearing deficiencies, lack of language comprehension or other significant impairment, the counselor must recommend that the session be re-scheduled with an accompanying family member, trusted friend or advisor.

In addition to these issues, counselors should be sensitive to any cultural issues that interfere with the client's understanding of the counseling session.

*Note:* The counselor must not issue a certificate when these issues prevent the client from benefitting from the counseling.

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**PROTCL 1.2.h**  
**Withholding**  
**Issuance of the**  
**Counseling**  
**Certificate**

The counselor must withhold the counseling certificate if he/she reasonably believes that the client does not have an adequate understanding of

- a reverse mortgage
- its implications for the client's unique situation, and
- the client's own responsibilities as a reverse mortgage borrower.

*Reference:* For more information on detecting and preventing fraud, see [HECM Protocol 1.2.f](#).

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## 2. Roles and Responsibilities of the Reverse Mortgage Counselor, Continued

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**PROTCL 1.2.i**  
**Reviewing the Client's Level of Understanding Before Issuing the Counseling Certificate**

The counselor must make specific efforts to review the client's level of understanding of reverse mortgages, including the

- basic mechanics, requirements and implications of a reverse mortgage
- impact on the client's personal financial situation of the particular loan in which he/she is interested, and
- client's responsibilities and requirements for residency under the mortgage.

In order to receive the counseling certificate during the first session, the client must be able to answer five of the ten questions asked by the counselor throughout the session, as discussed in [HECM Protocol 5.A.1.d](#).

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**PROTCL 1.2.j**  
**Following Up with Clients**

The counselor must make a reasonable effort to follow up with the client to

- answer any additional questions
- ensure that he/she is progressing toward his/her housing goals and meeting his/her financial needs
- modify or terminate housing counseling, and
- learn and report outcomes to HUD.

**Reference:** For more information on following up with the client, see [HECM Protocol 6](#).

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### 3. Methods of Delivery for Reverse Mortgage Counseling

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**Introduction** This topic contains information on the methods for delivery of counseling, including

- face-to-face counseling for HECM clients
  - telephone counseling
  - emergency counseling, and
  - other mutually-agreed upon formats for counseling.
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**PROTCL 1.3.a  
Face-to-face  
Counseling for  
HECM Clients** HUD encourages face-to-face counseling, and certain states require face-to-face counseling for all borrowers considering reverse mortgages. Counselors who meet with clients face-to-face may be better able to assess their clients' needs and comprehension.

A counselor who is unable to meet with a client face-to-face and who instead engages in telephone counseling must be particularly sensitive to the client's engagement in the session and understanding of the topics covered.

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**PROTCL 1.3.b  
Telephone  
Counseling for  
HECM Clients** Clients may receive telephone counseling unless such counseling is prohibited in their state.

Telephone counseling must not commence until the client has

- received HUD's required handouts listed in [HECM Protocol 7.B.1](#), and
- had adequate time to review the documents.

The client may receive the required HUD handouts from a lender or from HUD. If the lender provides the handouts, a copy of the handouts must be made available to the HECM counselor.

Because the counselor may have difficulty gauging the client's engagement in the counseling session, the counselor must prompt the client for questions, concerns or points of confusion during and after the counseling session.

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### 3. Methods of Delivery for Reverse Mortgage Counseling,

Continued

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**PROTCL 1.3.c  
Emergency  
Counseling for  
HECM Clients**

Emergency counseling is HECM counseling that occurs without the client scheduling an appointment in advance. The client may receive emergency counseling by phone or in person only if the client

- is in imminent danger of losing his/her home, or
- requires access to funds for impending medical treatment, and he/she is not able to access these funds without obtaining proceeds from a HECM.

***Required Borrower Documentation***

HUD requires that the borrowers provide documentation that the emergency counseling is necessary. The documentation should indicate that the client's home is in imminent danger of being foreclosed or that the client needs impending medical treatment.

***Provision of Required Handouts/Materials by the Counselor***

HUD permits emergency counseling without a prior appointment, and recognizes that in emergency circumstances, it is unlikely that the client has received HUD's required handouts, unless a lender has provided them previously.

Unlike scheduled face-to-face or telephone counseling, counselors who are participating in emergency counseling are not required to provide relevant materials to clients prior to the counseling session, but must provide HUD's required handouts and other resource material immediately after the session via

- email
- fax, or
- regular mail.

***Reference:*** For a listing of HUD's required handouts to clients, see [HECM Protocol 7.B.1.](#)

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### 3. Methods of Delivery for Reverse Mortgage Counseling, Continued

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**PROTCL 1.3.d  
Other  
Mutually-  
Agreed Upon  
Formats for  
Counseling**

Other types of mutually-agreed upon formats are acceptable for counseling. Such formats include any live electronic method of dialogue (e.g., Skype, webinar, webex, GoToMeeting, etc.) where both the HECM counselor and client can speak to each other to ask questions and discuss the information being presented. Clients may receive counseling in a mutually-agreed upon format unless such counseling is prohibited in their state.

This type of counseling must not commence until the client has

- received HUD's required handouts listed in [HECM Protocol 7.B.1](#), and
- had adequate time to review the documents.

The client may receive the required HUD handouts from a lender or from HUD. If the lender provides the handouts, a copy of the handouts must be made available to the HECM counselor.

Because the counselor may have difficulty gauging the client's engagement in the counseling session, the counselor must prompt the client for questions, concerns, or points of confusion during and after the counseling session.

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## 4. Reverse Mortgage Counseling Fees

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**Introduction** This topic contains information on reverse mortgage counseling fees, including

- policy on charging HECM counseling fees
  - restriction on turning clients away due to inability to pay
  - lenders prohibited from paying counseling fees, and
  - collection of counseling fees
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**PROTCL 1.4.a Policy on Charging HECM Counseling Fees** Agencies participating in HUD’s Housing Counseling Program are permitted to charge clients a fee for HECM counseling services if the fee

- is reasonable and customary
- does not create a financial hardship for the client
- is commensurate with the level of services provided, and
- meets all other HUD requirements as discussed in [HECM Protocol 7.A.1.](#)

*Note:* Agencies may charge a higher fee for clients needing multiple, in-home, or prolonged sessions; however, this higher fee may only cover the actual cost of the services, provided they are reasonable and customary.

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**PROTCL 1.4.b Restriction on Turning Clients Away Due to Inability to Pay** Agencies may *not* turn clients away or withhold the Counseling Certificate because of a client’s inability to pay.

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**PROTCL 1.4.c Lenders Prohibited From Paying Counseling Fees** Lenders may *not* pay for counseling services directly or indirectly.

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## 4. Reverse Mortgage Counseling Fees, Continued

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### **PROTCL 1.4.d** **Collection of** **Counseling** **Fees**

Counseling agencies may collect the fee prior to conducting the counseling session or they may be paid from the reverse mortgage proceeds.

Counseling agencies choosing to charge HECM fees should not collect a fee at the time of the counseling session from a client whose income is below 200 percent of the Federal Poverty level. Agencies may charge these clients a HECM counseling fee at closing provided the client has been advised during the counseling session of the amount of the fee.

Agencies charging the fee are required to

- describe in their housing counseling workplan how this policy will be implemented and monitored
- document that the client's income is below 200 percent of the Federal Poverty level at the time of the HECM counseling session, and
- document that the client was advised of the amount of the counseling fee that the client may be charged at loan closing.

*Note:* HHS's poverty guidelines can be found at <http://aspe.hhs.gov>. Typically, these guidelines are revised annually in January. Agencies are responsible for using the current published figures.

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## 5. Providing HUD-Approved Counseling Agency Information to Clients and Restrictions on Lender Referrals

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**Introduction** This topic contains information on

- the requirement for lenders to provide clients with a list of counseling agencies
- the restriction on lenders contacting agencies on behalf of a client
- the restrictions on communication between lenders and counselors/counseling agencies
- counselor responsibilities when a client has already been in contact with another lender
- confirming the client’s understanding that lenders cannot process a loan application without a Counseling Certificate
- reporting lender attempts to influence counseling outcomes to HUD, and
- counselor awareness of client bias or concerns.

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**PROTCL 1.5.a Requirement for Lenders to Provide Clients With a List of Counseling Agencies** Lenders must provide every client with a list of HUD-approved counseling agencies that can provide HECM counseling, five of which must be in the client’s local area and/or state, and at least one agency must be located within a reasonable driving distance.

The other agencies (which offer services nationwide) must be the National Intermediaries receiving HECM funding. This information is available on FHA Connection and on <http://www.hud.gov>.

Lenders must enter all of the HUD-approved agencies that were provided on the list to the client by completing the HECM Referral List Update in FHA Connection. The screen must be completed prior to a HECM loan being endorsed for insurance.

A lender does *not* have to provide a list of HUD-approved counseling agencies to a client if the client has already been counseled by a HUD-approved HECM counselor. The client must be able to confirm that he/she has received counseling by providing the lender with the completed [Form HUD 92902, Certificate of HECM Counseling](#). In this case, a lender must check the “Not Referred” box on the HECM Referral List Update.

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## 5. Providing HUD-Approved Counseling Agency Information to Clients and Restrictions on Lender Referrals, Continued

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### PROTCL 1.5.b Restriction on Lenders Contacting Agencies on Behalf of a Client

No lender, or party associated with or acting on behalf of the lender, may contact a counseling agency on a client's behalf.

**The client *must* contact a counseling agency directly and personally to initiate the counseling process and schedule an appointment.**

**Note:** When the client calls to schedule an appointment, the counselor must mail, fax, or email HUD's required handouts to the client.

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### PROTCL 1.5.c Restrictions on Communication Between Lenders and Counselors/ Counseling Agencies

A lender may *not* contact a counselor or counseling agency to

- discuss a client's personal information, including the timing or scheduling of the counseling
- request information regarding the topics covered in a counseling session, or
- check on the progress of the counseling session.

Similarly, counselors and counseling agencies may *not* discuss any of these topics with a lender.

**Note:** Lenders may call counselors to request changes to [HUD Form 92902, Certificate of HECM Counseling](#), such as name, address, etc. to make it consistent with the borrower information in FHA Connection. The counselor must ask the lender for the certificate number and the counselor should not advise the lender that the number given is the client's unless the certificate number provided is accurate.

When the correct certificate number is provided by the lender, it can be assumed the client has given the lender the certificate and that minor changes can be made, without a need to contact the client for permission. Any such changes made to the certificate should be mailed to the client and can be faxed or mailed to the lender. The counselor should note to the lender that only the counselor's signature is on the copy the counselor has faxed to them and that the borrower's signature will have to be obtained.

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## 5. Providing HUD-Approved Counseling Agency Information to Clients and Restrictions on Lender Referrals, Continued

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**PROTCL 1.5.d**  
**Counselor**  
**Responsibilities**  
**When a Client**  
**Has Already**  
**Been in Contact**  
**With Another**  
**Lender**

If a client has already been in contact with a lender, the counselor must

- respect that established relationship by neither encouraging nor discouraging the continuance of the relationship
- continue to focus on the client’s unique financial circumstances
- discuss any specific reverse mortgage product details that the client received from the previous lender as they apply to the client
- use a reverse mortgage loan comparison tool to compare proposed products with other available mortgages, and
- discuss the results of the comparison with the client.

*Note:* Clients who demonstrate a detailed knowledge of reverse mortgage features may receive a summary overview of the required topics. The counselor must ensure that the client understands the features of the specific reverse mortgage in which he/she is interested.

*Caution:* Counselors must *not* steer clients toward or away from specific lenders or reverse mortgage products.

*Reference:* For more information on restrictions for lender and counselor steering, see [HUD 7610.1 4.D.2.](#)

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**PROTCL 1.5.e**  
**Confirming the**  
**Client’s**  
**Understanding**  
**That Lenders**  
**Cannot Process**  
**a Loan**  
**Application**  
**Without a**  
**Counseling**  
**Certificate**

The counselors must confirm that the client understands that the lender may take, but not process a HECM loan application, or charge for any application-related services until the lender receives a signed copy of the Counseling Certificate from the client.

*Reference:* For additional guidelines regarding acceptable lender activities prior to receiving a counseling certificate, see [HECM Protocol 7.A.8.](#)

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## 5. Providing HUD-Approved Counseling Agency Information to Clients and Restrictions on Lender Referrals, Continued

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**PROTCL 1.5.f**  
**Reporting**  
**Lender**  
**Attempts to**  
**Influence**  
**Counseling**  
**Outcomes to**  
**HUD**

To report instances where the lender is attempting to influence the outcome of the counseling session, counselors may contact HUD's Office of Inspector General Hotline by

- phone at (800) 347-3735
- email at [HOTLINE@hudoig.gov](mailto:HOTLINE@hudoig.gov), or
- fax at (202) 708-4829.

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**PROTCL 1.5.g**  
**Counselor**  
**Awareness of**  
**Client Bias or**  
**Concerns**

Counselors must be aware of the client's level of knowledge about reverse mortgages, as well as any biases or concerns the client may have concerning reverse mortgages in general or to any specific product.

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## Chapter 2. Reverse Mortgage Counseling Process Overview

### Overview

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**Contents**      This chapter contains the topic “Overview of the Reverse Mortgage Counseling Process.”

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# 1. Overview of the Reverse Mortgage Counseling Process

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**Change Date**      March 18, 2011

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**PROTCL 2.1.a**      The table below describes the stages of the reverse mortgage counseling process.

**Stages of the Reverse Mortgage Counseling Process**

*Reference:* For more specific details on the required activities and topics for discussion during the stages of the counseling process, see [HECM Protocol 3](#).

Stage	Stage Name	Who Is Responsible	Description
1	Client Intake	<ul style="list-style-type: none"> <li>• Counselor, or</li> <li>• Trained Assistant</li> </ul>	<p>Talks with the client(s), in person or via telephone, to</p> <ul style="list-style-type: none"> <li>• provide an overview of the counseling process</li> <li>• gather specific client information and discuss client objectives</li> <li>• disclose fee information</li> <li>• discuss special client needs and counseling participation, and</li> <li>• provide required HUD handouts.</li> </ul> <p><i>Reference:</i> For more information on the Client Intake stage, see <a href="#">HECM Protocol 4</a>.</p>

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# 1. Overview of the Reverse Mortgage Counseling Process, Continued

## PROTCL 2.1.a Stages of the Reverse Mortgage Counseling Process (continued)

Stage	Stage Name	Who Is Responsible	Description
2	Counseling Session	Counselor	<p>Conducts the counseling session in which he/she</p> <ul style="list-style-type: none"> <li>• confirms the client data gathered during Client Intake</li> <li>• discusses client interest in a reverse mortgage and personal/financial goals</li> <li>• discusses               <ul style="list-style-type: none"> <li>– client needs and circumstances, and</li> <li>– client and property eligibility</li> </ul> </li> <li>• reviews/discusses reverse mortgage               <ul style="list-style-type: none"> <li>– features</li> <li>– costs</li> <li>– obligations, and</li> <li>– implications after closing</li> </ul> </li> <li>• provides information on               <ul style="list-style-type: none"> <li>– financial alternatives</li> <li>– reverse mortgage refinances</li> <li>– HECMs for purchase, and</li> <li>– purchasing an annuity with a reverse mortgage</li> </ul> </li> <li>• reviews the client understanding of the session contents</li> <li>• provides additional materials and resources, and</li> <li>• issues the Counseling Certificate.</li> </ul> <p><b>Reference:</b> For more information on the Counseling Session stage, see <a href="#">HECM Protocol 5</a>.</p>

*Continued on next page*

# 1. Overview of the Reverse Mortgage Counseling Process, Continued

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## PROTCL 2.1.a Stages of the Reverse Mortgage Counseling Process (continued)

Stage	Stage Name	Who Is Responsible	Description
3	Completing the Client File	Counselor	<p>At the end of the counseling session, completes the client file with all required documents/information.</p> <p><b>Reference:</b> For more information on the Completing the Client File stage, see <a href="#">HECM Protocol 6</a>.</p>
4	Follow Up	Counselor	<p>Makes reasonable efforts to conduct a verbal follow up with the client and, if unsuccessful, attempts to contact the client through a letter or email in order to determine if</p> <ul style="list-style-type: none"> <li>• additional client services are needed, or</li> <li>• the agency should terminate counseling services.</li> </ul> <p><b>Reference:</b> For more information on the Follow Up stage, see <a href="#">HECM Protocol 6</a>.</p>

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## **Chapter 3. HECM Counselor Checklist: Required Counseling Activities/Topics for Discussion**

### **Overview**

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**Contents** This chapter contains the topic “*HECM Counselor Checklist.*”

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## 1. HECM Counselor Checklist

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**Introduction** This topic contains a HECM Counselor Checklist for use in performing

- client intake
  - the counseling session
  - completion of the client file, and
  - follow up with the client.
- 

**Change Date** March 18, 2011

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**PROTCL 3.1.a Required Client Intake** As part of the initial client screening and intake of client information, counselors must gather/discuss the information listed in the table below.

**Information/ Topics for Discussion** *Note:* To be completed by a trained assistant or the counselor.

<b>Topic for Discussion/ Required Action</b>	<b>Please Check</b>	<b>Required Information/ Description of Required Action</b>
Client Information		Client Name, Address, Date of Birth
		Estimated home value, location, type
		Existing debt on home
		Any unpaid Federal debt
Client Objectives		Determine the client's main reason(s) for investigating reverse mortgages
		Discuss the client's personal and financial goals
Disclosures		Disclose the fee structure for the counseling session (either at intake or the beginning of the counseling session).  <i>Reference:</i> For information on fees, see <a href="#">HECM Protocol 7.A.2.</a>
		Determine if paying the HECM fees will cause the client financial hardship.  Is the client's income below 200 percent of the Federal Poverty level? (If so, a counseling fee cannot be charged up-front – only at closing).

*Continued on next page*

# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.a Required Client Intake Information/ Topics for Discussion (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Client Assistance (Discuss with client)		Hearing or language problems
		Legal capacity, if necessary
		Power of attorney, if necessary
Family/Advocate Participation		Encourage participation by family and/or professional advisors  <i>Reference:</i> See <a href="#">HECM Protocol 7.A.4.</a>
Counseling Process Overview		Inform client of <ul style="list-style-type: none"> <li>• counselor’s role</li> <li>• topics to be covered in reverse mortgage counseling, and</li> <li>• his/her choice of face-to-face counseling session or a telephone session.</li> </ul>
		Document client’s choice for counseling delivery method in client’s case file.

*Continued on next page*

## 1. HECM Counselor Checklist, Continued

### PROTCL 3.1.a Required Client Intake Information/ Topics for Discussion (continued)

Topic for Discussion/ Required Action	✓	Required Information/ Description of Required Action
Required HUD Handouts		<p>Provide clients with the following required HUD handouts</p> <ul style="list-style-type: none"> <li>• Preparing for Your Counseling Session (See <a href="#">HECM Protocol 7.C.12</a>)</li> <li>• printout of loan comparisons</li> <li>• printout of TALC calculation</li> <li>• loan amortization schedule, and</li> <li>• National Council on Aging (NCOA) Booklet, <i>Use Your Home to Stay at Home - A Guide for Homeowners Who Need Help Now</i> at <a href="http://www.ncoa.org/rm">www.ncoa.org/rm</a>.</li> </ul> <p><i>Notes:</i></p> <ul style="list-style-type: none"> <li>• Send these documents by regular mail, priority mail, fax or email.</li> <li>• Loan printouts must be relevant to the client's situation to facilitate counseling session.</li> <li>• If the lender provides the information packet to the client, the lender must provide the counselor with copies of the same loan comparison print-outs that were provided to the client. The counseling session cannot be held until the counselor has a copy of the loan comparison print-outs provided by the lender.</li> <li>• Stress the benefits of receiving and reviewing materials thoroughly before the counseling session, and</li> <li>• establish that client has received and thoroughly reviewed the materials before the counseling session.</li> </ul> <p><i>Note:</i> Except in situations where emergency counseling is necessary, clients may not proceed with counseling session until they have received required informational packet and have had sufficient time to review it.</p>

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# 1. HECM Counselor Checklist, Continued

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**PROTCL 3.1.b  
Conducting the  
Counseling  
Session**

The counselor is required to

- discuss each of the protocol elements listed in the table below, with attention to the relevance of each element to the client’s specific situation, and
- ensure that the client understands each element and its implications.

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Confirm Client Data		Gather any additional client data not recorded in initial client intake and confirm any previously recorded client data.  <i>Reference:</i> For more information on client intake, see <a href="#">HECM Protocol 4</a> .

*Continued on next page*

## 1. HECM Counselor Checklist, Continued

### PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Determine Client Objectives (Concerns/Interest in Reverse Mortgage)		Determine main reason(s) for investigating reverse mortgages.
		Discuss personal and financial goals that may affect decisions about applying for reverse mortgage.
		<p>Help client understand how a reverse mortgage may affect his/her financial situation, including income, assets, liabilities and debts, and current or potential expenditures.</p> <p><i>Note:</i> If client is uncomfortable his/her financial situation, explain that some financial information is necessary to discuss reverse mortgages and other alternatives.</p>
		Address concerns about preserving assets
		<p>Determine whether the client intends to secure an investment or annuity with the reverse mortgage loan.</p> <p><i>Note:</i> This risky strategy requires additional discussion and information.</p> <p><i>Reference:</i> For more information on purchasing an annuity with a HECM, see <a href="#">HECM Protocol 5.B.10</a>.</p>
		Inform client that lenders and HUD do not require estate planning services in order to obtain a HECM.
		Create a budget using the Financial Interview Tool discussed in <a href="#">HECM Protocol 7.B.12</a> based on the client's income, assets, debt and expenses.

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# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Discuss Client Needs and Circumstances		<p>Discuss the following, as appropriate:</p> <ul style="list-style-type: none"> <li>• effect of property value on available equity, and</li> <li>• effect of borrower’s age on                             <ul style="list-style-type: none"> <li>– eligibility, and</li> <li>– access to equity.</li> </ul> </li> </ul> <p><b>Reference:</b> For more information on the effect of property value and the borrower’s age, see <a href="#">HECM Protocol 5.B.2</a> and <a href="#">HECM Protocol 5.B.3</a>.</p>
		<p>Discuss with the client</p> <ul style="list-style-type: none"> <li>• current income to determine if reverse mortgage proceeds are appropriate to achieve financial goals, and</li> <li>• how client income may change in the future, and whether there are alternative ways to supplement their income.</li> </ul>
		<p>Discuss the length of time the client plans to remain in his/her home.</p>
		<p>Use software printouts to walk clients through preferred loan examples, as well as other relevant examples.</p> <p><b>Reference:</b> For more information on printouts and loan examples, see <a href="#">HECM Protocol 5.A.2</a>.</p>

*Continued on next page*

## 1. HECM Counselor Checklist, Continued

### PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Discuss Client and Property Eligibility		<p>Discuss basic borrower issues: age, deed restrictions.</p> <p><b>Reference:</b> For more information on borrower eligibility, see <a href="#">HECM Protocol 5.C.1.</a></p>
		<p>Discuss Power of Attorney (POA) and Conservator/Guardian (if applicable).</p> <p><b>Reference:</b> For more information on conducting counseling with a person holding a POA or a conservator/guardian, see <a href="#">HECM Protocol 5.A.1.b.</a></p>
		<p>Discuss property eligibility requirements for a HECM.</p> <p><b>Note:</b> Only the lender is authorized to make official determinations regarding eligibility of the homeowner and subject property. Eligibility requirements vary for different proprietary products.</p> <p><b>Reference:</b> For more information on property eligibility, see <a href="#">HECM Protocol 5.C.2.</a></p>
		<p>Discuss residency and allowed</p> <ul style="list-style-type: none"> <li>• time away for health reasons, and</li> <li>• time spent at a vacation home.</li> </ul>
		<p>Discuss required repairs (including, if applicable, the 15% rule).</p>
		<p>Discuss properties held in trust (if applicable).</p> <p><b>Reference:</b> For more information on properties held in trust, see <a href="#">HECM Protocol 5.C.4.</a></p>
		<p>Discuss the condition of the home and whether repairs or modifications to address mobility/health-related issues, as well as future maintenance, are likely to be necessary.</p> <p><b>Reference:</b> For more information on property repairs and modifications, see <a href="#">HECM Protocol 5.C.3.</a></p>

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# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Introduce Reverse Mortgage Features		Rising debt/falling equity
		Retention of title  <i>Reference:</i> For more information on retention of title, see <a href="#">HECM Protocol 5.D.5.</a>
		Repayment requirement  <i>Reference:</i> For more information on repayment requirements, see <a href="#">HECM Protocol 5.D.5.</a>
		Closed or open-ended funding
		Factors that determine principal limit  <i>Reference:</i> For more information on principal limit, see <a href="#">HECM Protocol 5.D.2.</a>
		Payment plan options  <i>Reference:</i> For more information on payment plan options, see <a href="#">HECM Protocol 5.D.3.</a>
		Leftover equity
		Loan balance
		Growth rate of payment plans
		Individual loan negative amortization schedule(s)
		Future projections and comparisons
		Non-recourse  <i>Reference:</i> For more information on the non-recourse feature, see <a href="#">HECM Protocol 5.D.6.</a>

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## 1. HECM Counselor Checklist, Continued

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### PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Discuss Reverse Mortgage Loan Costs		Origination fees  <i>Reference:</i> For more information on these fees, see <a href="#">HECM Protocol 5.D.8.c.</a>
		Third party closing costs including appraisal fee, credit report, and title search  <i>Reference:</i> For more information on these fees, see <a href="#">HECM Protocol 5.D.8.b.</a>
		Loan costs  <i>Reference:</i> For more information on loan costs, see <a href="#">HECM Protocol 5.D.8.</a>
		Mortgage Insurance Premium (MIP)  <i>Reference:</i> For more information on MIPs, see <a href="#">HECM Protocol 5.D.7.</a>
		Servicing fee and set aside  <i>Reference:</i> For more information on these costs, see <a href="#">HECM Protocol 5.D.8.a.</a>
		Interest rate

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# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Discuss Borrower Obligations and Reverse Mortgage Implications After Closing  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.E.1</a>		Repairs
		Taxes, insurance and other property charges
		Financial implications
		Effect on public benefits
Provide Information About Financial Alternatives		Selling and moving  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.1.</a>
		Deferred payment and home repair loans
		Home equity loans  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.2.</a>
		Social service alternatives  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.3.</a>
		Property tax deferral and relief  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.4.a.</a>

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## 1. HECM Counselor Checklist, Continued

### PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
		SSI and Medicaid  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.4.a.</a>
		Medicare (QMB/SLMB, Part D, etc.)  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.4.a.</a>
		Other housing options (congregate housing, assisted living, etc.)  <i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.F.1.</a>
Provide Information on Reverse Mortgage Refinance		Refinance for a lower interest rate
		Refinance to take advantage of home value appreciation and access to a greater amount of equity.  <i>Reference:</i> For more information regarding refinancing, see <a href="#">HECM Protocol.7.B.7.</a>

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# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Provide Information on HECM for Purchase		<p>Discuss the required topics found in <a href="#">HECM Protocol 5.B.9</a> that are unique to a HECM for purchase.</p> <p><i>Note:</i> A client should only be counseled on HECM if this is an option that he/she is considering.</p>
		<p>Advise clients on the closing requirements of a HECM for Purchase found in <a href="#">HECM Protocol 5.B.9</a>.</p>
		<p>Caution clients regarding the fact that the decision is their own to pursue a HECM for Purchase and they should not be rushed into a decision. Some properties will require substantial repair to be eligible for a HECM loan.</p> <p><i>Note:</i> If fraud is suspected, report it to the local HUD Homeownership Center or to the Office of Inspector General as discussed in <a href="#">HECM Protocol 7.B.13</a>.</p> <p><i>Reference:</i> If counseling client interested in purchasing a residence with a HECM, refer to Mortgagee Letter 2009-11, which can be accessed on HUD’s website at <a href="http://www.hud.gov/hudclips/">http://www.hud.gov/hudclips/</a>.</p>

*Continued on next page*

## 1. HECM Counselor Checklist, Continued

### PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Discuss Purchasing an Annuity with a Reverse Mortgage		<ul style="list-style-type: none"> <li>• Determine if client is considering using loan proceeds to purchase an annuity</li> <li>• inform client that there are ways to obtain an annuity without using HECM proceeds</li> <li>• discuss costs and implications of purchasing an annuity with the proceeds from a reverse mortgage</li> <li>• explain that in some cases fixed monthly annuity advances that continue for life may be smaller than fixed monthly loan advances from a reverse mortgage for as long as the client lives in his/her home.</li> </ul> <p><i>Note:</i> If client still expresses an interest in purchasing an annuity with loan proceeds, give client a copy of <i>Using a Reverse Mortgage to Buy an Annuity</i>, found in <a href="#">HECM Protocol 7.C.9</a>.</p> <p><i>Reference:</i> For more information, see <a href="#">HECM Protocol 5.B.10</a>.</p>
Review Client Understanding of Session Contents		<ul style="list-style-type: none"> <li>• Review topics of the session, and</li> <li>• ask the client open-ended questions to ensure that the client understands the information and is able to make an informed decision.</li> </ul> <p><i>Note:</i> The questions should be asked throughout the counseling session and not all at one time at the end of the session.</p> <p><i>Reference:</i> For more information, see <a href="#">HECM Protocol 7.B.10</a>.</p>
Address Client Concerns and Questions		<p>Answer client questions and address any concerns.</p> <p><i>Reference:</i> For a list of frequently asked questions from clients, see <a href="#">HECM Protocol 7.C.10</a>.</p>

*Continued on next page*

# 1. HECM Counselor Checklist, Continued

## PROTCL 3.1.b Conducting the Counseling Session (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Provide Additional Handouts and Resources		<p>Provide additional handouts and resource guidelines as listed in <a href="#">HECM Protocol 7.B</a>.</p> <p><i>Note:</i> HUD requires the client to receive the handouts prior to the counseling session, except in an emergency. If the session was performed as emergency counseling, the counselor must provide the materials at the session or immediately after the session is completed.</p>
Issue the Counseling Certificate		<p>Fax Counseling Certificate</p> <ul style="list-style-type: none"> <li>• to the client, and</li> <li>• directly to the lender with the client’s verbal or written consent.</li> </ul> <p><i>Reference:</i> For guidelines for issuing the Counseling Certificate and lender communications, see <a href="#">HECM Protocol 7.A.1</a>.</p>
Discuss Next Steps		<ul style="list-style-type: none"> <li>• Discuss next steps</li> <li>• provide referrals - provide clients with information about approved HECM lenders, as listed on HUD’s website at <a href="http://www.hud.gov/ll/code/llslcrit.cfm">http://www.hud.gov/ll/code/llslcrit.cfm</a>, and</li> <li>• provide resources - provide clients with additional information or resources that may help clients decide whether to pursue a reverse mortgage or other alternatives.</li> </ul> <p>(<i>Note:</i> A list of these resources is in <a href="#">HECM Protocol 7.C</a>.)</p>

*Continued on next page*

## 1. HECM Counselor Checklist, Continued

**PROTCL 3.1.c** The counselor must complete the client file at the end of the session.  
**Completing the Client File** *Reference:* For more information, see [HECM Protocol 6.1](#).

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Complete Client File		Complete client file with all required items as listed in <a href="#">HECM Protocol 7.A.3</a> .
		Ensure paper and electronic files are <ul style="list-style-type: none"> <li>• stored securely, and</li> <li>• only accessible to authorized individuals</li> </ul>

**PROTCL 3.1.d** A qualified housing counselor must conduct client follow-up.  
**Client Follow Up** *Note:* Hiring a third-party agency to conduct follow-up services is prohibited.  
*Reference:* For more information on required client follow up, see [HECM Protocol 6.2](#).

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Client Follow Up		Verbal follow up - 60 days after the counseling session (in person or telephone) <ul style="list-style-type: none"> <li>• Review information discussed during the counseling session and the materials provided to the client, and</li> <li>• emphasize that client may call at any time with questions or concerns.</li> </ul>
		Follow up letter or an e-mail (if unsuccessful at verbal follow up) <p>Request that client contact the housing counseling agency no later than 30 days from the date sent, to help the agency assess if</p> <ul style="list-style-type: none"> <li>• additional client services are necessary to assist the client in achieving his/her housing goals, or</li> <li>• the agency should terminate counseling services.</li> </ul>

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# 1. HECM Counselor Checklist, Continued

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## PROTCL 3.1.d Client Follow Up (continued)

Topic for Discussion/ Required Action	Please Check	Required Information/ Description of Required Action
Client Follow Up (cont.)		<p>Follow-up to Emergency Counseling, if applicable</p> <p>When counselor performs emergency counseling and the client receives the information packet during or after the counseling session, wait 24 to 48 hours to contact the client so that the client has time to review the materials and consider his/her options. Emphasize that the client may call at any time with additional questions or concerns.</p>
		<p>Close-out or Outcome letter</p> <p><i>Reference:</i> For more information, see <a href="#">HECM Protocol 6.2</a>.</p>

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## Chapter 4. Client Intake

### Overview

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#### Contents

This chapter contains the topic “*Client Intake Requirements.*”

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# 1. Client Intake Requirements

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**Introduction** This topic contains information on the requirements for the client intake stage of the housing counseling process, including

- tasks performed during client intake
  - who may perform client intake
  - providing the client with a counseling process overview
  - gathering specific client information and objectives
  - disclosing counseling fee information
  - determining if the client needs special assistance
  - encouraging family/advocate participation, and
  - providing required HUD handouts to the client.
- 

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**PROTCL 4.1.a** The first stage in the housing counseling process is the initial client screening and intake of client information. During this stage, the counselor must

**Tasks**

**Performed**

**During Client**

**Intake**

- provide the client with an overview of the process and the counselor's role
- gather specific information on the client and his/her objectives
- disclose counseling fee information
- inquire/determine if any special client assistance is needed
- encourage participation by family members or professionals, and
- provide the client with the required HUD handouts.

Each of these required tasks are discussed in more detail in this topic.

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**PROTCL 4.1.b**

**Who May**

**Perform Client**

**Intake**

Intake may be completed by the counselor or a trained assistant.

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*Continued on next page*

## 1. Client Intake Requirements, Continued

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### PROTCL 4.1.c Providing the Client with a Counseling Process Overview

The counselor must

- inform the client of the
  - counselor’s role, and
  - topics to be covered in reverse mortgage counseling, and
- advise the client that he/she has the choice of having a
  - face-to-face counseling session
  - telephone session, or
  - session conducted via some other type of mutually-agreed upon format.

*Note:* This choice should be documented in the client’s case file.

*Reference:* For information on other types of mutually-agreed upon formats for counseling, see [HECM Protocol 1.3.d](#).

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### PROTCL 4.1.d Gathering Specific Client Information and Objectives

During client intake, the counselor must

- gather specific information from the client, including
    - his/her name, address, and date of birth
    - the estimated home value, location, and type
    - any existing debt on the home, and
    - any delinquent Federal debt, and
  - discuss client objectives in order to determine the client’s
    - main reason(s) for investigating reverse mortgages, and
    - personal and financial goals.
- 

### PROTCL 4.1.e Disclosing Counseling Fee Information

During the course of performing Client Intake, the counselor must

- disclose the fee structure for the counseling session (this may also be done at the beginning of the counseling session), and
- determine if paying the HECM fees will cause the client financial hardship.

*Reference:* For more information on counseling fees, see

- [HECM Protocol 1.4](#)
  - [HECM Protocol 7.A.2](#), and
  - [HUD 7610.1 1.5](#).
- 

*Continued on next page*

## 1. Client Intake Requirements, Continued

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**PROTCL 4.1.f**  
**Determining If**  
**the Client**  
**Needs Special**  
**Assistance**

The counselor must discuss with the client during Client Intake whether or not the client has

- a hearing or language problem, and
  - a Power of Attorney (POA) to handle financial affairs.
- 

**PROTCL 4.1.g**  
**Encouraging**  
**Family/**  
**Advocate**  
**Participation**

The counselor should encourage participation by family, friends, and/or professional advisors who could assist the client.

**Reference:** For more information, see [HECM Protocol 7.A.4](#).

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*Continued on next page*

## 1. Client Intake Requirements, Continued

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- PROTCL 4.1.h** At Intake, the counselor must  
**Providing**  
**Required HUD**  
**Handouts to the**  
**Client**
- provide clients with the required HUD handouts listed in the table below, and
  - stress the benefits of having the client receive and review the materials thoroughly before the counseling session.

*Notes:*

- The counselor may send these documents to the client by
  - regular mail
  - priority mail
  - fax, or
  - email.
- Loan printouts must be relevant to the client’s situation to facilitate the counseling session.

<b>Handout</b>	<b>Reference</b>
Preparing for Your Counseling Session	See <a href="#">HECM Protocol 7.C.12</a>
Printout of loan comparisons	See <a href="#">HECM Protocol 7.B.11</a>
Printout of TALC calculation	See <a href="#">HECM Protocol 7.B.6</a>
Loan amortization schedule	---
National Council on Aging (NCOA) Booklet, <i>Use Your Home to Stay at Home - A Guide for Homeowners Who Need Help Now</i>	See <a href="http://www.ncoa.org/news-ncoa-publications/publications/ncoa_reverse_mortgage_booklet_073109.pdf">http://www.ncoa.org/news-ncoa-publications/publications/ncoa_reverse_mortgage_booklet_073109.pdf</a> .

*Notes:*

- Except in situations where emergency counseling is necessary, clients may not proceed with the counseling session until they have
  - received the required informational packet (from either the counselor or a reverse mortgage lender), and
  - had sufficient time to review it.
- If the client received emergency counseling, the counselor must send out the materials immediately after completing the session.
- If the lender provides the information packet to the client, the lender must provide the counselor with copies of the same loan comparison print-outs that were provided to the client. The counseling session cannot be held until the counselor has a copy of the loan comparison print-outs provided by the lender.

*References:* For

- additional suggestions for handouts, see [HECM Protocol 7.B.2](#), and
  - more information on emergency counseling, see [HECM Protocol 1.3.c](#).
-

## Section A. HECM Counseling Session Requirements

### Overview

---

**Contents**

This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. General Information on Requirements for the HECM Counseling Session	5-A-2
2. Use of Reverse Mortgage Counseling Tools: Product Printouts and Software	5-A-6

---

# 1. General Information on Requirements for the HECM Counseling Session

---

**Introduction** This topic contains general information on the requirements for the HECM counseling session, including

- general knowledge/skill requirements for counselors conducting housing counseling sessions
  - conducting counseling sessions with a person who holds a POA or is a guardian/conservator
  - asking questions to review the client's level of understanding before issuing the Counseling Certificate, and
  - providing alternatives when the counseling certificate is withheld.
- 

**Change Date** March 18, 2011

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**PROTCL  
5.A.1.a  
General  
Knowledge/  
Skill  
Requirements  
for Counselors  
Conducting  
Housing  
Counseling  
Sessions** In addition to understanding reverse mortgage products and keeping up-to-date with the market, counselors must be able to work with a diverse group of potential borrowers with varying levels of education and financial literacy.

Each counseling session *must* consist of a discussion of reverse mortgage features that is tailored to the client's specific abilities, needs and financial goals.

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*Continued on next page*

# 1. General Information on Requirements for the HECM Counseling Session, Continued

**PROTCL 5.A.1.b Conducting Counseling Sessions With a Person Who Holds a POA or Is a Guardian/Conservator**

The table below discusses HUD’s policies regarding conducting a counseling session with a person who

- holds a durable power of attorney, or
- is a guardian/conservator.

Type of Individual	Counseling Session Policy
Person holding a durable power of attorney (POA)	<p>The counseling session may be conducted with a person holding a durable POA for the client. A person holding a durable POA specifically designed to survive incapacity may execute necessary loan documents, including <a href="#">HUD Form 92902, Certificate of HECM Counseling</a>.</p> <p>To be valid, the legal documents establishing the durable POA must be prepared when the homeowner is competent to understand the nature of the arrangement.</p> <p><i>Note:</i> If the counselor suspects that the POA is fraudulent or that the agent is abusing the use of the POA, the counselor must refer the client to the HUD Homeownership Center (HOC) in that region.</p>
Guardian/Conservator	<p>If a court has judged the homeowner to be legally incompetent (that is, incapable of decision-making)</p> <ul style="list-style-type: none"> <li>• the loan documents may be executed by a court-appointed guardian/conservator, and</li> <li>• the reverse mortgage counseling may be conducted with the guardian/conservator present.</li> </ul>

*Continued on next page*

## 1. General Information on Requirements for the HECM Counseling Session, Continued

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**PROTCL  
5.A.1.c  
Asking  
Questions to  
Review the  
Client's Level  
of  
Understanding  
Before Issuing  
the Counseling  
Certificate**

To review a client's understanding of reverse mortgages, counselors must ask ten questions interspersed throughout the session. The questions, selected from the list in [HECM Protocol 7.B.10](#), must be

- relevant to the client's situation, and
- asked in the spirit of a review throughout the counseling session, rather than an exam at the end of the session, in order to avoid intimidating or insulting the client.

If the client cannot answer five of the ten questions correctly in the first session, the counselor must

- withhold the certificate, and
- note in the client's file
  - that the certificate was withheld, and
  - the reason why it was withheld.

**Note:** The counselor may discontinue the session without issuing the certificate if it is apparent early in the counseling session that the client is not able to understand the material.

**Reference:** For information on the appropriate course of action in this case, see [HECM Protocol 7.B.10](#).

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*Continued on next page*

## 1. General Information on Requirements for the HECM Counseling Session, Continued

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**PROTCL  
5.A.1.d  
Providing  
Alternatives  
When the  
Counseling  
Certificate Is  
Withheld**

When the certificate is withheld in the first counseling session, the counselor must provide one or more of the alternatives below to the client:

- offer to call the client back at another time (for example, the next day at a different time of day)
- ask if there is someone else the client could bring with him/her that he/she trusts, or who could join in a phone counseling session, or
- suggest that the client meet face-to-face with another counselor and assist the client with finding another HECM roster counselor

If, after all options are exhausted, the client is still not able to answer five out of ten questions correctly, the counselor must offer the client additional time to further understand reverse mortgages. A counselor cannot issue a certificate if the client has not answered five out of ten questions correctly.

---

## 2. Use of Reverse Mortgage Counseling Tools: Product Printouts and Software

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**Introduction** This topic contains information on the use of reverse mortgage counseling product printouts and software, including

- providing clients with required documents and the use of client scenarios/loan comparisons
  - use of product printouts/software during the counseling session
  - requirements for acceptable loan comparison software, and
  - a caution to the counselor on steering toward a specific product.
- 

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*Continued on next page*

## 2. Use of Reverse Mortgage Counseling Tools: Product Printouts and Software, Continued

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**PROTCL  
5.A.2.a  
Providing  
Clients With  
Required  
Documents and  
Use of Client  
Scenarios/Loan  
Comparisons**

Prior to conducting the counseling session (except in an emergency), the counselor, the counseling agency, or lender must provide the client with

- a loan summary
- an amortization schedule, and
- comparisons of the different reverse mortgage loans available to the client.

Counselors must use loan comparison software that generates a set of loan options to help clients understand

- what a reverse mortgage requires
- the timing of payments in a reverse mortgage, and
- the purposes and benefits of the loan.

**Note:** If the client is

- seeking *general information only*, then the counselor should use loan examples, or
- interested in a *particular loan or loan feature*, the counselor should use this information in addition to providing examples of loans with different features for comparison.

**Reference:** For more information on loan comparison software, see [HECM Protocol 7.B.11](#).

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*Continued on next page*

## 2. Use of Reverse Mortgage Counseling Tools: Product Printouts and Software, Continued

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**PROTCL  
5.A.2.b  
Use of Product  
Printouts/  
Software  
During the  
Counseling  
Session**

During the course of the counseling session, counselors

- may discuss loan printouts and amortization schedules given to the clients by lenders (*Note:* If the lender provides the information packet to the client, the lender must provide the counselor with copies of the same loan comparison print-outs that were provided to the client. The counseling session cannot be held until the counselor has a copy of the loan comparison print-outs provided by the lender.)
- may also generate and discuss amortization schedules and loan comparisons they develop using
  - an available reverse mortgage calculator (*Reference:* See [HECM Protocol 7.B.11](#), or
  - other available software
- must explain to clients that the printouts are generalized because actual costs and pricing of the loan fluctuates and is dependent on the loan product, and
- should provide a balanced view by providing customized loan printouts to clients on
  - HECM products that are widely available from many HECM lenders
  - proprietary products that are broadly offered by reverse mortgage lenders, and
  - specific proprietary or HECM products that have been offered to that client by a reverse mortgage lender.

Additionally, counselors must

- answer questions about the loan printouts and product features
- be sensitive when helping their clients analyze and compare the financial implications of the loan choices they are considering, and
- help clients understand which features are most appropriate, given the clients' unique financial circumstances.

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*Continued on next page*

## 2. Use of Reverse Mortgage Counseling Tools: Product Printouts and Software, Continued

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**PROTCL  
5.A.2.c  
Requirements  
for Acceptable  
Loan  
Comparison  
Software**

Acceptable software must provide

- future remaining credit line projections based on credit line draws specified by the client (if the client selects a credit line)
- a comparison of estimated loan details at closing
- projected loan comparisons at various points in the future, including projected figures for
  - total cash received
  - cash remaining, and
  - total cost expressed in terms of total dollars and a total annual average rate
- amortization projections for selected products with year-by-year details (the loans negatively amortize: as the loan balance increases, equity decreases), and
- the required investment for HECM purchase loans.

Available software can be found by going to [www.hecmresources.org](http://www.hecmresources.org).

*Note:* Only counselors on the HECM Counselor roster may use this software.

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**PROTCL  
5.A.2.d  
Caution to the  
Counselor on  
Steering  
Toward a  
Specific  
Product**

Counselors must be cautious not to steer clients toward or away from any particular proprietary or HECM product.

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## Section B. Client Needs and Circumstances

### Overview

**Contents** This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Understanding a Client's Specific Needs and Circumstances	5-B-2
2. Effect of a Borrower's Age on Eligibility and Access to Equity	5-B-3
3. Effect of Property Value on Available Equity	5-B-5
4. Borrower Income and Investment Requirements	5-B-6
5. Effect of Length of Time Remaining in Home on HECM Costs and Obligations	5-B-8
6. Restriction on Number of HECM Mortgages and Requirement to Pay Off Existing Liens	5-B-9
7. Recurring and Future Expenses and the Availability of Public Benefits to the Client	5-B-10
8. Reverse Mortgage and the Borrower's Heirs and Estate	5-B-12
9. Discussing HECMs for Purchase	5-B-13
10. Discussing Purchasing an Annuity with a HECM	5-B-16

## 1. Understanding a Client's Specific Needs and Circumstances

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**Change Date**      March 18, 2011

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**PROTCL**  
**5.B.1.a**  
**Diverse Needs**  
**and**  
**Circumstances**  
**of Clients**

Clients receiving reverse mortgage counseling have diverse needs and circumstances, which counselors must consider when conducting the counseling session.

Counselors should

- be able to discuss all of the topics in this section, with reference to the clients' specific circumstances, and
- use software printouts to walk their clients through their preferred loan examples, as well as other relevant examples.

---

## 2. Effect of a Borrower's Age on Eligibility and Access to Equity

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**Introduction** This topic contains information on the effect of a borrower's age on

- eligibility, and
  - access to equity.
- 

**Change Date** March 18, 2011

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**PROTCL**  
**5.B.2.a**  
**Effect of**  
**Borrower's Age**  
**on Eligibility**

HECMs loans require that

- the borrower be age 62 or older, and
- all borrowers on the loan must also be on the title and must be age 62 or older.

If a client considers removing a younger spouse from the title in order to be eligible, the counselor should

- caution the client about possible consequences for the non-borrower spouse, and
- advise the client that the younger spouse may be added to a new HECM loan when he/she has reached the age of 62 via a HECM refinance but this is not guaranteed as it will depend on the situation at that time (see *Notes* below).

***Example of consequence to non-borrower spouse:*** In the event of the borrower's death or change of residence, the loan will be due and payable, regardless if the non-borrowing spouse inherits the house.

***Notes:***

- HECM refinancing is not guaranteed, and will depend on the eligibility of the clients and the equity in their property, as well as the availability of HECM loans.
  - Other reverse mortgage products may have different age requirements.
- 

*Continued on next page*

## 2. Effect of a Borrower's Age on Eligibility and Access to Equity, Continued

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**PROTCL**  
**5.B.2.b**  
**Effect of**  
**Borrower's Age**  
**on Access to**  
**Equity**

FHA includes life expectancy in the formula to determine reverse mortgage proceeds. Older borrowers are usually eligible for higher initial limits on principal.

If there is more than one borrower on the loan, FHA requires the lender to use the age of the youngest borrower for the HECM loan calculations.

*Note:* Other reverse mortgage products may use different calculations to determine proceeds based on the age of the borrower or multiple borrowers.

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### 3. Effect of Property Value on Available Equity

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**Change Date**      March 18, 2011

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**PROTCL**  
**5.B.3.a**  
**How Property**  
**Values Effects**  
**Available**  
**Equity**

The value of the client's property determines how much equity may be available through a reverse mortgage. Clients living in homes with high property values may be able to obtain higher proceeds through proprietary reverse mortgage products than through HECMs, since HECM loans are subject to a national FHA loan limit.

Older houses may have lower appraised values, and some houses may require certain repairs in order to qualify for a reverse mortgage.

When counseling a client, the counselor must

- tell the client about other proprietary reverse mortgage products and provide a comparison of costs and benefits
  - explain that other reverse mortgages are not insured by the Federal government, and
  - ensure that the client understands the benefits of FHA mortgage insurance.
-

## 4. Borrower Income and Investment Requirements

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**Introduction**

This topic contains information on

- income requirements for a reverse mortgage, and
  - investment requirements on a HECM for purchase.
- 

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**PROTCL  
5.B.4.a  
Income  
Requirements  
for a Reverse  
Mortgage**

There are no income requirements or restrictions for reverse mortgages. A client must have adequate income to meet the borrower's responsibilities including real estate taxes, property insurance and home maintenance. If a client's current income does not meet his/her needs, a reverse mortgage may be a useful financial alternative, allowing the client to

- remain in the home, and
- maintain a comfortable way of life.

When contemplating a reverse mortgage, clients must

- consider their current incomes to determine if reverse mortgage proceeds are appropriate to achieve their financial goals, and
- also consider
  - how their incomes may change in the future, and
  - whether or not there are alternative ways to supplement their incomes.

**Note:** Reverse mortgage proceeds are not income, and therefore are not taxed.

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*Continued on next page*

## 4. Borrower Income and Investment Requirements, Continued

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**PROTCL**  
**5.B.4.b**  
**Investment**  
**Requirements**  
**for a HECM**  
**for Purchase**

Clients interested in a HECM to purchase a new property must receive counseling about the monetary investment required at closing.

At closing, HECM borrowers must provide a monetary investment, which is

- the difference between the HECM principal limit and the sales price of the property, *plus*
- any HECM loan-related fees that are not financed, *minus*
- the amount of the earnest deposit and/or down payment.

*Note:* Borrowers may provide a larger investment amount in order to retain a portion of HECM proceeds for future payments or withdrawals.

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## 5. Effect of Length of Time Remaining in Home on HECM Costs and Obligations

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**PROTCL**  
**5.B.5.a**  
**Length of Time**  
**Remaining in**  
**the Home and**  
**the Effect on**  
**Costs and**  
**Obligations**

The costs of a reverse mortgage are front-loaded. Unlike a forward mortgage, in which costs are folded into the monthly mortgage payments and paid over time, the costs of a reverse mortgage are paid (and usually financed) at the time of origination. As a result, the total origination cost of the loan, relative to the loan amount, decreases over time.

The counselor and client must discuss how long the client expects to remain in the home because a client who plans to

- move in the near future may find the costs of the reverse mortgage burdensome compared to the costs of directly selling his/her home, or other alternatives, to meet financial needs, and
- stay in his/her home for a longer period is more likely to realize a long-term benefit from the HECM loan.

*Note:* Clients also must consider what the implications of a reverse mortgage are on their obligations and debts. For example, will they be able to pay taxes and insurance and still maintain the home? Will they be able to pay for in-home care if that becomes necessary?

---

## 6. Restriction on Number of HECM Mortgages and Requirement to Pay Off Existing Liens

---

**Introduction** This topic contains information on

- using a HECM to purchase a less expensive or smaller property when the client has an existing HECM, and
- paying off an existing mortgage and all other liens.

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**PROTCL 5.B.6.a**  
**Using a HECM to Purchase a Less Expensive or Smaller Property When the Client Has an Existing HECM**

If the client currently has a HECM on his/her property, that lien must be satisfied prior to FHA's endorsement of the new HECM for purchase.

A borrower may *not* have two HECM mortgages at the same time.

When considering a HECM to purchase a new property, counselors must advise clients to obtain a home inspection, particularly if the home the client intends to purchase is available because of a foreclosure or a short sale. These properties may require extensive and costly repairs.

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**PROTCL 5.B.6.b**  
**Paying Off an Existing Mortgage and All Other Liens**

The proceeds of a HECM must be at least sufficient to pay off all existing liens on the home.

If the HECM is large enough, it may be a good option for the client who wants to pay off a forward mortgage, and depending on available equity, receive additional monthly income.

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## 7. Recurring and Future Expenses and the Availability of Public Benefits to the Client

---

<b>Introduction</b>	<p>This topic contains information on</p> <ul style="list-style-type: none"> <li>• the responsibility of the counselor to assist the client in considering recurring and future expenses</li> <li>• types of recurring and future expenses, and</li> <li>• the availability of public benefits to the client.</li> </ul> <hr/>
<b>Change Date</b>	<p>March 18, 2011</p> <hr/>
<b>PROTCL 5.B.7.a Responsibility of the Counselor to Assist the Client in Considering Recurring and Future Expenses</b>	<p>The counselor must help the client consider</p> <ul style="list-style-type: none"> <li>• his/her recurring and future expenses, and</li> <li>• how the client's current income meets existing and future needs.</li> </ul> <p><i>Note:</i> The client may use the proceeds from a reverse mortgage for these expenses.</p> <hr/>
<b>PROTCL 5.B.7.b Types of Recurring and Future Expenses</b>	<p>Recurring expenses include</p> <ul style="list-style-type: none"> <li>• property taxes</li> <li>• hazard insurance</li> <li>• homeowners association fees, and</li> <li>• home maintenance.</li> </ul> <p>Future expenses may, among other things, include</p> <ul style="list-style-type: none"> <li>• home repairs</li> <li>• ramps</li> <li>• grab-bars</li> <li>• in-home health care or assistance, and</li> <li>• other medical expenses.</li> </ul> <hr/>

*Continued on next page*

## 7. Recurring and Future Expenses and the Availability of Public Benefits to the Client, Continued

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**PROTCL**  
**5.B.7.c**  
**Availability of**  
**Public Benefits**  
**to the Client**

When counseling a client, the counselor must

- determine whether the client receives public benefits (for example, SSI, Medicare or Medicaid) and if not, inform the client about his/her potential eligibility for such benefits
- offer to complete the NCOA's [www.benefitscheckup.org](http://www.benefitscheckup.org) to check client eligibility for frequently utilized public benefit programs, and
- if the client has an income below 200% of the Federal Poverty Level, or is disabled, the counselor must
  - run BenefitsCheckUp to inform the client of programs for which he/she might be eligible, and
  - provide the client with appropriate forms or referrals.

A reverse mortgage may be a substantial supplement to public benefits for seniors, however, counselors must make clients aware that reverse mortgages may affect their eligibility for some public benefits if they allow their loan proceeds to accumulate.

**Reference:** For more information on public benefits, financial alternatives and supplements for seniors, see [HECM Protocol 7.B.9](#).

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## 8. Reverse Mortgage and the Borrower's Heirs and Estate

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**Change Date**      March 18, 2011

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**PROTCL  
5.B.8.a  
Addressing  
Client  
Concerns  
About Leaving  
an Estate to  
Heirs**

Some clients may be concerned about leaving an estate to their heirs. Reverse mortgage borrowers who remain in the home for many years may use a large part of their home equity, reducing the amount they can leave to their heirs.

However, reverse mortgage borrowers do not have to use all of the equity made available through the reverse mortgage. The different payment options enable borrowers to preserve varying amounts of equity.

Counselors must advise clients that fluctuations in the value of their properties over time may increase or decrease equity. Further, the age of the youngest borrower is a factor in calculating the allowable principal amount of a HECM loan.

**References:** For more information on

- payment plan options, see [HECM Protocol 5.D.3](#), and
  - principal limits on HECMs, see [HECM Protocol 5.D.2](#).
-

## 9. Discussing HECMs for Purchase

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<b>Introduction</b>	<p>This topic contains information regarding discussions with clients about HECMs for purchase, including</p> <ul style="list-style-type: none"><li>• required counseling topics for clients interested in a HECM for purchase</li><li>• additional required information for clients interested in a HECM for purchase</li><li>• counselor cautions to the client interested in a HECM for purchase, and</li><li>• counselor reporting of suspected fraud to HUD.</li></ul>
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<b>Change Date</b>	March 18, 2011
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<b>PROTCL 5.B.9.a Required Counseling Topics for Clients Interested in a HECM for Purchase</b>	<p>When counseling a client who is interested in a HECM for purchase, the counselor must discuss the</p> <ul style="list-style-type: none"><li>• role of the real estate professional</li><li>• importance of legally binding sales contracts</li><li>• importance of home inspections in the buying process</li><li>• fact that the ability to write an offer is contingent on a satisfactory home inspection</li><li>• policy on including repair expenses in the purchase agreement</li><li>• role of the appraisal in the buying process</li><li>• expenses associated with properties needing significant repairs</li><li>• limited right to cancel the transaction at any time prior to closing, and</li><li>• <a href="#">HUD-1, Settlement Statement</a>.</li></ul>
--	---

**Reference:** Counselors conducting sessions with clients who are interested in purchasing a residence with a HECM should refer to the information provided in Mortgagee Letter 2009-11, which can be accessed on HUD's website at <http://www.hud.gov/hudclips/>.

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*Continued on next page*

## 9. Discussing HECMs for Purchase, Continued

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**PROTCL  
5.B.9.b  
Additional  
Required  
Information for  
Clients  
Interested in a  
HECM for  
Purchase**

In addition to the required topics discussed in [HECM Protocol 5.B.9.a](#), counselors must also advise clients that

- real estate professionals are required to provide clients with the FHA *Amendatory Clause and Real Estate Certification*, which can be found in [HECM Protocol 7.C.13](#)
  - there is no three-day right of rescission for HECM mortgages used for purchases, unless required by state law
  - if the Appraisal Report states that the property value is “subject to”, or conditioned on the repair of various deficiencies, then
    - these repairs must be completed before closing, and
    - if the borrower pays for the repairs, payment must come from the borrower’s personal assets, and
  - borrowers may not borrow funds to close; all funds to close must come from the borrower’s personal assets and must be available at closing.
- 

**PROTCL  
5.B.9.c  
Counselor  
Cautions to the  
Client  
Interested in a  
HECM for  
Purchase**

Counselors must caution clients regarding the following:

- clients are not required to use a HECM to purchase any property
  - foreclosed and short-sale properties may require substantial repairs to be habitable, and these repairs must be performed prior to closing on the reverse mortgage (*Note:* If the borrower is paying for the repairs, then payment must come from the borrower’s personal assets, not HECM funds.), and
  - clients must not be rushed into purchasing properties.
- 

*Continued on next page*

## 9. Discussing HECMs for Purchase, Continued

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**PROTCL  
5.B.9.d  
Counselor  
Reporting of  
Suspected  
Fraud to HUD**

Counselors must report suspected fraud to the

- local HUD Homeownership Center (HOC), or
- Office of Inspector General.

*References:* For more information on

- counselor responsibilities for preventing and detecting fraud, see [HUD 7610.1 4.C.3.a](#), and
  - reporting questionable practices, see [HECM Protocol 7.B.13](#).
-

## 10. Discussing Purchasing an Annuity With a HECM

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**PROTCL  
5.B.10.a  
Counselor  
Responsibilities  
When  
Counseling a  
Client  
Interested in  
Purchasing an  
Annuity With a  
HECM**

The counselor must ask the client if he/she is considering using the loan proceeds to purchase an annuity. If so, the counselor must

- inform the client that there are ways to obtain an annuity other than through a reverse mortgage
- discuss the costs and implications of purchasing an annuity with the proceeds from a reverse mortgage
- explain that in some cases, fixed monthly annuity advances that continue for life may be smaller than the fixed monthly loan advances from a reverse mortgage that continue for as long as the client lives in his/her home, and
- provide the client with a copy of *Using a Reverse Mortgage to Buy an Annuity*, which can be found in [HECM Protocol 7.C.9](#) if the client still expresses an interest in purchasing an annuity with the loan proceeds.

**Note:** Counselors must also

- remind their clients that only reverse mortgage borrowers themselves can determine how to use the loan proceeds, and
  - encourage clients to resist pressure from insurance agents, financial advisors or other individuals concerning the use of loan proceeds to purchase an annuity or to invest in a risky venture.
-

## Section C. Reverse Mortgage Borrower and Property Eligibility

### Overview

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#### Contents

This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Reverse Mortgage Borrower Eligibility	5-C-2
2. Reverse Mortgage Property Eligibility	5-C-5
3. Consideration of Modifications and Required Repairs	5-C-8
4. Eligibility of Properties Held in Trust	5-C-10

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## 1. Reverse Mortgage Borrower Eligibility

---

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**PROTCL 5.C.1.a**  
**Borrower Eligibility for a HECM**

The table below describes the borrower eligibility requirements for a HECM.

*Note:* Eligibility requirements for other reverse mortgage products vary from those for a HECM.

<b>Borrower Eligibility Requirement</b>	<b>Description</b>
Borrower Age	<p>All borrowers must be 62 or older. If both husband and wife are on the title to the property, they must both be at least 62 years old in order to qualify for a HECM.</p> <p>A younger spouse may take his/her name off the title of the property in order to allow the eligible spouse to participate. Then, when the younger spouse turns 62, he/she may be added to the loan if the borrower chooses and is able to refinance.</p> <p>However, there is a significant risk associated with removing the non-borrowing spouse from the title in order to pursue a reverse mortgage. If the borrowing spouse should die, the HECM will become due and payable and the non-borrowing, non-titled spouse may be forced to sell the home to pay off the loan.</p>
Borrower Counseling	Borrowers must receive reverse mortgage counseling (and a Counseling Certificate certifying completion of the counseling) from a HUD-approved housing counseling agency before applying for a HECM loan with a lender.
Principal Residency Status	<p>The borrower must maintain his/her principal residence in the property securing the HECM loan. He/she may not leave the property for more than 12 months.</p> <p><i>Note:</i> A borrower may have only one principal residence.</p>

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*Continued on next page*

# 1. Reverse Mortgage Borrower Eligibility, Continued

## PROTCL 5.C.1.a Borrower Eligibility for a HECM (continued)

<b>Borrower Eligibility Requirement</b>	<b>Description</b>
Borrowers with an existing mortgage	<p>A borrower who has an existing mortgage on his/her home must either</p> <ul style="list-style-type: none"> <li>• pay it off before getting a HECM, or</li> <li>• use an immediate cash advance from the HECM to pay it off.</li> </ul> <p><b><i>Borrower Ineligibility</i></b>                      A borrower who does not pay off the mortgage before obtaining a HECM, or who does not qualify for a sufficiently large cash advance to pay off the existing mortgage, is ineligible for a HECM.</p>
Borrowers with an existing lien	<p>If the closing proceeds from the HECM loan are not sufficient to pay off existing liens on the property, the borrower may not incur additional financial obligations, such as a credit card cash advance or an additional lien against the property from a home equity loan, to pay off the existing liens.</p> <p>FHA regulations require that borrowers have no delinquent Federal financial obligations or liens on their property in order to qualify for a HECM loan.</p>

*Continued on next page*

## 1. Reverse Mortgage Borrower Eligibility, Continued

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### PROTCL 5.C.1.a Borrower Eligibility for a HECM (continued)

Borrower Eligibility Requirement	Description
HECM for Purchase	<p>To be eligible for a HECM for purchase, the borrower must be able to make the required monetary investment at closing. This investment is the difference between the</p> <ul style="list-style-type: none"> <li>• principal limit of the HECM loan, and</li> <li>• the sales price of the property, plus any HECM loan related fees that are not financed in the loan minus the amount of the earnest deposit or downpayment.</li> </ul> <p>A borrower</p> <ul style="list-style-type: none"> <li>• <i>may</i> use cash on hand or funds from the sale of his/her existing property or from the sale of personal assets such as retirement accounts and stocks to satisfy the monetary investment requirement, but</li> <li>• <i>may not</i> use “gap financing” or other interim financing, such as credit card cash advances, seller financing or any other financial obligation that cannot be satisfied at closing.</li> </ul> <p><b>Note:</b> Sellers may <i>not</i> provide any concessions, except to reduce the sales price.</p>

**Note:** Counselors must advise the client that lenders will

- verify the client’s sources of funds, and
  - conduct a credit check during the application process.
-

## 2. Reverse Mortgage (HECM) Property Eligibility

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**Introduction** This topic contains information on property eligibility for a HECM loan, including

- the requirement for counselors to stay up-to-date on program changes affecting property eligibility
  - types of properties eligible for a HECM loan
  - property eligibility for a HECM for purchase
  - types of properties ineligible for a HECM loan, and
  - ineligibility of “flipped” properties for a HECM loan.
- 

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**PROTCL  
5.C.2.a  
Requirement  
for Counselors  
to Stay Up-to-  
Date on  
Program  
Changes  
Affecting  
Property  
Eligibility** Counselors must be aware of HUD program changes concerning the eligibility of different property types, as these requirements may change over time.

*Note:* Clients must confirm the eligibility of their properties with their lenders.

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*Continued on next page*

## 2. Reverse Mortgage (HECM) Property Eligibility, Continued

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**PROTCL  
5.C.2.b  
Types of  
Properties  
Eligible for a  
HECM Loan**

For HECM loans, eligible property types include

- single-family homes (one to four-unit properties)
- manufactured homes (built after June 1976)
- condominiums
- properties in planned unit developments (PUDs)
- townhouses, and
- properties held in a living trust.

Newly constructed properties are eligible *only* if local authorities have issued a Certificate of Occupancy or its equivalent.

*Note:* The borrower must occupy the property securing a HECM loan within 60 days.

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**PROTCL  
5.C.2.c  
Property  
Eligibility for a  
HECM for  
Purchase**

Properties eligible for HECM for purchase must be one to four-unit properties held in fee simple, or on renewable leasehold lasting at least 99 years, or not less than 50 years beyond the date of the 100th birthday of the youngest borrower.

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**PROTCL  
5.C.2.d  
Types of  
Properties  
Ineligible for a  
HECM Loan**

Ineligible properties include

- cooperative units
  - boarding houses
  - bed and breakfast establishments
  - manufactured homes built before June 15, 1976, and
  - manufactured homes lacking HUD certification labels or a permanent foundation.
- 

*Continued on next page*

## 2. Reverse Mortgage (HECM) Property Eligibility, Continued

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**PROTCL  
5.C.2.e  
Ineligibility of  
“Flipped”  
Properties for a  
HECM Loan**

“Flipped” properties are ineligible for purchase with a HECM. Properties are ineligible if they are being

- sold by anyone other than the owner of record
- re-sold 90 or fewer days from the previous sale, or
- re-sold between 91 and 180 days from the previous sale and
  - the new sales price exceeds 100% of the previous sales price, and
  - there is no additional documentation to validate the property’s value.

*Note:* HUD may issue exceptions to these restrictions to accommodate home sales in economically distressed areas. Potential borrowers must confirm with their lenders whether specific properties are exempt from HUD’s eligibility restrictions.

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### 3. Consideration of Modifications and Required Repairs

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**Introduction**

This topic contains information on

- borrower consideration of possible necessary modifications, and
  - the completion of required repairs affecting home habitability and safety.
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**PROTCL  
5.C.3.a  
Borrower  
Consideration  
of Possible  
Necessary  
Modifications**

Borrowers must consider

- what modifications may be necessary to ensure the home's habitability as they age, for example
    - ramps
    - stability bars in bathtubs, or
    - wider doorways for wheelchair access, and
  - whether the proceeds of the reverse mortgage will cover the costs of these health-related modifications.
- 

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### 3. Consideration of Modifications and Required Repairs, Continued

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**PROTCL  
5.C.3.b  
Completion of  
Required  
Repairs  
Affecting Home  
Habitability  
and Safety**

Certain repairs, which affect the home's habitability and safety, may be required for a property to be eligible for a HECM loan. The HECM may be closed before the required repairs are completed if the estimated cost of the repairs does not exceed 15 percent of the maximum claim amount.

Funds equal to 150% of the cost of the repairs, plus the administration fee

- *may* be set aside from the loan, and
- *may not* be drawn until the repairs are complete.

If the costs exceed the funds that have been set aside, the borrower must pay for the repairs directly, or with any funds available in a HECM line of credit. Repairs must be completed within the time stated on the loan documents at closing (usually 6 months). Otherwise, the lender must discontinue all payments on the loan until the repairs are complete.

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## 4. Eligibility of Properties Held in Trust

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**PROTCL**  
**5.C.4.a**  
**Properties Held**  
**in Trust**  
**Eligibility**

If a property is being held in a living trust for the benefit of the borrower or the future benefit of other individuals (such as the borrower's heirs), the property may be eligible for a reverse mortgage if it meets all other eligibility criteria.

The HECM application process for these types of properties is the same as for properties that are not held in trust.

FHA does *not* require a trust to be irrevocable for the property to be eligible for a HECM. However, a lender *may* require the trust to be irrevocable as a condition for approving a reverse mortgage.

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## Section D. Reverse Mortgage Loan Features and Costs

### Overview

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**Contents**

This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Types of Reverse Mortgage Products	5-D-2
2. Reverse Mortgage Loan Limits and Principal Limits	5-D-4
3. Reverse Mortgage Payment Plan Options	5-D-6
4. Reverse Mortgage Note Rates/Interest Rates	5-D-10
5. Retention of Title and Repayment of Debt	5-D-15
6. Reverse Mortgage Non-Recourse Feature	5-D-17
7. Mortgage Insurance/Insurance Premiums	5-D-19
8. Reverse Mortgage Loan Costs	5-D-22

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# 1. Types of Reverse Mortgage Products

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**Introduction** This topic contains information

- how a reverse mortgage differs from a forward mortgage, and
  - types of reverse mortgages.
- 

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**PROTCL 5.D.1.a How a Reverse Mortgage Differs from a Forward Mortgage**

In a forward mortgage, the borrower makes monthly payments to the lender, gradually building up his/her equity in the property.

In a reverse mortgage, the lender makes monthly payments to the borrower, gradually purchasing the equity in the home from the borrower. The borrower continues to hold title to the property, which is security for the loan.

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**PROTCL 5.D.1.b Types of Reverse Mortgages**

The table below describes the three types of reverse mortgages.

Type of Reverse Mortgage	Description
Single purpose reverse mortgage	<p>State and local government agencies usually offer this type of loan, in which the borrower may use the proceeds in only one specific way.</p> <p>This type of reverse is often restricted to homeowners with low or moderate income.</p> <p><b>Example:</b> The borrower may use the proceeds for home repairs or payment of taxes.</p>
Proprietary reverse mortgage	<p>Private lenders offer this type of reverse mortgage, which is not insured by the Federal government. Borrowers may use the loan proceeds for a variety of purposes.</p> <p>Proprietary reverse mortgages may be more suitable for upper-income borrowers with high-value homes.</p>

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*Continued on next page*

## 1. Types of Reverse Mortgage Products, Continued

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### PROTCL 5.D.1.b Types of Reverse Mortgages (continued)

<b>Type of Reverse Mortgage</b>	<b>Description</b>
Reverse mortgage insured by the Federal Housing Administration (FHA)	<p>The Home Equity Conversion Mortgage (HECM) is a reverse mortgage insured by the Federal government through FHA. FHA insures participating lenders against losses on HECM loans, and designs and administers the guidelines governing lender and borrower eligibility and use of HECM loans.</p> <p>Borrowers may use a HECM for any of the following purposes:</p> <ul style="list-style-type: none"> <li>• paying off any existing forward mortgage</li> <li>• accessing the home equity of a current residence (after satisfying any outstanding mortgage debt on the property)</li> <li>• refinancing an existing HECM, or</li> <li>• purchasing a new residence and obtaining a reverse mortgage in a single transaction.</li> </ul>

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## 2. Reverse Mortgage Loan Limits and Principal Limits

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**Introduction** This topic contains information on

- HECM loan limits
  - the principal limit on a HECM, and
  - leftover equity reserve on a HECM.
- 

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**PROTCL**  
**5.D.2.a**  
**HECM Loan**  
**Limits**

HECM loan limits are set by law. The maximum claim amount is used to determine the principal limit, defined as the lesser of the

- FHA national loan limit, or
- home's appraised value.

***HECM for Purchase Loan Limit***

The loan limit on a HECM for purchase is the least of the FHA loan limit, the appraised value, or the sales price.

**Note:** Proprietary reverse mortgages may have higher loan limits than HECMs, or no limits at all. Clients may want to consider proprietary products if they have a home with a high property value. Counselors must inform clients that proprietary products may have higher costs or substantially lower loan-to-value ratios than HECMs.

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*Continued on next page*

## 2. Reverse Mortgage Loan Limits and Principal Limits,

Continued

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**PROTCL**  
**5.D.2.b**  
**Principal Limit**  
**on a HECM**

The principal limit is the amount of money that a borrower may access through a reverse mortgage. For HECM loans, the principal limit available to the homeowner is determined by multiplying

- the maximum FHA insurance claim amount (which is the lesser of the appraised value of the property or the FHA loan limit) *by*
- a factor based on the age of the youngest borrower and the expected interest rate, which may be no lower than 5.5 percent.

The principal limit is calculated at closing and increases each month by one-twelfth of the sum of the note rate and the annual mortgage insurance premium rate.

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**PROTCL**  
**5.D.2.c**  
**Leftover Equity**  
**Reserve on a**  
**HECM**

When a borrower takes out a reverse mortgage, there is a portion of the equity in the home that is reserved to reduce the lender's and FHA's risk. The amount reserved is determined by the ratio of the loan's principal limit to the home value.

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### 3. Reverse Mortgage Payment Plan Options

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**Introduction** This topic contains information on reverse mortgage payment plan options, including

- types of reverse mortgage payment plan options
  - a description of the reverse mortgage payment plans
  - HECM borrower changes to payment plans
  - changes to payment plans on proprietary reverse mortgages, and
  - lender establishment of the monthly payment amount for term and tenure plans.
- 

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**PROTCL 5.D.3.a Types of Payment Plan Options** The lender disburses HECM loan proceeds to the borrower through the payment plan of the borrower's choice. The borrower may choose one of the following payment plan types:

- term
- tenure
- line of credit, or
- a combination of line of credit with term or tenure (“modified term” or “modified tenure,” respectively).

**Reference:** For a description of each of these types of plans, see [HECM Protocol 5.D.3.b](#).

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*Continued on next page*

### 3. Reverse Mortgage Payment Plan Options, Continued

**PROTCL 5.D.3.b**  
**Description:**  
**Reverse Mortgage Payment Plans**

The table below describes each of the types of reverse mortgage payment plans.

<b>Payment Plan Type</b>	<b>Description</b>
Line of Credit	<p>With a line of credit</p> <ul style="list-style-type: none"> <li>• the borrower may choose to receive the entire principal limit from the line of credit at closing in one up-front draw or lump sum, e.g., to pay off an existing mortgage (<i>Note:</i> This draw schedule is not a payment plan in itself but is simply an option with a line of credit.)</li> <li>• the borrower may choose to access the money at any time over a period of time until the line of credit is exhausted, and</li> <li>• the line of credit is exhausted when the loan balance equals the principal limit.</li> </ul> <p>As with any HECM payment plan, a borrower with a line of credit who uses up the entire principal limit may stay in the home as long as he/she continues to pay homeowners insurance and real estate taxes, and makes any necessary home repairs.</p> <p><b><i>Line of Credit Growth</i></b>                      The unused portion of the line of credit grows at the “credit line growth rate,” which is equal to the compounding rate. This is the same rate at which the principal limit and the loan balance grow, which is the current interest rate plus 0.5 percent. Therefore, the amount of funds available to the borrower from a line of credit grows larger each month for as long as any funds remain.</p> <p>Counselors must <i>not</i> tell clients that HECM credit lines “earn interest,” because credit line growth is simply increased access to borrowing power, comparable to an increase in a credit limit on a credit card. Counselors should advise clients that proprietary reverse mortgages may have a lower credit line growth rate, or no credit line growth at all, which will affect the amount of cash available to the borrower over the life of the loan.</p>

*Continued on next page*

### 3. Reverse Mortgage Payment Plan Options, Continued

**PROTCL 5.D.3.b Description: Reverse Mortgage Payment Plans** (continued)

Payment Plan Type	Description
	<p><b>Caution:</b> If the client has indicated that his/her lender is trying to cross-sell an annuity or other investment, the counselor must provide the client with the OIG Hotline number to report the violation.</p>
Tenure	<p>Under the tenure option, the borrower receives equal monthly payments as long as the borrower maintains his/her primary residence in the home.</p> <p>Even if the loan balance exceeds the principal limit of the loan, the borrower will continue to receive payments.</p> <p><b>Length of Term for Tenure Payments</b> The length of the term for tenure payments is calculated by subtracting the age of the youngest borrower from 100 years, although the borrower will continue to receive payments if he/she lives past 100 years of age.</p>
Term	<p>Under the term option, the borrower chooses a fixed period of time during which he/she receives equal monthly payments. At the end of the term, the borrower may remain in the home as long as he/she fulfills the obligations under the terms of the mortgage by</p> <ul style="list-style-type: none"> <li>• paying property taxes, hazard insurance, and other property charges, and</li> <li>• maintaining the home.</li> </ul>
Combination Payment Plans	<p>The borrower may combine a line of credit option with term or tenure payment options. A combination plan known as a</p> <ul style="list-style-type: none"> <li>• <i>modified tenure plan</i> combines a line of credit with monthly payments as long as the borrower remains in the home, and</li> <li>• <i>modified term plan</i> combines a line of credit with monthly payments for a fixed period determined by the borrower.</li> </ul>

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### 3. Reverse Mortgage Payment Plan Options, Continued

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**PROTCL 5.D.3.c**  
**HECM Borrower Changes to Payment Plans**

A HECM borrower may request to change his/her payment plan at any time during the life of the loan. The lender may charge a fee, not to exceed \$20.00, for changing the payment plan.

- A borrower 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 (the difference between the current principal limit and the outstanding loan balance) in one payment.
- 

**PROTCL 5.D.3.d**  
**Changes to Payment Plans on Proprietary Reverse Mortgages**

Proprietary reverse mortgages may not offer different payment options.

If the proprietary product offers different payment plans, the lender may

- prohibit the borrower from changing the payment plan, or
  - require the borrower to pay a fee to change plans.
- 

**PROTCL 5.D.3.e**  
**Lender Establishment of the Monthly Payment Amount for Term and Tenure Plans**

The lender establishes monthly payments to the borrower (term or tenure) by using the

- net principal limit
- length of the term in months (for the tenure option, 100 years minus the age of the current borrower), and
- expected rate.

For either of these plans, the borrower may choose to receive less than the maximum monthly payment allowed under the plan, in which case the remaining funds are placed into a line of credit.

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## 4. Reverse Mortgage Note Rates/Interest Rates

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<b>Introduction</b>	<p>This topic contains information on</p> <ul style="list-style-type: none"> <li>• the counselor’s responsibility for explaining the reverse mortgage interest rate to the client</li> <li>• reverse mortgage note rate</li> <li>• interest rates for adjustable HECM loans</li> <li>• eligible index types for adjustable rate HECMs</li> <li>• a description of margin on an adjustable rate HECM</li> <li>• a description of the interest rate cap on an adjustable rate HECM</li> <li>• fixed interest rate HECMs, and</li> <li>• the expected rate on a HECM.</li> </ul>
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<b>Change Date</b>	March 18, 2011
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<b>PROTCL 5.D.4.a Counselor Responsibility for Explaining the Reverse Mortgage Interest Rate to the Client</b>	<p>Counselors must ensure that the client understands the interest rate being charged by the lender for the reverse mortgage.</p> <p>For either adjustable or fixed-rate loans, lower interest rates may be offset by higher origination costs, which the borrower may pay at closing or finance in the loan. If closing costs are financed, less cash will be available to the borrower. With HECMs, origination charges are rarely paid by increasing the interest rate because the higher rate results in a lower principal limit.</p>
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<b>PROTCL 5.D.4.b Reverse Mortgage Note Rate</b>	<p>The note rate for a reverse mortgage is equal to the current interest rate (current index plus margin). The lender uses the note rate to calculate the</p> <ul style="list-style-type: none"> <li>• loan balance</li> <li>• credit line growth, and</li> <li>• available loan funds at any given time.</li> </ul>
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## 4. Reverse Mortgage Note Rates/Interest Rates, Continued

**PROTCL  
5.D.4.c  
Interest Rates  
for Adjustable  
HECM Loans**

The interest rates for adjustable loans are comprised of an index rate plus a margin. Currently, HECM adjustable rate mortgages are based on either the

- Treasury Rates (adjusted to a constant maturity of one month or one year; also called the Constant Maturity Treasury [CMT] index), or
- London Inter-Bank Offered Rate (LIBOR).

Rates that adjust monthly tend to reflect economic conditions on a timelier basis. As economic conditions change, the adjustable rate may rise or fall, to its maximum cap or minimum floor. With an adjustable rate mortgage, the net principal limit will grow at the compounding rate, which will fluctuate monthly or annually, whichever the borrower chooses.

**PROTCL  
5.D.4.d  
Eligible Index  
Types for  
Adjustable  
Rate HECMs**

The table below displays the eligible index types for adjustable rate HECM loans.

<b>HECM ARMs</b>	<b>Periodic Adjustments- Note Rate</b>	<b>Expected Average Mortgage Interest Rate or Expected Rate (Determines Principal Limit)</b>
Monthly Adjustable	1-Month CMT	10-Year CMT
	1-Year CMT	10-Year CMT
	1-Month LIBOR	10-Year LIBOR swap
Annually Adjustable	1-Year CMT	10-Year CMT
	1-Year LIBOR	10-Year LIBOR swap

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## 4. Reverse Mortgage Note Rates/Interest Rates, Continued

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**PROTCL****5.D.4.e****Description:****Margin on an Adjustable Rate HECM**

The margin is an amount that the lender adds to the index to determine the note rate of the adjustable rate mortgage.

The note rate, which is a combination of the index and margin, affects how much a borrower pays on the loan balance, as well as the growth of the principal limit. The margin is also added to the expected rate, which affects the calculation of the initial principal limit. The higher the rate, the lower the principal limit.

*Note:* Margins may vary from lender to lender and from product to product.

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**PROTCL****5.D.4.f****Description:****Interest Rate Cap on an Adjustable Rate HECM**

The interest rate cap is the maximum amount that the lender may add to the initial interest rate on an adjustable rate loan.

Annual adjustable rate HECM loans have a

- 2% annual cap, and
- 5% lifetime cap.

*Note:* Proprietary reverse mortgages often have interest rate caps, but these will vary from product to product.

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*Continued on next page*

## 4. Reverse Mortgage Note Rates/Interest Rates, Continued

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**PROTCL**  
**5.D.4.g**  
**Fixed Interest**  
**Rate HECMs**

Some lenders offer HECMs with a fixed interest rate. With a fixed-rate reverse mortgage, the principal limit and the loan balance will grow at the interest rate determined at closing.

When discussing a fixed-rate reverse mortgage, the counselor must make the client aware that

- some lenders may set the interest rate at a level that makes the line of credit with a full, up-front draw at closing the only feasible option
- drawing the entire loan balance at closing exposes the borrower to many risks, including the lack of future availability of loan proceeds from credit line growth
- once the full amount is drawn, the borrower will pay interest on that large loan balance for the life of the loan
- drawing the entire loan balance may create a significant and unnecessary expense if the borrower does not need all the funds at closing, and
- over time, a fixed-rate loan which avoids the risk associated with an adjustable interest rate may be less advantageous to the borrower than an adjustable-rate loan which may maximize the amount over the life of the loan.

In most cases, the interest rate on a fixed rate will be initially higher than an adjustable rate, because a fixed rate brings greater risk to the lender. Because the interest rate on an adjustable rate loan may increase over time; for line of credit borrowers who do not plan to draw all of their funds at (or soon after) closing, an adjustable-rate loan may actually provide more available borrowing power.

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*Continued on next page*

## 4. Reverse Mortgage Note Rates/Interest Rates, Continued

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**PROTCL 5.D.4.h** The lender calculates the expected rate at origination and uses it to determine the principal limit and the servicing fee set-aside.

**Expected Rate on a HECM**

The table below describes the expected rate for

- fixed rate HECMs, and
- adjustable rate HECMs.

HECM Loan Type	Expected Rate
Fixed	The expected rate is <ul style="list-style-type: none"> <li>• equal to the fixed rate, and</li> <li>• the same as the note rate.</li> </ul>
Adjustable	The expected rate is the sum of <ul style="list-style-type: none"> <li>• the lender's margin, and</li> <li>• the loan's index adjusted to a constant maturity of ten years (10-year CMT or 10-year LIBOR swap rates).</li> </ul>

*Note:* The higher the expected rate, the lower the principal limit will be. When determining the principal limit, if the expected rate is less than 5.5 percent, then the lender will use 5.5 percent.

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## 5. Retention of Title and Repayment of Debt

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**Introduction** This topic contains information on

- retention of title on a reverse mortgage, and
- the repayment of debt on a reverse mortgage.

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**Change Date** March 18, 2011

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**PROTCL** Throughout the term of a reverse mortgage, the  
**5.D.5.a**  
**Retention of**  
**Title on a**  
**Reverse**  
**Mortgage**

- borrower retains ownership of the home, and
- title remains with the borrower or the borrower's estate until the home is sold.

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## 5. Retention of Title and Repayment of Debt, Continued

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**PROTCL**  
**5.D.5.b**  
**Repayment of**  
**Debt on a**  
**Reverse**  
**Mortgage**

A HECM loan becomes due and payable if the

- last surviving borrower passes away
- property is no longer the primary residence of the borrower
- last surviving borrower does not occupy the home for more than 12 consecutive months for health reasons
- borrower resides at another property for more than 6 months out of a year, or
- borrower fails to perform an obligation under the mortgage, such as paying taxes and hazard insurance or other property charges.

If the borrower sells the home, the outstanding loan balance is due. If the proceeds from the sale of the home are not sufficient to pay the loan balance, the lender will

- accept the proceeds from the sale of the home as payment in full, and
- file a claim with FHA to cover the difference.

If the borrower chooses to prepay the loan by liquidating assets while retaining ownership of the home, he/she must pay back the total outstanding loan balance.

### ***Open-End versus Closed-End Credit Loans***

Credit loans which are

- “open-end” allow for the repayment of some or the entire principal, which the borrower may re-borrow at some future date, and
- “closed-end” do *not* allow the borrower to re-borrow principal that is paid on the loan.

**Note:** Usually, fixed-rate HECMs are closed-end credit loans.

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## 6. Reverse Mortgage Non-Recourse Feature

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**Introduction** This topic contains information on the reverse mortgage non-recourse feature, including

- a description of the non-recourse feature on a reverse mortgage, and
  - the required timeframe for heirs or an estate to pay off a loan and extensions to the timeframe.
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**PROTCL  
5.D.6.a  
Description:  
Non-Recourse  
Feature on a  
Reverse  
Mortgage**

“Non-recourse” means that if a lender takes legal action against the borrower for default on the loan, the lender can look only to the property to satisfy the loan, as opposed to holding the borrower personally liable for the debt. The lender can foreclose and recover as much as it can through proceeds of the foreclosure sale.

*Note:* This repayment standard also applies to the borrower’s heirs or estate when the property is sold to repay the outstanding loan. The lender cannot hold the heirs or estate personally liable for the balance. However, if the heirs or the estate wish to keep the property, they are personally liable for the full balance of the loan.

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*Continued on next page*

## 6. Reverse Mortgage Non-Recourse Feature, Continued

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**PROTCL****5.D.6.b****Required****Timeframe for Heirs or an Estate to pay Off a Loan and Extensions to the Timeframe**

The lender is limited to providing 6 months to the heirs or the estate to pay off the loan.

The lender may request HUD approval for up to two 90-day extensions if the heirs or estate can demonstrate that they are actively marketing the property. Extension requests must

- be made before the initial 6 month, or previously extended timeframe has expired, and
- must promptly confirm the intention of the heirs or the estate to either
  - sell the property to a third party, or
  - keep the home and pay the balance of the loan in full.

Where no information has been provided, the lender will have no other option but to initiate foreclosure.

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## 7. Mortgage Insurance/Insurance Premiums

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**Introduction** This topic contains information on

- mortgage insurance and principal limits on non-insured reverse mortgage products
- crossover risk for HECMs and non-insured reverse mortgage products
- mortgage insurance premiums on
  - standard HECMs, and
  - HECM Saver loans.

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**Change Date** March 18, 2011

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**PROTCL 5.D.7.a Mortgage Insurance and Principal Limits on Non-Insured Reverse Mortgage Products**

Today, reverse mortgages that are not Federally insured

- do *not* have a mortgage insurance premium, and
- generally include other fees and pricing programs to protect lenders from risk.

On non-insured products that do not have mortgage insurance to protect them from losses associated with the loan balance growing larger than the property value, lenders take a conservative approach and set the principal limit much lower than a HECM, as discussed in [HECM Protocol 5.D.7.b](#).

For this reason, typically the FHA-insured product gives the borrower access to more equity than non-insured reverse mortgage products. Counselors should make potential borrowers aware of the costs and available loan amounts on proprietary products that compensate for the absence of a mortgage insurance premium.

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## 7. Mortgage Insurance/Insurance Premiums, Continued

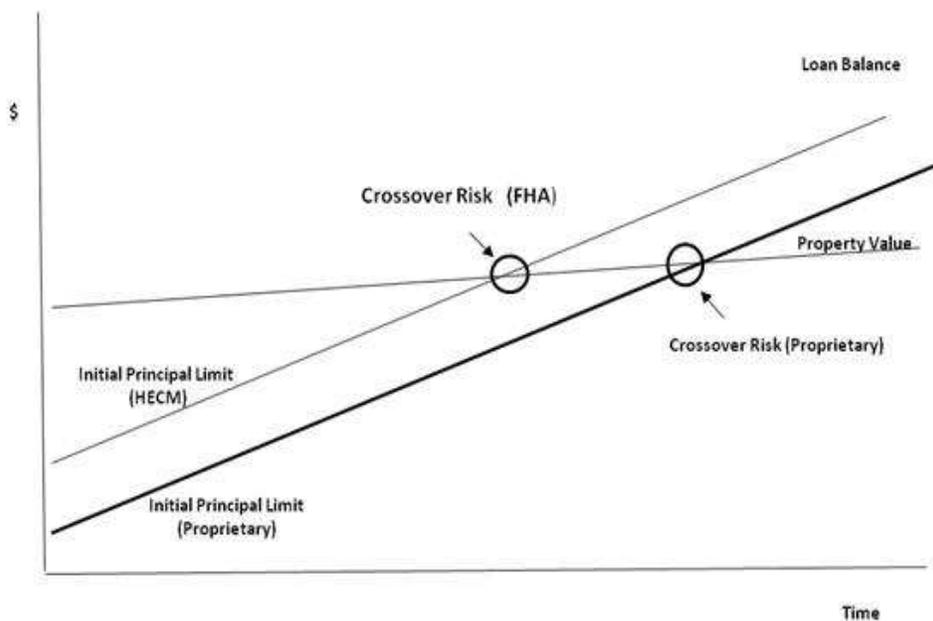
**PROTCL  
5.D.7.b  
Crossover Risk  
for HECMs  
and Non-  
Insured  
Reverse  
Mortgage  
Products**

“Crossover” occurs when the loan balance exceeds the property value. FHA charges an insurance premium as protection against crossover risk.

With proprietary products for which the crossover exposure is greater than with a HECM, lenders protect themselves by setting the initial principal limit lower than they would on a HECM.

HECM loans

- generally offer
  - higher ratios of principal limit to equity in the home, and
  - lower costs as a result of the mortgage insurance program, and
- provide lenders and borrowers with the security of full backing by the Federal government.



*Continued on next page*

## 7. Mortgage Insurance/Insurance Premiums, Continued

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**PROTCL  
5.D.7.c  
Mortgage  
Insurance  
Premiums on  
HECMs**

For the insurance provided by FHA on a HECM, the borrower must pay both

- an up-front insurance premium, which is 2 percent of the maximum claim amount, and
- an annual premium, charged monthly at an annual rate of 1.25 percent of the outstanding loan balance.

These premiums are

- calculated at closing
- charged to the borrower throughout the life of the loan, and
- *not* refundable.

***HECM Borrowers Who Refinance into Another HECM***

A HECM borrower who refinances into another HECM is eligible for a reduction in his/her up-front mortgage insurance premium. The premium paid on the new HECM is calculated by multiplying the difference between the old maximum claim and the new maximum claim amounts by 2 percent.

**Note:** A HECM for purchase is not a refinance, and as such, there is no initial reduction in premium even if the borrower previously held a HECM mortgage.

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**PROTCL  
5.D.7.d  
Mortgage  
Insurance  
Premiums on  
HECM Saver  
Loans**

FHA designed HECM Saver as a second initial MIP option to lower upfront loan closing costs for borrowers who want to borrow a smaller amount than would be available with a standard HECM.

For HECM Saver, the initial MIP is

- 0.01 percent of the maximum claim amount, and
- collected at time of loan closing.

**Note:** A HECM Saver is available on the same loan and transaction types as a standard HECM.

---

## 8. Reverse Mortgage Loan Costs

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**Introduction** This topic contains information on

- servicing fees and servicing fee set-aside
  - third-party closing costs
  - application fee and origination fee
  - financing closing costs
  - payment plan change fees, and
  - Total Annual Loan Cost (TALC).
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**Change Date** March 18, 2011

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*Continued on next page*

## 8. Reverse Mortgage Loan Costs, Continued

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**PROTCL**  
**5.D.8.a**  
**Servicing Fees**  
**and Servicing**  
**Fee Set-Aside**

Servicing fees are monthly fees paid to the lender for administering the loan, such as making monthly cash advances and processing payment plan changes. They are set aside from the principal limit at closing, but are only added to the loan balance as they are incurred on a monthly basis. For HECM loans that are

- annually adjusting and fixed rate, these fees may not exceed \$30 a month, and
- adjust monthly, the fee cap is \$35.

Lenders may charge less than the maximum set by FHA.

***Servicing Fee Set-Aside***

The servicing fee set-aside is the present amount of money that will be required to pay all of the monthly servicing fees until the borrower reaches age 100. This calculated amount

- ensures that sufficient loan proceeds are set aside so that the servicer may collect the monthly servicing fee, and
- is subtracted from the principal limit to arrive at the net principal limit that is available at closing.

**Note:** The amount reserved for these future payments

- is not part of the loan balance
- does not accrue interest, and
- is not a cost to the consumer until the fee is paid.

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*Continued on next page*

## 8. Reverse Mortgage Loan Costs, Continued

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**PROTCL**  
**5.D.8.b**  
**Third-Party**  
**Closing Costs**

Third party closing costs include the usual and customary expenses associated with obtaining a mortgage, including the

- appraisal
- credit report
- title searches, and
- title insurance.

The costs depend upon the third parties who perform these activities for the lender, not on the type of mortgage. Clients must obtain a list of estimated closing costs from their lenders prior to closing.

Counselors

- *must not* quote any specific closing costs, but may discuss usual or customary ranges, and
  - must inform the client that
    - none of the charges associated with these third-party origination activities may be paid before the counseling is completed, and
    - the client must not write a check or pay cash for the services until he/she completes counseling and has signed a reverse mortgage application with the lender.
- 

**PROTCL**  
**5.D.8.c**  
**Application Fee**  
**and Origination**  
**Fee**

Application and origination fees compensate the lender for processing, underwriting and preparing the loan documents.

Lender origination fees are 2 percent of the first \$200,000 of the maximum claim amount, plus 1 percent of the balance above \$200,000 to a maximum origination fee of \$6,000.

Some lenders may charge lower origination fees, but they may charge higher interest rates. This practice may be more costly to the consumer.

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*Continued on next page*

## 8. Reverse Mortgage Loan Costs, Continued

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**PROTCL  
5.D.8.d  
Financing  
Closing Costs**

A borrower may finance the mortgage insurance premium, origination fees, and third-party costs, using a draw at closing from the loan to cover these initial costs.

Borrowers may also pay closing costs with their own available funds.

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**PROTCL  
5.D.8.e  
Payment Plan  
Change Fees**

The fee that a lender may charge a borrower for changing a payment plan type is discussed in [HECM Protocol 5.D.3.b](#).

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**PROTCL  
5.D.8.f  
Total Annual  
Loan Cost  
(TALC)**

Similar to an Annual Percentage Rate on a forward mortgage, the Total Annual Loan Cost (TALC) is the interest rate that shows the true cost of a HECM by including all costs of the loan.

It is a projection based on

- how long the borrower will have the loan
- how the borrower draws the loan proceeds, and
- an assumed property appreciation rate.

The TALC decreases the longer the borrower has the HECM, as the costs associated with the loan are averaged out over a longer period of time.

**Reference:** For sample TALC calculations, see [HECM Protocol 7.B.6](#).

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## Section E. Reverse Mortgage Issues/Obligations After Closing

### Overview

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#### Contents

This section contains the topic “*Reverse Mortgage Disbursement of Funds and Other Obligations/Implications After Closing.*”

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## 1. Reverse Mortgage Disbursement of Funds and Other Obligations/Implications After Closing

---

<b>Introduction</b>	<p>This topic contains information on reverse mortgage</p> <ul style="list-style-type: none"> <li>• disbursement of funds</li> <li>• borrower right of rescission</li> <li>• borrower obligations, and</li> <li>• income tax implications.</li> </ul>
<hr/>	
<b>Change Date</b>	March 18, 2011
<hr/>	
<b>PROTCL 5.E.1.a Reverse Mortgage Disbursement of Funds</b>	<p>After closing, the lender disburses</p> <ul style="list-style-type: none"> <li>• term and tenure payments on the first business day of each month, and</li> <li>• line-of-credit payments within five business days of receiving a written request for funds from the borrower.</li> </ul> <p>Lenders are subject to a late charge of 10 percent of the disbursement amount (up to \$500) if they do not meet the payment timeframes.</p> <p><i>Note:</i> There is no minimum amount that the borrower must withdraw from a line of credit.</p>
<hr/>	
<b>PROTCL 5.E.1.b Borrower Right of Rescission on a Reverse Mortgage</b>	<p>After closing, the borrower has three days to cancel the loan. If a borrower decides not to take the reverse mortgage, he/she must notify the lender immediately of this decision.</p> <p><i>Note:</i> There is no right of rescission with a HECM for purchase unless state law provides for it.</p>

*Continued on next page*

## 1. Reverse Mortgage Disbursement of Funds and Other Obligations/Implications After Closing, Continued

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**PROTCL  
5.E.1.c  
Reverse  
Mortgage  
Borrower  
Obligations**

After closing on a reverse mortgage, the borrower must

- pay property taxes and hazard insurance, and
- maintain the condition of the property as it was when the lender approved the reverse mortgage.

If the borrower fails to maintain the property,

- the lender may notify the borrower of the deficient condition, indicating the necessary repairs, and
- if the borrower does not begin repairs within 60 days, the lender may declare the loan due and payable.

*Note:* At the borrower's request, the lender may withhold funds to pay property tax and hazard insurance costs on the borrower's behalf.

---

**PROTCL  
5.E.1.d  
Reverse  
Mortgage  
Income Tax  
Implications**

HUD cannot provide tax advice to program participants, however, housing counseling agencies licensed to provide income tax advice may do so or may refer the borrower to a tax expert.

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## Section F. Financial Alternatives and Supplements to a Reverse Mortgage

### Overview

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#### Contents

This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Other Living/Ownership Arrangements	5-F-2
2. Other Financial Alternatives to a Reverse Mortgage	5-F-5
3. Community Services and Programs	5-F-7
4. Eligibility for Public Benefits and Services	5-F-8

---

## 1. Other Living/Ownership Arrangements

---

**Introduction** This topic contains information on other living/ownership arrangements that might be alternatives to a reverse mortgage, including

- questions to ask a client about his/her home/living arrangements to determine if a reverse mortgage is appropriate, and
  - discussing alternative living arrangements with a client.
- 

**Change Date** March 18, 2011

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**PROTCL**  
**5.F.1.a**  
**Questions to Ask a Client About His/Her Home/Living Arrangements to Determine If a Reverse Mortgage Is Appropriate**

Listed below are five questions that counselors must ask their clients, to assess how well a reverse mortgage meets the clients' needs. These questions are separate from the client's review of understanding.

- Is downsizing a better option? Examining other housing options can help your clients weigh the costs and benefits of staying in their homes versus moving.
- How long do you plan to stay in your home? A reverse mortgage may not make sense, for example, for someone planning to move two years in the future.
- What are your financial needs and how would a reverse mortgage help you?
- How much could you get from a reverse mortgage? Will a reverse mortgage be enough to cover your financial needs?
- When do you need the loan? A client may be eligible for more money under a reverse mortgage as he/she gets older and the value of his/her home increases.

**Reference:** For further details and resources regarding these options, see [HECM Protocol 7.B.9](#).

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*Continued on next page*

## 1. Other Living/Ownership Arrangements, Continued

**PROTCL**  
**5.F.1.b**  
**Discussing**  
**Alternative**  
**Living**  
**Arrangements**  
**With a Client**

For many clients, selling their homes and moving into a less expensive residence or one that better suits their physical needs may be the most appropriate option.

Clients must consider the costs of the real estate transaction, which usually include real estate broker fees and moving expenses, and may include other costs as well. The process of investigating other living arrangements helps clients determine whether to purchase a different home or remain where they are, and ultimately, evaluate the advantages of a reverse mortgage.

Counselors must discuss the alternative living/ownership arrangements listed in the table below.

<b>Living/Ownership Arrangement</b>	<b>Description/Points for Discussion</b>
Retirement communities	Retirement communities offer a number of services such as meals, housekeeping services, transportation and activities. Residents may retain their independence while eliminating most of the burdensome responsibilities of homeownership.
Home-sharing arrangements	Clients may be able to find another senior to share a home, either through informal networking or, in some communities, through an agency that screens and matches potential home-sharers.
Selling	<p>Clients may consider selling their homes because the</p> <ul style="list-style-type: none"> <li>• home is too large and the client wants to downsize</li> <li>• upkeep of the home is too burdensome or costly</li> <li>• house needs repairs or upgrades that the client cannot afford, and</li> <li>• client believes he/she will save money by selling and renting.</li> </ul>

*Continued on next page*

## 1. Other Living/Ownership Arrangements, Continued

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### PROTCL 5.F.1.b Discussing Alternative Living Arrangements With a Client (continued)

Living/Ownership Arrangement	Description/Points for Discussion
Renting: Subsidized or affordable senior apartments	<p>Subsidized housing is generally available to people 62 years or older who are below a certain income level. Both state and Federal programs offer this type of housing, which provides funding to cover the difference between how much the senior is able to pay and the actual rent.</p> <p>Seniors who qualify for subsidized housing are less subject to dramatic increases in rent over time as long as their income remains stable. The stabilization of housing costs is often attractive to seniors living in homes with low value or homes subject to large debt.</p> <p><i>Note:</i> Seniors must be aware that the proceeds from selling their home or any other large increase in income may affect their ability to qualify for subsidized housing.</p>
Renting: Non-subsidized rentals	<p>There are many communities that offer non-subsidized housing for seniors 55 years or older. When living in non-subsidized rental housing, residents have more flexibility with the amount of assets they maintain, as their assets do not affect their eligibility to live in the community.</p> <p>However, rents may increase over time, possibly on an annual basis. Seniors must plan for potential increases when considering long-term non-subsidized rental housing.</p>

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## 2. Other Financial Alternatives to a Reverse Mortgage

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**Introduction** This topic contains information on other financial alternatives to a reverse mortgage including

- home equity loans
  - Individual Retirement Accounts (IRAs), and
  - the refinance of existing forward mortgage.
- 

**Change Date** March 18, 2011

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**PROTCL 5.F.2.a Home Equity Loans as an Alternative to a Reverse Mortgage** A home equity loan uses the equity in the borrower's home as collateral. These loans are sometimes useful to help pay for unexpected home repairs and medical bills.

A home equity loan

- creates a junior lien against the borrower's home, and
- must be repaid in monthly payments of principal and interest, which become due as soon as the loan is closed.

***Borrower Qualifying***

Borrowers must have sufficient income and good credit to qualify for a home equity loan.

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*Continued on next page*

## 2. Other Financial Alternatives to a Reverse Mortgage,

Continued

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**PROTCL  
5.F.2.b  
Individual  
Retirement  
Accounts as an  
Alternative to a  
HECM**

Many clients may have Individual Retirement Accounts (IRA) that may serve as sources for extra income. There are several types of IRAs including

- traditional IRAs
- Roth IRAs
- SIMPLE IRAs, and
- SEP IRAs.

Combined with potential tax savings at the time of contribution, IRAs may be valuable tax management tools for individuals. Depending on income at the time of retirement, an individual may be able to fit into a lower tax bracket with tax-deductible contributions during his/her working years, while still enjoying a lower tax bracket during retirement.

Seniors who have invested in IRAs should contact their financial institutions to learn more about their ability to draw on these accounts.

---

**PROTCL  
5.F.2.c  
Refinance of  
Existing  
Forward  
Mortgage as an  
Alternative to a  
HECM**

If a client has an existing forward mortgage, he/she may be able to refinance the mortgage to obtain a loan with better terms, including a possible lower interest rate.

In some cases, the client may be able to pay off the existing mortgage and obtain funds by borrowing against the additional equity in the property.

***Borrower Qualifying***

Borrowers must have sufficient income and good credit to qualify for a refinancing mortgage.

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### 3. Community Services and Programs

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**Change Date**      March 18, 2011

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**PROTCL**                      The table below lists a wide variety of additional services and programs that  
**5.F.3.a**                      may be offered by local public agencies or nonprofit groups at the community  
**Services and**                      level.  
**Programs**  
**Offered at the**  
**Community**  
**Level**

<b>Type of Service/Organization</b>	<b>Description of Assistance</b>
Home repair and adaptation services	Subsidized funds for minor home repairs, to build wheelchair ramps, and to install safety features for older adults
In-home care, homemaker, and chore services	Public assistance available for those who need help with tasks like housekeeping, grocery shopping, or personal care
Adult day care	Group care programs may serve as an alternative to expensive one-on-one home care for adults who need constant supervision
Transportation	Assistance via public programs or volunteer groups
Volunteer coordination programs	Assistance with yard work, house painting, roof repairs, grocery shopping, transportation, social contact, and other needs
Corporate programs	Corporate eldercare programs may provide information and referrals for their employees, as well as more tangible support such as using a corporate van to deliver meals
Local hospitals	Wellness events or health fairs that provide free blood pressure checks and materials on nutrition and fitness
Churches	Support of "friendly visiting" of older people who are homebound by another member of the church
Civic groups	Charitable events to serve older adults

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## 4. Eligibility for Public Benefits and Services

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**Introduction** This topic contains information on client eligibility for public benefits and services, including

- a listing of public benefits available to clients
  - services provided through the Aging Network, and
  - the impact of a reverse mortgage on eligibility for public benefits.
- 

**Change Date** March 18, 2011

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**PROTCL 5.F.4.a Listing of Public Benefits Available to Clients** Many low- to moderate-income homeowners are not aware that they are eligible to receive benefits from major public programs, as outlined in the table below.

Type of Public Benefit Program	Description
Supplemental Security Income (SSI)	SSI provides monthly cash payments to qualifying low-income persons who are 65 and older.
Medicaid	Medicaid is a health insurance program for people with low incomes, paid for by a combination of Federal and state dollars.  <i>Note:</i> Medicaid eligibility guidelines vary from state to state.
Medicare Prescription Drug Program	Medicare Prescription Drug Program (Medicare Part D), which began in 2006, is an optional add-on to the regular Medicare health insurance program.  In most cases, seniors can save 50% or more on their drug costs (compared to full retail) by signing up for this program.
Local Tax Deferral or Exemption Programs	Many communities offer local tax deferral programs for seniors who cannot make the payments. These programs are usually designed to allow senior citizens to defer payment of part or all of the property taxes on their homes.

*Continued on next page*

## 4. Eligibility for Public Benefits and Services, Continued

(continued)

Type of Public Benefit Program	Description
The Aging Network	<p>The Aging Network is the system of public and private nonprofit agencies and organizations responsible for implementing the Older Americans Act (OAA). Enacted in 1965, the OAA sets forth objectives for improving and maintaining quality of life for older Americans.</p> <p><i>Note:</i> HECM counselors and agencies are encouraged to reach out to and work with the Aging Network in their local community, to provide clients with the appropriate level of service to meet their needs.</p> <p><i>Reference:</i> For more information on the Aging Network, see <a href="#">HECM Protocol 5.F.4.b</a>.</p>
State Units on Aging	<p>State Units on Aging (SUAs) are the designated state agencies serving the elderly. They coordinate related state activities and administer federal funds at the state level.</p> <p><i>Reference:</i> For more information, see <a href="http://www.nasua.org">www.nasua.org</a>.</p>
Area Agencies on Aging	<p>Area Agencies on Aging (AAAs) coordinate the delivery of a variety of services to meet the needs of the older population, including</p> <ul style="list-style-type: none"> <li>• information and referral</li> <li>• outreach</li> <li>• transportation</li> <li>• in-home care</li> <li>• legal and protective services</li> <li>• counseling</li> <li>• socialization</li> <li>• recreation, and</li> <li>• education.</li> </ul>

Continued on next page

## 4. Eligibility for Public Benefits and Services, Continued

**PROTCL 5.F.4.b Services Provided Through the Aging Network** Federal funds support the provision of services in local communities through the Aging Network. The three primary programs/types of services listed in the table below benefit the most from Federal funding.

Type of Program/Service	Description of Service/Assistance
Information and Referral (I&R)	<p>These programs exist to help older adults and their caregivers find specific information on programs that are available to the elderly.</p> <p>Many I &amp; R programs also publish a directory of resources or maintain a website with information about community resources for the elderly.</p>
Senior Centers	<p>Many senior centers offer a variety of</p> <ul style="list-style-type: none"> <li>• exercise programs</li> <li>• health screenings</li> <li>• socialization and recreation opportunities</li> <li>• counseling services</li> <li>• hot meals, and</li> <li>• other activities.</li> </ul>
Nutrition Services	<p>A significant portion of funds under the Older Americans Act is targeted to provide hot noontime meals in senior centers, churches, and other convenient locations.</p> <p><i>Note:</i> Home-delivered meals may also be available.</p>

*Continued on next page*

## 4. Eligibility for Public Benefits and Services, Continued

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**PROTCL**  
**5.F.4.c**  
**Impact of a**  
**Reverse**  
**Mortgage on**  
**Eligibility for**  
**Public Benefits**

A reverse mortgage does not affect a borrower's basic Social Security and/or Medicare benefits because eligibility for these programs is not based on income and assets.

A reverse mortgage *may*, however, affect eligibility for benefits from needs-based government assistance programs, such as

- Supplemental Security Income
- Medicaid, and
- food stamps.

Generally, these programs do not treat loan advances as income. However, if the borrower retains loan advances in a readily available form (that is, a bank account) past the end of the month in which he/she borrower received them, the proceeds count as a "liquid resource" and may disqualify the borrower from receiving need-based government benefits.

**Reference:** For the current limits for allowable liquid resources in the Supplemental Security program, go to [www.ssa.gov](http://www.ssa.gov). If the borrower's resources exceed these limits, that benefit will be terminated.

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## Chapter 6. Client File Update and Counseling Session Follow Up

### Overview

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**Contents** This chapter contains the following topics.

<b>Topic Name</b>	<b>See Page</b>
1. Requirements for Completing the Client File	6-2
2. Requirements for Follow Up After the Counseling Session	6-3

---

## 1. Requirements for Completing the Client File

---

**Introduction**

This topic contains information on

- when to complete the client file
  - the required contents for client files, and
  - client file maintenance and security requirements.
- 

**Change Date**

March 18, 2011

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**PROTCL 6.1.a  
When to  
Complete the  
Client File**

The counselor must complete the client file at the end of the counseling session.

*Note:* The use of electronic files is acceptable.

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**PROTCL 6.1.b  
Required  
Contents for  
Client Files**

Client files must contain all of the items listed in [HECM Protocol 7.A.3](#).

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**PROTCL 6.1.c  
Client File  
Maintenance  
and Security  
Requirements**

Counseling agencies must maintain a separate, confidential file for every client.

The counselor must ensure that paper and electronic files are

- stored securely, and
  - only accessible to authorized individuals.
-

## 2. Requirements for Follow Up After the Counseling Session

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**Introduction** This topic contains information on the requirements for follow up after the housing counseling session, including

- the requirement for agency counseling work plans to detail procedures for follow up with clients
  - who may perform counseling session follow up
  - requirement for verbal or written client follow up
  - follow up to emergency counseling, and
  - sending a close-out or outcome letter to the client.
- 

**Change Date** March 18, 2011

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**PROTCL 6.2.a Requirement for Agency Counseling Work Plans to Detail Procedures for Follow-Up With Clients** The housing counseling work plan must detail the agency's procedures for follow-up communication with the client to

- confirm that the client is progressing toward his/her housing goals
  - learn outcomes, and
  - determine if the agency should modify or terminate counseling for the client.
- 

**PROTCL 6.2.b Who May Perform Counseling Session Follow Up** A qualified housing counselor must conduct client follow-up.  
*Note:* Hiring a third-party agency to conduct follow-up services is *prohibited*.

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*Continued on next page*

## 2. Requirements for Follow Up After the Counseling Session, Continued

**PROTCL 6.2.c Requirement for Verbal or Written Client Follow Up** The counselor should make reasonable efforts to conduct a verbal follow-up within 60 days after the counseling session (in person or by telephone).  
The table below outlines the actions the counselor should take based upon whether or not he/she is able to reach the client by phone.

If the counselor ...	Then ...	And ...
is able to conduct a verbal follow up with the client by phone	the counselor should <ul style="list-style-type: none"> <li>• determine if the client is pursuing the loan, and</li> <li>• if so,               <ul style="list-style-type: none"> <li>– review the information discussed during the counseling session and the materials provided to the client</li> <li>– emphasize that the client may call the counselor at any time after this initial phone call with questions or concerns, and</li> <li>– ask the client to let the agency know if he/she obtains a HECM.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• wait the appropriate amount of time for the certificate to expire, and</li> <li>• send a close out letter as discussed in <a href="#">HECM Protocol 6.2.e</a>.</li> </ul>

*Continued on next page*

## 2. Requirements for Follow Up After the Counseling Session, Continued

### PROTCL 6.2.c Requirement for Verbal or Written Client Follow Up (continued)

If the counselor ...	Then ...	And ...
<p>is unable to conduct a verbal follow up with the client by phone, despite several attempts</p>	<p>the counselor must write a letter or send an e-mail to the client which</p> <ul style="list-style-type: none"> <li>• states that the counselor has attempted to follow up</li> <li>• informs the client that there is a need for follow-up communication, and</li> <li>• requests that the client contact the housing counseling agency no later than 30 days from the date sent, to help the agency assess if                             <ul style="list-style-type: none"> <li>– additional client services are necessary to assist the client in achieving his/her housing goals, or</li> <li>– the agency should terminate counseling services.</li> </ul> </li> </ul> <p><i>Note:</i> Issuing surveys to assess housing outcomes does not meet the requirement for client follow-up.</p>	<p>upon being contacted by the client</p> <ul style="list-style-type: none"> <li>• provide any additional information/services, if necessary</li> <li>• wait the appropriate amount of time for the certificate to expire/loan to close, and</li> <li>• send a close out letter as discussed in <a href="#">HECM Protocol 6.2.e</a>.</li> </ul> <p><i>Note:</i> If the client does not respond to the letter/email, the counselor</p> <ul style="list-style-type: none"> <li>• waits the appropriate amount of time for the certificate to expire/loan to close, and</li> <li>• sends a close out letter as discussed in <a href="#">HECM Protocol 6.2.e</a>.</li> </ul>

**Reference:** For

- a sample Follow-Up Letter, see [HECM Protocol 7.B.4](#), and
- more information on follow up requirements, see [HUD 7610.1 3.C.6](#).

*Continued on next page*

## 2. Requirements for Follow Up After the Counseling Session, Continued

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**PROTCL 6.2.d**  
**Follow Up to**  
**Emergency**  
**Counseling**

When the counselor performs emergency counseling and the client receives the information packet during or after the counseling session, counselors should

- wait 24 to 48 hours to contact the client so that the client has time to review the materials and consider his/her options, and
  - emphasize that the client may call the counselor at any time with additional questions or concerns.
- 

**PROTCL 6.2.e**  
**Sending a**  
**Close-Out/**  
**Outcome Letter**  
**to the Client**

After enough time has passed for the client to close on the reverse mortgage loan, the counselor must send the client a letter that

- reminds the client
  - of borrower obligations, and
  - to be cautious of insurance agents offering costly annuities to be purchased with the loan proceeds, and other individuals who may suggest uses for the loan proceeds that are not in the client's best interests
- encourages the client to call the counselor with any additional questions or concerns, and
- includes a survey for the client to report the outcome of the session.

*Notes:*

- Generally, the letter should go out three to six months after the counseling session.
  - An outcome letter is not necessary if the counselor has already called the client for follow-up and recorded the outcome (for example, the client has closed on the loan, the client has no additional questions or the client will not proceed with a reverse mortgage).
-

## Section A. Department of Housing and Urban Development (HUD) Counseling Policies

### Overview

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**Contents** This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Counseling Certificate	7-A-2
2. Payment of Counseling Services	7-A-3
3. Contents of the Client File	7-A-4
4. Participants in Reverse Mortgage Counseling Sessions	7-A-5
5. Client Privacy	7-A-6
6. Elder Abuse	7-A-7
7. Lender Steering	7-A-8
8. Lender Communications	7-A-9
9. Lender Activities	7-A-10

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## **Attachment A: HUD Counseling Policies**

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- A.1 Counseling Certificate
- A.2 Paying for Counseling
- A.3 Contents of the Client File
- A.4 Participants in Reverse Mortgage Counseling Sessions
- A.5 Client Privacy
- A.6 Elder Abuse
- A.7 Lender Steering
- A.8 Lender Communications
- A.9 Lender Activities

## A.1 Counseling Certificate

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### Overview of Requirements on Counseling Certificate

All borrowers must have a reverse mortgage counseling certificate in order to proceed with a HECM loan application.

Counselors issue the counseling certificate (HUD-92902) after the borrower successfully completes the counseling session. Counselors generate the certificate only in FHA Connection and not from any other source. The certificate does *not* represent an opinion or decision by the counseling agency about the suitability of a reverse mortgage for the client. Rather, it is a certification that the client has:

- Received HUD's required handouts;
- Received counseling;
- Discussed his or her needs and circumstances and the potential for a reverse mortgage to meet those needs; and
- Has a basic understanding about reverse mortgages.

The certificate includes a list of specific items that the counselor must discuss in detail with the client before issuing the certificate. This list includes:

- Options other than a Home Equity Conversion Mortgage that may be available to the homeowner(s) including other housing, social service, health and financial options;
- Other home equity conversion options that are or may become available to the homeowner(s) such as other types of reverse mortgages, sale-leaseback financing, deferred payment loans, and property tax deferral;
- The financial implications of entering into a Home Equity Conversion Mortgage;
- A disclosure that a Home Equity Conversion Mortgage may: 1) have tax consequences; 2) affect eligibility for assistance under Federal and State programs; and 3) affect the estate and heirs of the homeowner(s);
- A notice that the homeowner need not pay for the services of an estate planner in order to get a HECM loan; and
- A notice that the HECM is due and payable when no remaining borrower lives in the mortgaged property, or when any other covenants of the mortgage have been violated. (Borrowers are those parties who have signed the Note and Mortgage or Deed of Trust).

The counselor must record on the certificate:

- The name of the counselor;
- The name of the counseling agency;
- The employer HCS (Housing Counseling System) ID of the counseling entity;
- The date and signature of both the counselor and all prospective borrowers;
- The date that the client completed counseling;
- The expiration date for the certificate provided by the counselor;
- The type of counseling performed (face-to-face or telephone);
- The duration of the counseling session(s); and
- If applicable, the signature of the client's legal representative.

Only those individuals who must attend the HECM counseling session are required to sign the counseling certificate. Other individuals participating in the session (e.g. a non-borrower spouse) are not required to sign the certificate. However, it is permissible to have others sign the certificate in order to document their presence during the counseling session. Lenders may request this when the borrower's competency is in question and the borrower's legal representative is present for the counseling session.

The counseling certificate is valid for 180 calendar days from the date counseling is completed.

## A.2 Paying for Counseling

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### **Borrower-Paid Counseling**

Agencies participating in HUD's Housing Counseling Program may charge a fee for HECM counseling services as long as the fee:

1. Is reasonable and customary;
2. Does not create a financial hardship for the client; and
3. Meets the other requirements of the regulation in 24 CFR 214.313.

The housing counseling agency must make a determination about a client's ability to pay based on factors including, but not limited to, income and debt obligations. The housing counseling agency must establish written procedures for determining the client's ability to pay. Such procedures must support a determination of ability to pay that is based on objective criteria. If the counseling agency charges the client a fee, the counseling agency must show that it disclosed its hardship policy to the client. If the client requests a hardship-based waiver of the fee, the client's file must include the information the agency reviewed to make the decision.

Agencies must inform clients of the fee structure in advance of providing services. Counseling agencies must not turn away clients because of an inability to pay. Moreover, agencies may not withhold counseling or the Certificate of HECM Counseling based on failure to pay.

### **Appropriate Charges**

A HECM counseling fee must be reasonable and commensurate with the counseling services that are provided. Agencies may not impose fees upon clients for the same portion of a service, or for an entire service that is already funded with HUD Housing Counseling grant funds.

The fee charged may not be excessive and must be commensurate with services actually performed. The maximum amount an agency may charge is the actual cost of counseling. If counseling requires a prolonged session, multiple sessions, or an in-home session, the counseling agency may charge a higher fee, if commensurate with services provided. All agencies charging fees for HECM counseling must document the actual cost of providing the counseling session in the client file.

### **Other Individuals Participating in Counseling Session**

Agencies participating in HUD's Housing Counseling Program may charge a reasonable and customary fee for each HECM counseling session provided to all other parties related to the client including spouses, children, trustees, and trust beneficiaries who either choose to participate or are required to participate in the counseling session. If counseling for related parties takes place during the same session as that of the client, the agency may only charge a one-time counseling fee. If counseling for related parties occurs in sessions that are separate from the client's session, the fee charged must be considered reasonable and may be charged for each of these separate sessions.

**Payment of Counseling Fee**

The HECM counseling charges may be paid in two ways.

1. The HECM counseling client or related parties can pay counseling fees directly to the agency. The fee may be collected at the outset or at the conclusion of the session.
2. The clients can pay the counseling fee out of a HECM loan proceeds. In this case, the lender, the borrower and the counseling agency must agree that the closing agent assumes responsibility for remitting payment to the counseling agency at closing. This payment must be reflected in the 800 series or charges on the HUD-1 settlement statement.

## A.3 Contents of the Client File

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Once the counseling session is complete, the counselor should complete the client file, either paper or electronic is acceptable. As stated in HUD's Housing Counseling Handbook, all counseling agencies *must* maintain a separate, confidential file for each client. The counselor must ensure that the file contains all of the following contents:

- File number:** A file number for the unique counseling interaction;
- Financial Analysis/Budget:** Evidence of analysis of the client's unique financial and credit circumstances as they relate to the reverse mortgage;
- Required Data:** All required fields listed in the Interface Control Document (ICD) of the Client Management System – details regarding these fields can be found at: <http://www.hud.gov/counselors/>.
- Activity Log:** A record of the date, time, duration, and description of each interaction or activity performed with, on behalf of, and by, the client;
- Follow up:** A record of all follow-up communication with the client must be documented. This documentation must also include an account of all attempts to contact clients to conduct follow-up sessions;
- Counseling Participants:** Listing of people other than the borrower(s) that attended the reverse mortgage counseling session and a description of their relationship to the client(s);
- Counseling Certificate:** Signed and dated HECM counseling certificate; if the certificate was not issued, the reason why it was withheld;
- Agency Disclosure Statement:** A copy of the disclosure statement provided to each client in a face-to-face setting or a notation of the date that the disclosure statement was verbally or electronically provided during telephone counseling. The disclosure statement identifies the agency and explicitly describes the various types of services that it provides. It must clearly state that the client is not obligated to receive, purchase, or use any other services offered by the organization or its exclusive partners, in order to receive counseling services. For clients receiving telephone counseling, the agency must verbally or electronically provide a disclosure that meets these requirements.
- Power of Attorney** or other documents relating to legal competency, if applicable;
- Total Annual Loan Cost (TALC):** Assessment of the total annual costs of a reverse mortgage including interest payments and other fees that require payment;
- Amortization schedules** for reverse mortgage loan options;

- Notation** of other brochures or handouts on the reverse mortgage lending process / procedures / timelines, reverse mortgage lenders, and/or alternatives to a reverse mortgage provided to the client;
- Documentation** demonstrating that all required counseling content and information was provided;
- Statement** about client's qualifications as a current or prospective borrower for a HECM or a conventional reverse mortgage;
- Pertinent Documents** including copies (electronic or paper) of pertinent records or correspondence received from the client or created on their behalf;
- Termination documentation** detailing when the housing counseling agency terminated services. The housing counselor must notate the client's file with the date and cause/explanation of termination. Client files must not remain open indefinitely;
- Documentation of Results** of counseling session(s);
- Fees charged**, if applicable; the amount paid through client fees and a copy of the receipt(s) provided to the client;
- HUD Grant Activity**, if applicable, noting whether the activity was partially or fully funded by a HUD housing counseling grant or sub-grant;
- Discussion of Alternatives** listing any service providers, product vendors, products, features, services, or properties about which information was discussed with the client; and
- Miscellaneous Information** obtained during the intake and subsequent housing counseling sessions not mentioned above.

## **A.4 Participants in Reverse Mortgage Counseling Sessions**

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The FHA HECM handbook 4235.1 Rev.1 and Mortgagee Letter 2006-25 provide guidelines regarding who must receive reverse mortgage counseling in order to obtain a HECM loan. The handbook also suggests other individuals who may benefit from or be of assistance to the client by attending the counseling session. It is important that reverse mortgage counselors convey this information to every client so that the client can seek additional assistance from friends or family when appropriate. The HECM handbook and mortgage Letter 2006-25 provides the following guidelines on **who is required to attend** and **who may benefit from attending** a reverse mortgage counseling session.

### **Who *Must* Receive Reverse Mortgage Counseling:**

#### **Person(s) on Deed**

All persons on the deed to the client's home, who intend to be reverse mortgage borrowers and are eligible for a HECM, must participate in reverse mortgage counseling.

#### **Current Trust Beneficiaries**

Current trust beneficiaries or individuals who are eligible HECM borrowers and seeking a HECM loan must attend reverse mortgage counseling and sign the HECM certificate. The trustee must sign the mortgage, but the trustee is not required to attend counseling unless the trustee is also the beneficiary of the loan or a HECM borrower.

#### **Homeowner's Legal Representative**

For any homeowner who is not legally capable of decision-making (as determined by an attorney or a court of law), the counseling session must be conducted with a person holding a durable power of attorney or with a court-appointed conservator or guardian on behalf of the homeowner.

### **Who *May* Receive Reverse Mortgage Counseling:**

#### **A Non-Borrower Spouse**

When the spouse of a homeowner chooses not to seek, or is ineligible for a reverse mortgage, FHA recommends counseling. In the case of a non-borrower spouse who intends to remove his or her name from the title, counseling ensures that he or she understands the implications of a reverse mortgage and the risks posed by quitclaiming interest in the real estate.

### **Persons with Reversionary or Remainder Interest, or Trustees and Trust Beneficiaries**

Counseling is *not* required for persons with a reversionary or remainder interest in the real estate, or trustees and trust beneficiaries that are not HECM borrowers. FHA strongly encourages these individuals to seek reverse mortgage counseling. The following provisions apply:

- Counselors should provide counseling if requested by persons with a reversionary or remainder interest, or are trustees and trust beneficiaries.
- Persons with a reversionary or remainder interest, or trustees and trust beneficiaries may go to a HUD-approved housing counseling agency of their choice.
- Counseling for these individuals does not have to take place at the same agency that provided reverse mortgage counseling to the original client.
- When counseling services are rendered to persons with a reversionary or remainder interest in the property, or to trustees and trust beneficiaries that are not HECM borrowers, they do not need to sign the HECM certificate.
- Persons with a reversionary or remainder interest in the real estate, or trustees and trust beneficiaries who do not attend reverse mortgage counseling, should nonetheless be familiar with the program requirements for the FHA-insured HECM.

### **Children of the Homeowner**

Children of a prospective reverse mortgage borrower who do not qualify for a reverse mortgage but who currently reside on the property, or who are on the deed for the property under the reverse mortgage, but will be removed from the deed prior to closing, are not required to receive reverse mortgage counseling but are permitted and encouraged to attend counseling.

If requested, reverse mortgage counseling will be made available by a HUD-approved housing counseling agency, but the children or other individuals not on the title may, but are not required to, sign the HECM certificate. Counseling for the children of a prospective borrower does not have to take place at the same agency that provided reverse mortgage counseling to the borrower.

### **Persons with an Advocacy Interest**

Persons with an advocacy interest such as members of the homeowner's family, the homeowner's attorney or friends of the homeowner, may attend the housing counseling session. This DOES NOT include representatives of the lending entity.

## A.5 Client Privacy

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HUD's basic requirement on the confidentiality of client information is set forth in the HUD Housing Counseling Handbook 7610.1: "The counseling agency must hold in strict confidence all client information regardless of the source or sources from which it is received." In addition, HUD Mortgagee Letter 2004-25 states:

"[B]efore, during, or after the counseling session is completed, the lender may not contact a counselor or counseling agency to refer a client; discuss a client's personal information, including the timing or scheduling of the counseling; or request information regarding the topics covered in a counseling session."

To safeguard further the privacy of their clients, reverse mortgage counselors also **must not**

- accept counseling requests by anyone "on behalf of" consumers, except for persons who are legally empowered to represent such consumers; and
- provide information on the scheduling, progress, or outcome of any counseling case to anyone without the client's express prior signed permission as documented by the counselor in the client's record.

Counselors must not accept counseling requests directly from lenders "on behalf of" clients, or provide information to lenders about the scheduling, progress or outcome of any counseling session without the client's permission. These practices undermine the independence of the counselor's role, disrespect consumer autonomy and violate the confidentiality of the counseling process. Instead, counselors must make it clear to the client from the start: 1) that they have a confidential relationship with the client that is independent of the lender; 2) that the role of the counselor is separate from that of the lender; 3) and that the counselor's job is to represent the best interests of the client. However, if a client has already been in contact with a lender, the counselor should show sensitivity to that established relationship by neither encouraging nor discouraging the continuance of the relationship.

If a lender directly contacts a counseling agency to schedule an appointment on behalf of a client, the counselor must advise the lender of the prohibition against this activity and if it continues, the counselor should contact the HUD Homeownership Center.

## A.6 Elder Abuse

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Elder abuse is defined as follows: “any knowing, intentional, or negligent act by a caregiver or any other person that causes harm or a serious risk of harm to a vulnerable adult.” Legal definitions vary from state to state, but may include abuse that is physical, emotional, sexual or financially exploitive. The definition may also cover situations involving neglect or abandonment. Financial exploitation is the illegal or improper use of a person’s funds, property or assets. It includes the illegal or improper use of conservatorship, guardianship or power of attorney. It can also involve cashing a person’s checks without authorization or permission; forging a person’s signature; misusing or stealing a person’s money or possessions; or coercing or deceiving a person into signing any document including a counseling certificate, a loan application, or mortgage documents. *Source: National Center on Elder Abuse (see [http://www.ncea.aoa.gov/ncearoot/Main\\_Site/index.aspx](http://www.ncea.aoa.gov/ncearoot/Main_Site/index.aspx))*

Sixteen states require anyone to report suspected abuse, and most other states require ‘human services professionals’ to report suspected abuse, including financial exploitation, of older people. Reports can be made anonymously; conversely, most state laws or policies state that there is no duty to report to the person who lodges the complaint as investigations, actions, and outcomes are confidential. All states provide statutory immunity to those who report a problem in good faith.” *Source: American Bar Association (see [http://www.abanet.org/aging/about/pdfs/Immunity\\_for\\_Good\\_Faith\\_Reporting\\_Explanation.pdf](http://www.abanet.org/aging/about/pdfs/Immunity_for_Good_Faith_Reporting_Explanation.pdf))*

If a counselor suspects that a conservatorship, guardianship or power of attorney may be invalid, the counselor must refer the case to the HUD HOC or OIG Hotline. According to Mortgagee Letter 2006-25, counselors should caution clients against signing over their funds to loan officers or other parties involved in the mortgage transaction and ensure that clients understand the standard ways in which they can access their loan proceeds.

## A.7 Lender Steering

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“Lender steering” means inducing a client to contact, select or to avoid a specific lender or lenders. Lender steering can eliminate or sharply reduce client choice in the selection of a lender by substituting the steering party’s judgment for that of the client. It can also constitute a real or apparent conflict of interest on the part of a counseling agency or counselor. Such conflicts can undermine the independence of the counselor’s role in fact or as perceived by clients.

To implement a strict “no steering” policy, counselors must provide their clients with the handout in Attachment C.1 regarding the role of reverse mortgage counselors, in addition to adhering to the following guidelines:

### **Counselors must not:**

- Promote, represent or recommend any specific lender or lenders.
- Speak for any lender or lenders about what they charge clients for origination or servicing fees or third-party closing costs:
  - by providing information on the specific origination or servicing fees being charged by any specific lender or lenders;
  - by suggesting that a client not agree to pay more than any specific amount (other than the maximums established by HUD) for origination or servicing fees or third-party closing costs; or
  - by providing loan printouts based on the specific origination or servicing fees or third-party closing costs that a counselor identifies as being the amounts currently being charged by any specifically named lender or lenders, unless the client has independently obtained this information and requested its inclusion.
- Presume that a client wants to contact specific lenders.
- Induce a client to contact a specific lender or lenders. For example, counseling agencies must not provide a lender name or list to a client who has not asked for help in finding a lender or lenders, or discuss with clients any prior experience with specific lenders.

### **Counselors must explain to their clients that:**

- All lenders charge the same mortgage insurance premium (MIP) on HECM loans.
- HECM and proprietary product interest rates, origination and servicing fees and third-party closing costs can vary from lender to lender.
- HECM origination and servicing fees may not exceed the maximum amounts established by HUD, which the counselor will also provide.
- HUD limits third-party closing costs to what is “usual and customary” in a given area. The client must receive a current estimated total of all such costs, noting that the total actually

charged by any given lender is likely to be “in the general vicinity of the estimate, but may be more or less than that amount.”

- The origination and servicing fees and third-party closing costs a lender charges a borrower may vary from one borrower to another and may be negotiable.
- Counselors do not promote, represent or recommend any specific lender or lenders.
- Counselors do not speak for any lender or lenders regarding what they charge clients for origination or servicing or third party closing costs and do not provide information on the specific origination or servicing fees or third-party closing costs being charged by lenders. Lenders are the best source of information about the origination and servicing fees and third-party closing costs they charge.
- A list of approved HUD HECM lenders by state is provided on HUD’s website available at <http://www.hud.gov/>
- While being sensitive to steering issues, counselors must not protect lenders against price competition. Instead, they must inform their clients about allowable loan costs and allowable lender prices. Counselors must carefully explain which loan costs are required in order to obtain a loan and which are not. They must identify the specific loan costs that may vary from lender to lender and explain the maximum amount that HUD permits HECM lenders to charge for specific loan costs.

## A.8 Lender Communications

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**Faxing a certificate to a lender** is acceptable as long as doing so reflects the client's wishes as expressed by the client to the counselor at any time **after** the counseling has concluded. This approach does not prejudge the outcome of the counseling or risk substituting a lender's wishes for those of the client. Counselors must follow these steps if faxing the certificate:

- If, at any time after the counseling has concluded, a client requests that the counselor fax a certificate to a lender, the counselor must comply with a client's request.
- The request does not have to be in writing. If the client makes a verbal request, the counselor must note this fact in the client's record. The counselor should note the date of faxing and the number to which it was faxed in the client's record.
- If a client makes such a request before counseling has been completed, the counselor must respond that he or she will be happy to comply if that is what the client still wants once the counseling is complete. In these cases, the counselor must acknowledge the request, and then, once the counseling is complete, ask the client if he or she still wants the counselor to fax the certificate to a lender.
- Only the client or his or her legally authorized representative may request that the counselor fax the certificate to the lender.

In the case of telephone counseling, the counselor must follow these steps:

- The counselor must fax a copy of the certificate to the lender that has been signed by the counselor;
- The counselor must then mail a copy of the certificate to the client;
- The client must sign the certificate and then either fax or mail a signed copy to the lender;
- Once the lender receives both copies, the lender can merge the two copies and consider them a complete HECM counseling certificate issued on behalf of the client.

The lender may not proceed with processing the reverse mortgage application until it receives the complete certificate.

A lender may not charge any fees or proceed with processing the loan until it receives the certificate, signed by both the counselor and the client. The counselor must inform the client of this requirement so that the client knows that the loan may not proceed in any way until the certificate is appropriately signed.

## A.9 Lender Activities

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Reverse mortgage counselors must have an understanding of appropriate and inappropriate lender activities prior to counseling so that they may inform clients on how to avoid predatory practices. HECM Handbook 4235.1 Rev.1 and applicable Mortgagee Letters provide the following guidelines for appropriate lender activities:

### **Lender Activities Allowed Prior to HECM Counseling**

- Explain the HECM program or proprietary products
- Discuss whether the prospective borrower is eligible
- Provide information regarding fees and charges associated with reverse mortgages
- Describe the potential financial implications of a reverse mortgage
- Provide the prospective borrower with copies of the mortgage, note, and Loan Agreement
- Order a **limited** (but not a full) title search, which is performed from the date of the search back to the most recent deed on record
- Use automated valuation models (AVMs) to perform a preliminary estimation of the value of the property that will serve as security for the reverse mortgage. The AVM, however, does not take the place of an appraisal. Regardless of whether or not a prospective borrower closes on a HECM, the prospective borrower must not be charged a fee for the AVM.

*Note: The client is not obligated to pursue a HECM loan from a lender who takes the initial application or discusses the HECM program with him or her prior to the completion of counseling.*

### **Lender Activities Prohibited Prior to Counseling**

- Beginning to process a loan application
- Ordering an appraisal
- Requesting a full title search from the date of search back to the original deed
- Obtaining an FHA case number
- Obtaining a credit report
- Imposing any application fees or any other HECM-related service charges

*Note: The lender may only process the initial loan application after the counseling is completed and the lender has received the HECM counseling certificate (HUD Form 92902) containing the date and signatures of both the counselor and client(s). When counseling is completed, the client can request to have the reverse mortgage counselor provide a faxed copy of the HUD 92902 to the lender of his or her choice.*

*Additionally, a lender should not pressure the borrower to make a decision to go forward with the reverse mortgage too quickly or discourage the participation of family or trusted advisors. Lenders also may not cross-sell other financial products to reverse mortgage borrowers. Specifically, lenders cannot steer clients toward specific products and cannot encourage clients to purchase specific investment products such as annuities with the loan proceeds.*

## Section B. Resources for Counselors

### Overview

#### Contents

This section contains the following topics:

<b>Topic</b>	<b>See Page</b>
1. Required Handouts for Clients	7-B-2
2. Additional Handouts for Clients	7-B-3
3. Sample – Appointment Confirmation Letter on Agency Letterhead	7-B-4
4. Sample – Follow-Up Letter	7-B-5
5. Reverse Mortgage Resources	7-B-6
6. Understanding Total Annual Loan Costs (TALC) Rates and the Costs of Reverse Mortgages	7-B-7
7. Refinancing a HECM	7-B-8
8. Annuities	7-B-9
9. Reverse Mortgage Alternatives	7-B-10
10. Assessing a Client’s Ability to Make a Reverse Mortgage Decision	7-B-11
11. Reverse Mortgage Online Comparison Tool	7-B-12
12. Using Financial Interview Tool (FIT) and BudgetCheckUp as Budget Tools	7-B-13
13. Reporting Fraud, Abuse, Coercion, or Other Questionable Practices	7-B-14

## **Attachment B: Resources for Counselors**

- B.1 Required Handouts for Clients
- B.2 Additional Handouts for Clients
- B.3 SAMPLE: Appointment Confirmation Letter on Agency Letterhead
- B.4 SAMPLE: Follow-up Letter
- B.5 Reverse Mortgage Resources
- B.6 Understanding Total Annual Loan Cost (TALC) Rates and Costs of Reverse Mortgages
- B.7 Refinancing a HECM
- B.8 Annuities
- B.9 Reverse Mortgage Alternatives
- B.10 Assessing the Client's Ability to Make a Reverse Mortgage Decision
- B.11 Reverse Mortgage Online Comparison Tool
- B.12 Using FIT and BenefitsCheckUp as a Budget Tool
- B.13 Reporting Fraud, Abuse, Coercion or Other Questionable Practices

## B.1 Required Handouts for Clients

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HUD requires that counselors provide all clients with a standard information packet. Except for emergency counseling, counselors must provide this packet to clients prior to conducting the counseling session, and must allow sufficient time to enable clients to read the materials before the counseling session. If emergency counseling is conducted face-to-face, the counselor must give the packet to the client at the session. If conducted by phone, the counselor may email, fax or mail the packet.

The packet contains the following documents:

- HUD's *Preparing for Your Counseling Session* (Attachment C12)
- Loan printout showing TALC
- Loan printout amortization schedule
- Loan comparison printout
- National Coalition on Aging's Booklet, *Use Your Home to Stay at Home - A Guide for Homeowners Who Need Help Now* at [www.ncoa.org/rm](http://www.ncoa.org/rm)

## B.2 Additional Handouts for Clients

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In addition to required handouts for clients, counselors may provide any of the following handouts to clients as supplements to the required handout. This information may be provided to clients before, during or after counseling. These handouts for clients are provided in Attachment C and include:

- Important Information about Reverse Mortgage Counselors
- Reverse Mortgage Eligibility Requirements
- Home Equity Conversion Mortgage (HECM) Features
- Steps in The Reverse Mortgage Lending Process
- Reverse Mortgage Warnings for Consumers
- Questions to Ask Your Lender about Reverse Mortgages
- Reverse Mortgage Borrower Obligations
- Reverse Mortgage Borrower Obligations: A Checklist for Borrowers
- Using a Reverse Mortgage to Buy an Annuity
- Reverse Mortgage Counseling Frequently Asked Questions
- How You Can Access Your Home's Equity with a Reverse Mortgage: Payment Options
- Sample Amendatory Clause and Real Estate Certificate

## B.3 SAMPLE: Appointment Confirmation Letter on Agency Letterhead

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<Date>

<Homeowner's Name>

<Homeowner's Address>

<Homeowner's City, State, ZIP>

Dear Homeowner,

Thank you for requesting reverse mortgage counseling through <NAME OF AGENCY>. Our role is to provide you with the independent information you need to make your own best decisions about the various reverse mortgage loans and other alternatives that may be available to you. So that you are aware, this agency does not endorse or recommend any reverse mortgage loan or lender. The counseling process explains the key features of reverse mortgages in general by covering the costs, benefits and financial implications of these loans. It also provides information on alternatives to reverse mortgages that may be more beneficial to you.

Your counseling session is scheduled for <DAY>, <DATE> at <TIME>. To prepare for this counseling session, please review the enclosed materials **<Please specify the HUD required documents here and the optional documents that you choose to send to your client>** and other relevant information that may be related to your situation. Please have these materials on hand for the counseling session. During your counseling session, you will discuss your current financial situation, i.e., income, assets and debts, with the counselor in order to review the alternatives to a reverse mortgage based on your unique situation. You will also want to have paper and pencils handy to take notes. The counseling session will last approximately one hour or longer if necessary.

When the counseling is completed successfully, you will receive a HECM counseling certificate. When you sign this certificate, you will be verifying that you have been counseled by me. You will need a signed copy of the certificate for your lender if you decide to apply for a federally-insured Home Equity Conversion Mortgage (HECM) loan within the next six months. I look forward to talking to you on <DATE> at <TIME>.

Sincerely,

<Counselor Name>

Housing Counselor, <NAME OF AGENCY>

Enclosures

HUD's *Preparing for Your Counseling Session*

Loan Comparison print-out

TALC calculation print-out

Loan Amortization Schedule

NCOA Booklet *Use Your Home to Stay at Home – A Guide for Homeowners Who Need Help*

Now |

**Comment [FAR1]:** List the required documents.

## B.4 SAMPLE: Follow –up Letter

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<Date>

<Homeowner's Name>

<Homeowner's Address>

<Homeowner's City, State, ZIP>

Dear Homeowner,

Thank you for participating in the reverse mortgage counseling session I conducted with you on <DATE>. Please take the time that you need to review thoroughly the information that I have shared with you before making any decisions about your financial future. If you need more information, or if you have any more questions, please call me at any time.

Enclosed are two copies of the Home Equity Conversion Mortgage (HECM) counseling certificate, which certifies that you have completed and understood the basics of reverse mortgage counseling. Please keep one copy for your personal records. If you apply for a HECM loan within the next six months, please sign and give the second copy of the Certificate to your HECM lender. The lender will need this signed copy to verify that you have been counseled within six months of loan application. If you apply for a different reverse mortgage product other than a HECM, ask your chosen lender whether you need to provide the Certificate. Other reverse mortgage products may require it as well.

<**Amount of time that will pass until counselor calls the client**> from now, I will be calling you to ask if you have any more questions or if you have made any decisions about reverse mortgages or other alternatives available to you.

If you need any further assistance, please do not hesitate to call me at <PHONE #> at any time.

Sincerely,

<Counselor Name>

Housing Counselor, <NAME OF AGENCY>

Enclosures

## B.5 Reverse Mortgage Resources

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### General Reverse Mortgage Resources

- For a list of general resources as well as information about HUD's reverse mortgage program visit [www.hud.gov/groups/seniors.cfm](http://www.hud.gov/groups/seniors.cfm).
- 
- AARP's websites: [www.aarp.org/revmort](http://www.aarp.org/revmort).
- **National Council on Aging:** for health, independence issues, volunteer opportunities for seniors and benefits available to seniors: [www.ncoa.org](http://www.ncoa.org).
- National Reverse Mortgage Lenders Association website [www.reversemortgage.org](http://www.reversemortgage.org)
  - *Using Reverse Mortgages for Health Care: A NRMLA Guide for Consumers*
  - *Just the FAQs: Answers to Common Questions About Reverse Mortgages*
  - *The NRMLA Guide to Aging in Place*

### Resources on Lenders

- **HUD's HECM Lender List:** <http://www.hud.gov/ll/code/llslcrit.cfm>
- **Complaints about reverse mortgage lenders or counselors** should be reported. See Attachment B.13 for FHA contact information.

## **B.6 Understanding Total Annual Loan Cost (TALC) Rates and The Costs of Reverse Mortgages**

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Counselors must be familiar with the costs of reverse mortgages. They must be able to explain to clients how:

- Reverse mortgages are most costly at the beginning of the loan term
- The annual average cost of a reverse mortgage generally decreases over time
- Generally, reverse mortgages are best for borrowers who intend to remain in their home over a long period of time, allowing the average cost of the loan to decrease over time.

Although the counselor can provide a general overview of reverse mortgage costs to a client, only a lender can provide the client with the actual costs of a specific product. Only the client can weigh the costs and benefits of a reverse mortgage for himself or herself to determine whether or not the loan would meet his or her needs and circumstances.

### **Itemized Reverse Mortgage Costs**

Lenders often present reverse mortgage products to consumers by emphasizing the itemized costs of the loan, which include:

- Origination Fee
- Up-front MIP (for HECM loans)
- Third party closing costs
- Servicing Fee
- Monthly MIP (for HECM loans)
- Interest

However, these costs do not always allow consumers to tell if one product is more or less expensive than another. In order to compare loan products, a consumer must gather more information beyond the itemized costs to assess the benefit and value of the product, both now and in the future.

### **Total Annual Loan Cost (TALC) Rates**

The TALC rate is the annual average rate that includes all loan costs and takes into account the future loan balance including all loan advances. The TALC is what the interest rate would be if all loan costs had to be included in the interest rate.

TALC rates depend on:

- The payment option and the timing and size of the loan advances
- The loan term
- Home appreciation or depreciation

### **TALC Rates: Payment Options and Timing of Loan Advances**

TALC rates are high at the beginning of the loan because up-front costs are a large part of the total amount owed. Smaller loan advances in the early years generate higher TALC rates

because up-front costs are a large percent of the loan balance. However, when these up-front costs are spread out over more years, they become a smaller percent of the loan balance. Larger loan advances create lower TALC rates because they reduce the impact of the up-front costs.

### TALC Rates Over Time: Comparing Payment Plans

The following charts display how payment options and payment timing affect the TALC rates for a line of credit reverse mortgage and a tenure plan reverse mortgage.

The tenure loan had up-front costs of \$6,500 for the borrower to receive \$562 monthly. However, after 2 years, the borrower has paid \$9,751 to get \$13,488. The TALC rates decline over time as the borrower receives loan proceeds and the up-front costs become a smaller percentage of the loan balance.

Loan Closing	Loan A: Line of Credit	Loan B: Tenure
Net Cash to Borrower	\$70,298	\$562/month
Total Financed Costs	\$6,500	\$6,500
Loan Balance	\$76,798	\$7,062

After 2 Years	Loan A: Line of Credit	Loan B: Tenure
Net Cash to Borrower	\$70,298	\$562/month
Total Costs	\$21,464	\$9,751
Loan Balance	\$91,762	\$23,239
TALC Rate	13.4%	49.5%

Time Lapsed	Loan A: Line of Credit	Loan B: Tenure
2 years	13.4%	49.5%
12 years	10.0%	10.8%
17 Years	8.3%	9.0%
22 Years	7.3%	6.5%

### TALC Rates and Home Appreciation

- The loan balance reaches the principal limit over time
- With higher appreciation of the home's value over time, the rising loan balance is less likely to exceed the principal limit or property value
- As the home value appreciates over time, TALC rates become higher

The chart below shows how different appreciation rates impact TALC rates.

Time Lapsed	0% Appreciation		4% Appreciation		8% Appreciation	
	Line of Credit	Tenure	Line of Credit	Tenure	Line of Credit	Tenure
2 Years	13.4%	49.5%	13.4%	49.5%	13.4%	49.5%
12 Years	5.9%	8.4%	10.0%	10.8%	10.0%	10.8%
17 Years	4.1%	2.2%	8.3%	9.0%	9.7%	11.0%

## B.7 Refinancing a HECM

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Some clients may want to refinance an existing HECM loan to take advantage of lower interest rates, increased home value or increased lending limits. The costs associated with this transaction must also be taken into consideration when making a final decision regarding a refinance.

When refinancing an existing HECM, the mortgage insurance premium is reduced to cover only 2% of the difference between the original maximum claim amount and the new maximum claim amount.

In the event of a HECM refinance, HECM borrowers should be aware that lenders must provide them with the following information:

- HECM Anti-Churning Disclosure- HUD form 92901
- The total cost of the HECM refinance
- The increase in the principal limit as measured by the estimated initial principal limit on the mortgage to be insured less the current principal limit on the HECM that is being refinanced

The lender must provide a best estimate of funds available to the borrower minus any closing costs and other fees. This ensures that the borrower is provided with information to assist in understanding the amount of new funding that will be available after refinancing the existing HECM..

For HECM refinance, HUD will waive the counseling requirement if all three of the following conditions are met:

- The HECM borrower has received the required HUD Anti-Churning Disclosure form.
- The increase in the borrower's principal limit (as estimated by the lender and provided to the borrower in the Anti-Churning Disclosure form) exceeds the total cost of the refinancing by an amount equal to five (5) times the cost of the transaction.
- The time between the closing on the HECM that is to be refinanced and the application for refinancing does not exceed 5 years.

Information provided on refinancing a HECM is provided in HUD's Mortgagee Letters 2004-18.

## **B.8 Annuities**

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An annuity is a contract between a buyer and an insurance company. The insurer agrees to make periodic payments immediately or at some future date in exchange for premiums. For instance, a client may agree to invest \$100,000 in exchange for a promise of \$500 per month for the client's lifetime. In a deferred annuity, the monthly payments would not begin until a specified future date; in an immediate annuity, the payments begin right away. Deferred annuities are often inappropriate for older borrowers who may not gain any benefits from the investment if they have to wait 10 or 15 years.

Annuities are frequently used for retirement savings because they typically offer tax-deferred growth of earnings. There are generally two types of annuities: fixed and variable. Fixed annuities are funds typically invested in bonds, and variable annuities are invested in stocks. Advisors typically discourage older investors from variable annuities because they are designed for long-term growth.

Clients may be interested in an annuity because they can continue to receive payments even if they do not remain in their home. However, a reverse mortgage borrower will have used substantial amounts of cash paying for the costs of both a reverse mortgage and an annuity. Additionally, annuities can have high surrender charges (penalties for early withdrawal of funds) or may put the client's funds entirely out of reach for a period of time. A line of credit option on a reverse mortgage may be more appropriate for a client who is concerned with being able to access funds at his or her discretion.

If clients express interest in purchasing an annuity, a counselor must take extra steps to inform the clients that there are ways to obtain an annuity other than through a reverse mortgage. The counselor must also point out the implications of purchasing an annuity through a reverse mortgage.

The Federal Truth-in-Lending Act (TILA) recognizes the unique difficulty of evaluating the total cost of a reverse mortgage that is used to purchase an annuity. Counselors must supplement specialized TILA cost disclosures for these two-part transactions by giving clients who are considering annuities the document in Attachment C.9 of this protocol.

Counselors must warn clients of potential pressure by lenders to purchase an annuity or other costly security with the reverse mortgage loan proceeds.

## B.9 Reverse Mortgage Alternatives

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In some cases, alternatives to reverse mortgages may best meet the needs of prospective borrowers. Counselors must be aware of the resources available to senior homeowners and know how to make referrals to these resources.

Primary alternatives to reverse mortgages available to seniors as well as some basic information to assist counselors with identifying local community resources appear below. A counselor must make every effort, after identifying viable options, to contact appropriate agencies and local resources on behalf of the client to help the client access the resources that may be available.

### Alternatives to Ownership

#### ➤ **Retirement communities**

This option may be expensive, but retirement communities offer a number of services such as meals, housekeeping services, transportation and activities. They can allow individuals to keep their independence while being freed from burdensome responsibilities.

#### ➤ **Home-sharing arrangements**

Clients may be able to find another senior to share a home with, either through informal networking or, in some communities, through an agency that screens and matches potential home-sharers.

#### ➤ **Selling**

Selling may be the appropriate alternative for some clients. Some reasons why clients may be considering selling their home are:

- The family house is too large and the client wants to downsize.
- The upkeep of the home is too burdensome and/or costly.
- The house needs repairs or upgrades that the client cannot afford.
- The client believes he/she will save money by selling and renting.

Although clients may save money by selling and moving, they must be informed of the cost and lifestyle issues involved with this decision. Clients who sell their homes incur significant costs, such as real estate broker commissions and other transaction fees, moving costs, and costs to set up a new living space. Clients who move at an older age may have a difficult time adjusting to a new environment and neighborhood.

### Renting

#### ➤ **Subsidized or affordable senior apartments**

Subsidized housing is generally available to people age 62 years or older and below a certain income level. Both state and federal programs offer this type of housing, which provide funding towards monthly rent on an apartment. This funding covers the difference between how much the senior is able to pay each month and the actual rent. These apartments may be limited and there are usually waiting lists.

A major benefit of subsidized housing is that a senior who qualifies is less subject to dramatic increases in rent over time as long as the senior's income remains stable. This is an attractive solution for seniors living in a home with a lower value or a home that holds a large amount of debt, as renting may be less costly than maintaining a home and paying a mortgage. Seniors should be aware that subsidized housing program criteria may consider the assets from selling a home or a future large increase in income and may affect their ability to qualify. For alternative housing options, go to [www.seniorhousingnet.com/seniors](http://www.seniorhousingnet.com/seniors) or to the American Association of Homes & Services for the Aging at [www.aahsa.org](http://www.aahsa.org).

➤ **Non-subsidized rentals**

Many communities offer non-subsidized housing for seniors 55 years old or older. Assets do not affect their eligibility to live in the community and therefore seniors have flexibility with their assets and the amount of assets they maintain. Additionally, rent may increase on an annual basis. The tenants of such communities range from seniors to lower-income families who are eligible to live in the community.

### **Other Financial Options**

➤ **Home Equity Loans**

A home equity loan is a type of [loan](#) in which the borrower uses the [equity](#) in his or her home as [collateral](#). These loans are sometimes useful to help finance major home repairs, medical bills or college education. A home equity loan creates a [lien](#) against the borrower's home, and allows the borrower to withdraw funds from the equity while making lower monthly payments. Home equity loans are repaid in monthly payments of principal and interest, which commence as soon as the loan is closed. Borrowers must have sufficient income to qualify for a home equity loan.

➤ **Individual Retirement Accounts**

Many clients may have Individual Retirement Accounts that they can tap into for extra income. There are several types of IRAs including traditional IRAs, [Roth IRAs](#), SIMPLE IRAs and SEP IRAs. Combined with potential tax savings at the time of contribution, IRAs can prove to be very valuable tax management tools for individuals. Depending on income at the time of retirement, an individual may be able to fit into a lower tax bracket with tax-deductible contributions during his or her working years, while still enjoying a low tax bracket during retirement. Seniors who have invested in an IRA may benefit from contacting their financial institution to learn more about their ability to draw on this account.

➤ **Refinance of Existing Forward Mortgage**

If a client has an existing forward mortgage, he or she may be able to refinance the mortgage to obtain a loan with better terms including a lower interest rate. In some cases, the client may be able to obtain cash through a refinance provided there is sufficient income to qualify.

### **Major Public Benefits**

Many low- to moderate-income homeowners are not aware of the fact that they are eligible to receive benefits from major public programs. Counselors must discuss potential eligibility for these programs with their clients.

- **Supplemental Security Income (SSI)** provides monthly cash payments to qualifying low-income persons age 65 and over. To be eligible in 2008, an applicant's liquid resources (cash and savings) could not be greater than \$2,000 (\$3,000 for a couple), not including the value of a home or car. Monthly "countable income" could not be greater than \$637 for a single person and \$956 for a couple. Some earned income can be excluded from the countable total. Some states also provide additional supplements to the federal SSI benefit. See [www.ssa.gov/ssi](http://www.ssa.gov/ssi) for current details.
- **Medicaid** is health insurance for low-income individuals paid for by a combination of federal and state dollars. Medicaid eligibility guidelines vary from state to state, and the program goes by different names in different states. SSI recipients are automatically eligible for this program, but many states have established higher income limits for Medicaid eligibility. Liquid resource limits for Medicaid are the same as those for SSI (see above). Eligibility and program information is available at [www.cms.hhs.gov/home/medicaid.asp](http://www.cms.hhs.gov/home/medicaid.asp).
- **Medicare Savings Programs** can help pay Medicare premiums, co-payments and deductibles. Like Medicaid, these programs are funded by a combination of federal and state dollars. These programs are also known by a variety of names (e.g. QMB, SLMB). Income limits vary but are somewhat higher than regular Medicaid limits. In 2008, programs that help pay Medicare costs have liquid resource (cash and savings) limits of \$4,000 and \$6,000 for couples. Limits on the amount of allowable income vary from state-to-state. This information can be found at [www.medicare.gov](http://www.medicare.gov).
- Many reverse mortgage clients report prescription drug costs as a major financial strain. **Medicare Prescription Drug Program (Medicare Part D)**, which began in 2006, is an optional add-on to the regular Medicare health insurance program. In most cases, seniors can save 50 percent or more on their drug costs (compared to full retail) by signing up for this program. There is also a Low Income Subsidy program that provides savings that are more substantial for clients who meet income and asset criteria. For more information and a tool to help clients select a plan, visit [www.medicare.gov](http://www.medicare.gov). Additionally, information about the Low Income Subsidy is available at [www.ssa.gov](http://www.ssa.gov).

## Resources

### Benefits Eligibility

The National Council on Aging maintains a website on Senior Benefits and Programs, available at: [www.benefitscheckup.org](http://www.benefitscheckup.org). In partnership with NCOA, AARP offers a streamlined version for checking eligibility for the 15 most frequently utilized public benefit programs, which is available at [www.aarp.org/quicklink](http://www.aarp.org/quicklink). Counselors must complete BenefitsCheckUp for all borrowers whose income falls below 200 percent of the Federal Poverty Level (FPL) or who are disabled. Counselors are required to offer BenefitsCheckUp to all clients however a client who does not fall in one of the previous two categories may decline it. For more information, please see Attachment B.12.

The **Aging Network** is the system of public and private nonprofit agencies and organizations responsible for implementing the Older Americans Act (OAA). Enacted in 1965, the OAA sets forth objectives for improving and maintaining quality of life for older Americans. Federal funds from the Older Americans Act are transmitted to State Units on Aging, which channel them to Area Agencies on Aging.

- **The Administration on Aging (AoA)** is located within the U.S. Department of Health and Human Services. It serves as a:
  - Clearinghouse for information
  - Source for technical assistance, and
  - Catalyst for more effective use of resources for seniors
- **State Units on Aging (SUAs)** are the designated state agencies for serving the elderly. They coordinate related state activities and administer federal funds at the state level.
- **Area Agencies on Aging (AAAs)** coordinate the delivery of a variety of services to meet the needs of the older population, including information and referral, outreach, transportation, in-home care, legal and protective services, counseling, socialization, recreation, and education. Most AAAs are not in the direct service business meaning that they contract out this work to local agencies who provide such services to the older population. The local agencies may be a county Department of Aging, or a nonprofit Council on Aging, or may go by other names. AAA and local agency contact information can be obtained from the Eldercare Locator available at [www.eldercare.gov](http://www.eldercare.gov) or by telephone at (800) 677-1116.

### **Aging Network Services**

Federal funds support the provision of services in local communities via the Aging Network. Three areas of service benefit the most broadly from federal funding:

- **Information and Referral (I & R):** These programs exist to help older adults and their caregivers find specific information on the programs that are available to them. Many I & R programs also publish a directory of resources or maintain a website with information about community resources for the elderly. These services may or may not be located in an AAA office, but the AAA office will know where to find them. The I&R number can often be found under Senior Citizens in the blue (government) pages of the telephone book.
- **Senior Centers:** Sometimes the I&R office is located in a senior center. These buildings are the focal points for most federally funded, community-based services for older adults. Many senior centers also offer a variety of exercise programs, health screenings, socialization and recreation opportunities, counseling services, hot meals, and other activities.
- **Nutrition Services:** A significant portion of funds allocated by the Older Americans Act is targeted to provide hot noontime meals in senior centers, churches, and other convenient locations. Home-delivered meals may also be available.

### **Additional Resources**

At the community level, a wide variety of additional services and programs may be offered by local public agencies or nonprofit groups. Some of the most common are:

- **Home repair and adaptation services:** These programs provide subsidized minor home repairs, build wheelchair ramps and help make homes safe for older adults. For more information on modifying a home or making **home improvements**, go to [www.homemods.org](http://www.homemods.org). This site contains a state-by-state directory for home modification resources for seniors that can help locate local programs providing these services.
- **In-home care, homemaker and chore services:** Many communities have some public assistance available for those who need help with tasks like housekeeping, grocery shopping, or personal care.
- **Adult day care:** These group care programs can be an alternative to expensive one-on-one home care for adults who need constant supervision because of memory loss or other illness.
- **Transportation assistance:** These may be provided by public programs or volunteer groups.
- **Volunteer coordination programs:** Volunteers may be available to help older adults with yard work, house painting, roof repairs, grocery shopping, transportation, social contact and other needs.

Many alternative agencies and organizations also provide resources and support to the senior population. For example:

- Many corporations know that a number of their employees not only care for children but also for their aging parents. Corporate eldercare programs may provide information and referral for their employees, and may provide more tangible support such as using a corporate van to deliver meals or organizing teams of employees to build wheelchair ramps.
- Many hospitals sponsor wellness events or health fairs that provide free blood pressure checks and materials on nutrition and fitness.
- Churches have long supported older members of their congregations. Among the most popular church programs involve “friendly visiting” of older people who are homebound by another member of the church.
- Civic groups focus many charitable events on serving older adults; some offer lending libraries of durable medical equipment (canes, walkers, wheel chairs, etc.) for those of limited means.

## **B.10 Reviewing the Client's Level of Understanding**

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The content of a reverse mortgage counseling session is comprehensive and complex. A truly informed decision to apply for a reverse mortgage requires both an understanding of the essential elements of the loan and the ability to apply that knowledge to the client's individual situation. Part of the counselor's role is to review, during and at the end of every session, whether the client has been adequately informed and has a level of understanding indicating he or she grasps the fundamental facts of a reverse mortgage.

When providing counseling by telephone, counselors must be particularly sensitive to a client's level of understanding. Counselors must sometimes judge whether a client has adequate ability to participate in the counseling session, to make reasonable decisions based on the information provided by the counselor, and to understand the risks and consequences of his or her decisions regarding a reverse mortgage.

### **Review Questions**

During the session, counselors must ask ten questions to determine whether the client has understood the essential features of the reverse mortgage. These questions explore some of the most fundamental facts about reverse mortgages – things that every adequately informed client must know. The counselor must disclose to the client that questions will be asked during the counseling session to determine if the client understands the information being discussed.

These questions must not be given as a written test, nor are they to be presented as something the client has to "pass" in order to get the loan. Presenting the questions in these ways may intimidate some clients, causing them to get confused when trying to answer the questions. This means that counselors must be familiar with the set of questions provided, so that they can ask the questions conversationally, framed as a review of the most important concepts presented during the session.

As an example, after discussing when the loan needs to be repaid, the counselor might say: "I want to make sure I am explaining things to you clearly, so I will periodically ask you some questions to make sure. This also gives me a way to emphasize some key aspects of a reverse mortgage. Here's question number 1. When will you need to pay back your Reverse Mortgage loan?" If a client answers incorrectly, the counselor can discuss the concept further and ask the question again.

**Clients must answer five questions correctly** to receive the Counseling Certificate at the initial counseling session. For additional instructions on what counselors should do if the client cannot answer five questions correctly see the section titled Results of the Review. Counselors must be aware of financially savvy clients when posing questions and adopt the appropriate tone and delivery of these questions. For clients who seem to be having trouble remembering the information, prompts may be given to assist the client in answering the questions. If the client gets a question wrong or only partially right, the counselor should try a prompt or rephrase the question to see if that helps, and then briefly review the right answer before going on to the next question. Whenever possible, avoid yes/no questions.

If there are two or more borrowers, the counselor may request that each client alternate answering questions. In addition, if one client appears to be quieter and less involved during the session, the counselor may direct the questions entirely to that client, while asking the other client to remain silent. If the quiet client cannot respond, then the counselor may allow the other one to answer the question. The counselor must avoid allowing a dominant client to completely take over the question and answer exchange.

When counseling an older adult with a son or daughter or other advisor present, the counselor must direct questions to the homeowner and ask the other person to remain silent. It may be necessary in some cases to ask the other person to leave the room in order to get a good idea of whether the client has understood the essential features of the reverse mortgage.

If the client is accompanied by a legal representative (e.g., someone who has durable power of attorney), direct the questions to the client whenever possible, asking the agent to remain silent until the client has attempted to answer. If the client is unable to respond adequately, the certificate should be signed by the legal representative only and should include the notation that the client was unable to fully participate in counseling.

The following are lists of questions from which the counselor must choose ten to ask the client:

### **General Questions About Reverse Mortgages and HECMs**

- When you have a reverse mortgage, who owns your house (whose name is on the title/deed)?
- 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? What other choices do you have (if applicable)? What happens if you change your mind later and want to change your payment plan?
- When you have a reverse mortgage, do you have to make a monthly payment to the bank?
- Does the money you get from a reverse mortgage ever have to be paid back?

### **Questions to determine if the client understands the implications of a reverse mortgage**

- When does the reverse mortgage have to be paid back?
- What homeowner responsibilities will you continue to have after you get a reverse mortgage? What may happen if you do not keep up these responsibilities as a borrower?
- What happens if you use up all the money that is available from the reverse mortgage? Offer an example tailored to client’s circumstances, e.g., “What if you took all the money from the reverse mortgage in a lump sum and spent every bit of it? What would happen to you? Would you be able to go on living in your house?”

- What happens if the amount you owe under a reverse mortgage gets to be greater than your home is worth at that time? Would you have to move out of your house? Would you have to take out another loan to pay the difference?
- If you get a reverse mortgage, how does that change the amount of money that you will have to leave to your children (or other heirs)? Will your children or other heirs inherit more or less after you die, than they would have without the reverse mortgage?
- How does a reverse mortgage change the amount of money you would have left to take with you if you moved somewhere else like into a retirement community? Will you have more or less left over to spend if you move somewhere else?

### **Questions for Refinances**

- If you refinance your current HECM, will you still have to pay mortgage insurance? How does this work?
- What are some of the additional costs you will incur with a refinance?

### **Questions for Purchase HECMs**

- When you purchase a home with a HECM, will the HECM be held on your existing home or your newly purchased home?
- How will the lender determine how much money you will need at closing? What sources of funds (money) are allowed when you purchase a home with a HECM?
- Why is it important to get a home inspection?
- When you are working with a real estate professional, what are some of the questions you should ask him/her?

### **Results of the Review**

Counselors must make detailed notes about difficulties the client has in answering questions, particularly when the answers are grossly inadequate, as this will help support any decision to withhold or delay issuing the certificate.

Because these questions are meant to test the most basic reverse mortgage concepts, if the client cannot provide adequate answers for five questions, there may be concern about his or her ability to make an adequately informed reverse mortgage decision. If that is the case, the counselor must not issue the counseling certificate after the first counseling session, but must propose additional ways to help the client gain the necessary knowledge. These options must meet the client's specific needs.

The counselor will offer one or more of the following in order to answer the 5 out of 10 questions correctly.

- Schedule an additional session to allow more time to review important topics and possibly at a different time of day, or
- Help the client to arrange a face-to-face counseling session with the original counselor or another counselor, or
- Ask the client if there is someone else he or she could bring with them to or could join in a phone counseling session and schedule another session to include this person.

During any additional counseling sessions, the counselor will ask the review questions again. If the client again is not able to correctly answer five out of the ten questions, the counselor will ask the client if they would like additional time and invite them to come back at a later date after they have had more time to study the materials. A certificate cannot be issued until the client correctly answers 5 out of the 10 questions.

### **Fraud and Coercion**

Although fraud and coercion are not limited to clients with impaired ability to understand and make decisions, cognitively impaired clients are more vulnerable to such exploitation. Counselors should be especially sensitive to the possibility that such a client is being pushed into an inappropriate choice by others who do not have the client's best interests at heart. If the counselor feels that: 1) the client was coerced into pursuing a reverse mortgage, or 2) the client may be a victim of elder abuse or exploitation, the counselor should advise clients that each state has an elder abuse hotline and provide them with the hotline phone number in the client's state. Hotline numbers can be found at [http://www.ncea.aoa.gov/NCEAroot/Main\\_Site/Find\\_Help/Help\\_Hotline.aspx](http://www.ncea.aoa.gov/NCEAroot/Main_Site/Find_Help/Help_Hotline.aspx)

## **B.11 Reverse Mortgage Online Comparison Tool**

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The web-based Reverse Mortgage Analyst software calculates principal limits for variations on a HECM based on different interest rates with different indices and margins. This software is available only to counselors who are on HUD's HECM Counselor roster. Although the software generates principal limits for available HECM variations, it is not programmed to generate the principal limits for any specific proprietary reverse mortgage product.

For those products that are not preprogrammed such as "jumbo" reverse mortgages, counselors can enter product information in order to generate printouts. Currently, counselors can enter the costs and terms of any product that has been provided to a specific client by a lender, along with any credit line draws specified by the client.

The software generates individual loan amortization schedules, as well as side-by-side comparisons of projected total principal limits, total costs, remaining credit line funds, leftover equity, and total annual average percentage rate costs at various future points in time related to the client's remaining life expectancy. This information can also be saved and retrieved for each individual client and for any future questions and conversations between the counselor and the client regarding the features of specific reverse mortgages.

Additional features of this software include:

- Ability to produce and email/print information packages for clients;
- Availability of a Client Management System that includes the capacity to schedule sessions with clients and store information about each client's case;
- Capacity to produce loan comparison pie charts that can visually compare two types of loans to demonstrate the differences between them to the client; it may also produce comparisons between one loan type during two periods of the client's life; and
- Ability to create a customized printout for the client on selling their home and how it would affect them based on their property's current value.

When a client has provided loan product details, the counselor must be careful to use the details in order to compare features among different products. The counselor must not steer the client towards or away from a specific product. For further information on obtaining this software, go to [www.hecmresources.org](http://www.hecmresources.org).

## **B. 12 Using FIT and BenefitsCheckUp as a Budget Tool**

Counselors are required to complete a budget with every client during the counseling session based on information obtained from the client. Counselors will use NCOA's web-based Financial Interview Tool (FIT) to meet the budget requirement. Using FIT, counselors will ask questions that help the client report income, debt and expenses. Counselors are not expected to request verification of income, debts and expenses from clients in order to complete FIT. FIT is completed based on the client's responses. The objective of completing a budget using FIT is to illustrate to the client their current financial situation and to determine how a reverse mortgage might assist them in meeting their needs and goals. FIT will assist the client in determining whether an alternative form of financial product, housing arrangement or social service may better meet their needs. While completing FIT, a counselor may determine that completing a monthly or annual budget would further benefit the client however, this is not required.

FIT helps counselors assess a client's immediate budget shortfalls, and identify other risks that could affect their ability to use a reverse mortgage to meet longer-term personal goals. Through a few key questions, FIT will facilitate conversations with counseling clients about life factors such as declining health, limitations in the home environment, or recent life transitions such as widowhood that can make it hard for them to stay at home. FIT provides a summary of these factors, which can help counselors identify the features of a reverse mortgage that may be appropriate to meet client goals, assess the impact of their financial needs on remaining equity over time and consider alternative options to a reverse mortgage.

In addition to FIT, counselors are required to complete BenefitsCheckUp, for clients whose income falls below 200% of the Federal Poverty Level (FPL) or who are disabled. Counselors are required to offer BenefitsCheckUp to all clients however a client who does not fall in one of the above two categories may decline it.

Many homeowners consider a reverse mortgage to help pay for homeowner expenses, health care and other basic needs. For those with limited incomes, benefits from existing federal, state and local programs could be an important alternative or supplement to a reverse mortgage. Using BenefitsCheckUp, counselors can quickly screen more than 1,800 public and private benefits programs from all 50 states and the District of Columbia. These benefit programs include tax relief, energy assistance, health care and in-home services, prescription drugs, nutrition programs, housing, and programs for which a client may be eligible, and provide contact information to help them apply for these benefits.

BenefitsCheckUp prepares a report identifying public and private benefits programs for the client to consider. This report includes program details such as program descriptions, application forms, local contact information that answers questions and helps with enrollment, and a listing of necessary documentation to aid in the application process. It is important to note to your client that final program eligibility determination can only be made by the agencies administering the programs.

The decision to obtain a reverse mortgage is the client's decision regardless of the budget results.

## **B.13 Reporting Questionable Practices**

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The Protocol provides specific instances that must be reported to either HUD or HUD's Office of Inspector General. There may be other questionable situations that, as a counselor, you may want further guidance on from HUD. Please do not hesitate to contact HUD in any of these situations.

To contact HUD, call toll free (800) CALL FHA (1-800- 225-5342)

Persons with hearing or speech impairments may access this number via TDD/TTY toll free at (877) TDD-2HUD (1-877-833-2483). Your call will be transferred to the HUD Homeownership Center serving your area.

Email – [info@FHAoutreach.gov](mailto:info@FHAoutreach.gov)

For more about HUD's Office of Inspector General please go to the website at <http://www.hud.gov/offices/oig/hotline/index.cfm>

To contact the HUD Office of Inspector General Hotline call toll free (800) 347-3735

Persons with hearing or speech impairments may access this number via TDD/TTY at (202) 708-2451

Fax (202) 708-4829

Email - [hotline@hudoig.gov](mailto:hotline@hudoig.gov)

## Section C. Resources for Clients

### Overview

#### Contents

This section contains the following topics:

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## **Attachment C: Resources for Clients**

- C.1 Important Information about Reverse Mortgage Counselors
- C.2 Reverse Mortgage Eligibility Requirements
- C.3 Home Equity Conversion Mortgage (HECM) Features
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- C.13 Sample Amendatory Clause and Real Estate Certificate

## C.1 Important Information about Reverse Mortgage Counselors

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**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

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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**

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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

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### 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**

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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

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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

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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

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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.

**Annuity 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, loan 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](http://www.aarp.org) Telephone: (888) 687-2277  
"Money Matter: Annuities",

The Securities and Exchange Commission: [www.sec.gov](http://www.sec.gov), email: [PublicInfo@sec.gov](mailto: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](http://www.naic.org), Email: [prodserv@naic.org](mailto: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**

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### **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

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### 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**

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*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 expenses. 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.

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

## 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](http://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 clause 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.