# TABLE OF CONTENTS

## TAB 1 COURSE OVERVIEW
- Course Description
- Course Objective
- Core Competencies and Learning Objectives

## TAB 2 WHAT IS A REVERSE MORTGAGE? WHAT IS A HECM?
- What is a reverse mortgage?
- What is a HECM?

## TAB 3 WHO IS YOUR CLIENT? CLIENT GOALS AND ELIGIBILITY
- Why Use a HECM?
- Eligible Homeowners
- Ownership types
- Eligible Properties

## TAB 4 HOW MUCH CAN THEY GET?
- HECM Loan Amounts and Calculations

## TAB 5 HOW MUCH DOES IT COST? PART 1
- Upfront Costs
- Set-Asides

## TAB 6 HOW DO THEY GET THE MONEY?
- Payment Plans

## TAB 7 HOW DOES IT HAPPEN? LOAN PROCESS
- Before Closing
- After Closing
- Refinance
TAB 8  HOW MUCH DOES IT COST? PART 2: ONGOING COSTS

- Annual MIP
- Interest

TAB 9  HOW MUCH DOES IT COST? PART 3: COMPARING LOANS AND WEIGHING COSTS

- Total Annual Loan Cost
- Other ways of looking at costs

TAB 10  HOW DOES THE LOAN AFFECT THE BORROWER WHILE THEY HAVE IT?

- Tax consequences
- Effect on public benefits
- Benefits 101
- BenefitsCheckUp

TAB 11  WHAT DO THEY HAVE TO DO ONCE THEY HAVE THE LOAN?

- Residency
- Ownership
- Property charges
- Maintenance

TAB 12  LOAN AGREEMENT

TAB 13  HOW MUCH WILL THEY OWE? WHAT WILL BE LEFT OVER?

- Factors determining loan growth
- Factors determining payoff amounts
- More TALC
- Effect on heirs
TAB 14 HOW AND WHEN DO THEY PAY IT BACK?
- Prepayment
- Repayment process and timelines

TAB 15 HOW DO YOU BECOME A HECM COUNSELOR?
- Exam
- Roster
- FHA Connection

TAB 16 WHAT HAPPENS IN HECM COUNSELING?
- Counseling principles
- HECM Counseling Protocol
- Who must be counseled?
- Counseling checklist, required topics
- Assessing comprehension
- Counseling certificates

TAB 17 WHAT ELSE COULD THEY DO? OPTIONS AND ALTERNATIVES
- Other home equity conversion options
- Deferred payment loans
- Property tax deferral
- Other housing options
- BenefitsCheckUp

TAB 18 WHAT CAN GO WRONG?
- Advertising and sales practices
- Lender fraud
- Cross-selling of investments, annuities, etc.
- Exploitation by others
- Non-owner spouse issues
- Property charge default
- Loss of equity, loss of wealth
TAB 19    CASE STUDIES

TAB 20    ACTIVITY WORKSHEETS AND INSTRUCTIONS

TAB 21    APPENDIX 1
          ▪ Sample Pre-Counseling Documents & Client Packet

TAB 22    APPENDIX 2
          ▪ Glossary of terms

TAB 23    APPENDIX 3
          ▪ TALC Tutorial

TAB 24    APPENDIX 4
          ▪ Introduction to Powers of Attorney, Life Estates and Trusts

TAB 25    APPENDIX 5
          ▪ Power Point Presentation
AGENDA

DAY ONE

Welcome, introductions, housekeeping

What is a reverse mortgage? What is a HECM? Product overview

Why use a HECM? Borrower & Property eligibility

How much can they get? Loan amounts

Intro to IBIS Reverse Mortgage Analyst software

How much does it cost? Upfront costs and set-asides

DAY TWO

Review homework, questions, and leftovers from Day One

How do they get the money? Payment plans

IBIS demo and practice: Creating individualized loan estimates

How does it happen? Loan process before and after closing

How much does it cost? Compounding costs (Interest and MIP)

IBIS demo: Using HECM Settings to change interest rates, margins, fees, products

Review
DAY THREE

How much does it cost? Comparing loans and weighing costs, TALC

IBIS demo: Using IBIS to generate TALC disclosures

How will it affect them while they have the loan? Loan consequences

Activity: Benefit eligibility

What do they have to do while they have the loan? Responsibilities

HECM Loan Agreement

DAY FOUR

How much will they owe and how much will be left?

IBIS demo and practice: Using IBIS to generate loan amortization tables

When and how does the loan get paid off?

How do you become a counselor? The HECM exam and the HECM roster

What does a HECM counselor do?

Activity: Counseling topics practice
DAY FIVE

How can you tell whether the client understands? Assessing comprehension

What if the homeowner can’t understand? Power of attorney and guardianship issues

What else could they do? Alternatives to a HECM

What can go wrong? Counselors and consumer protection

Putting it all together: Case studies

Wrap-up, questions

Course evaluations
TAB 1

COURSE OVERVIEW
COURSE OVERVIEW

COURSE TITLE: Introduction to Home Equity Conversion Mortgages (HECM)

LENGTH OF COURSE: 5 days

1.1 COURSE DESCRIPTION:
This course will build a foundation for understanding reverse mortgages, specifically FHA-insured Home Equity Conversion Mortgages, and will prepare participants to take the HUD HECM Exam and provide high-quality counseling to older homeowners.

1.2 COURSE OBJECTIVE:
Participants will understand the features, costs, and consequences of Home Equity Conversion Mortgages (HECM) and will be able to counsel older clients following the required HUD protocol for HECM counseling.

1.3 CORE COMPETENCIES AND LEARNING OBJECTIVES:

Audience: This course is targeted to housing counselors, senior service providers and other practitioners who need a solid foundation in reverse mortgage fundamentals in order to prepare for HECM counseling and/or to manage those who counsel. No previous reverse mortgage experience is required. Basic knowledge of loan concepts is helpful.

Competency 1: Describe basic features of reverse mortgages in general and HECMs in particular.

- **Learning Objective 1a**: Participants will define the terms “reverse mortgage” and “HECM” and differentiate between them.
- **Learning Objective 1b**: Participants will describe the purpose and effect of a reverse mortgage and contrast it with a forward mortgage.
- **Learning Objective 1c**: Participants will correctly identify answers to 15 questions about basic reverse mortgage and HECM concepts.

Competency 2: Describe client and property eligibility.

- **Learning Objective 2a**: Participants will list reasons people seek reverse mortgages.
- **Learning Objective 2b**: Participant will detail HECM borrower eligibility requirements.
- **Learning Objective 2c**: Participant will define home ownership types including joint tenancy, life estate, and living trust.
Learning Objective 2d: Participant will list HECM property eligibility requirements, including describing eligible property types and FHA minimum property standards.

Competency 3: Describe factors that determine HECM principal limits.

Learning Objective 3a: Participants will explain why home value, age and cost affect HECM loan amounts.

Learning Objective 3b: Participants will define the HECM Fixed Rate and Adjustable Rate products and describe the appropriate uses of each.

Learning Objective 3c: Participants will practice calculating HECM Principal Limits for HECM Fixed rate and Adjustable Rate products.

Learning Objective 3d: Participants will use IBIS to enter client data and explore the effect of age on principal limit.

Competency 4: Counsel clients on HECM fees and set-asides

Learning Objective 4a: Participants will list the upfront costs to a HECM and explain the maximum charges allowed.

Learning Objective 4b: Participants will describe the three costs for which credit may be set-aside for future purposes.

Competency 5: Counsel clients on the ways to access HECM loan funds and the advantages and disadvantages of the different plans.

Learning Objective 5a: Participants will be able to list the advantages and disadvantages of each payment option.

Learning Objective 5b: Participants will use IBIS to create individualized loan estimates based on client payment plan choices.

Learning Objective 5c: Participants will be able to explain how creditline growth affects the amount of loan funds available to the borrower.

Competency 6: Inform clients about the process of obtaining a HECM loan and how they will interact with the servicer after loan closing.

Learning Objective 6a: Participants will outline the steps involved in obtaining a HECM.

Learning Objective 6b: Participants will describe the standard ways in which borrowers access loan funds for each payment plan.

Learning Objective 6c: Participants will define the role of the servicer after closing.

Learning Objective 6d: Participants will describe the situations in which a HECM to HECM refinance may be feasible.
Competency 7: Describe accruing costs on a reverse mortgage, explain compound interest

Learning Objective 7a: Participants will describe the purpose and amount of the annual mortgage insurance premium.

Learning Objective 7b: Participants will describe interest rate options for HECM borrowers.

Learning Objective 7c: Participants will define and distinguish between initial, expected, and compounding rates.

Competency 8: Compare loan offers using Total Annual Loan Cost approach

Learning Objective 8a: Participants will explain the use of TALC disclosures to compare loan offers and analyze cost changes over time and across payment plans.

Learning Objective 8b: Participants will use IBIS to generate TALC disclosures for different payment plans.

Competency 9: Counsel clients on the potential consequences of the HECM loan

Learning Objective 9a: Participants will explain the effects of potential HECM loan proceeds on public benefits and on income taxes.

Learning Objective 9b: Participants will describe basic public benefits including Medicare, Medicaid, Social Security, SSI, Food Assistance.

Learning Objective 9c: Participants will specify how borrowers can manage HECM funds so as to remain eligible for public benefits.

Competency 10: Counsel clients about the rights and responsibilities of a HECM borrower

Learning Objective 10a: Participants will describe the major homeowner rights and responsibilities retained by the HECM borrower.

Learning Objective 10b: Participants will itemize the steps in the property charge loss mitigation process, and explain the potential consequences if the property charges are not paid.

Competency 11: Use amortization schedules to illustrate loan balance growth and loss of equity

Learning Objective 11a: Participants will list the factors determining the growth of the loan balance.

Learning Objective 11b: Participants will use IBIS to generate amortization schedules for varying payment plans, including modifying assumptions about home value appreciation and interest rates.

Learning Objective 11c: Participants will explain how the non-recourse feature limits repayment amounts.
Competency 12: Counsel clients on due and payable events and options for repayment

Learning Objective 12a: Participants will describe how partial prepayment affects loan balance and borrowing power.

Learning Objective 12b: Participants will list major events that will cause the HECM to become due and payable including understanding special requirements for non-borrowing spouses.

Learning Objective 12c: Participants will enumerate the three basic options for loan repayment and describe the standard timeframes for repayment.

Competency 13: Counsel clients on the features of the HECM loan agreement.

Learning Objective 13a: Participants will complete and review a homework assignment on the HECM Loan Agreement.

Competency 14: Understand the process of qualifying to provide HECM counseling

Learning Objective 14a: Participants will list four requirements for counselors who wish to provide HECM counseling.

Learning Objective 14b: Participants will list three required steps to prepare to provide HECM counseling.

Learning Objective 14c: Participants will locate information about how to prepare for the HECM exam, apply for the HECM Counselor Roster, and obtain access to FHA Connection.

Competency 15: Understand the purpose and content of the HECM Counseling Protocol

Learning Objective 15a: Participants will list 5 parts of the HECM counseling process.

Learning Objective 15b: Participants will name the required participants in a HECM counseling session.

Learning Objective 15c: Participants will practice explaining topics which must be covered in a HECM session.

Learning Objective 15d: Participants will practice assessing client comprehension and managing clients who do not meet the required standard.

Competency 16: Assist clients to locate and understand alternatives to HECM loans

Learning Objective 16a: Participants will describe other home equity conversion options that might be available to HECM borrowers.

Learning Objective 16b: Participants will be able to identify potential benefits using BenefitsCheckUp.

Learning Objective 16c: Participants will name other sources of information about alternatives to HECM loans, including the aging network.
Competency 17: Alert clients to the potential for fraud, abuse, and financial loss as a result of the HECM loan.
   
   Learning Objective 17a: Participants will summarize lender practices which may be harmful to borrowers.
   Learning Objective 17b: Participants will generate examples of abuse and exploitation by others.
   Learning Objective 17c: Participants will identify the harmful consequences of removing a spouse from title.
   Learning Objective 17d: Participants will spell out the consequences to the borrower of property charge default.

Competency 18: Apply information on HECM features and practices to a specific client situation.
   
   Learning Objective 18a: Participants will use a group process to analyze a case study, use software to generate client estimates, and suggest options for a theoretical HECM client.
WHAT IS A REVERSE MORTGAGE?
WHAT IS A HECM?
INTRODUCTION TO REVERSE MORTGAGES

The structure and purpose of reverse mortgages are different from those of standard "forward" mortgages. This section introduces the general concept of reverse mortgages and discusses the basic features of these loans.

2.1 DEFINITION: A reverse mortgage is a loan against home equity providing cash advances to a borrower, and requiring no repayment until a future time.

A. Home equity means the value of a home minus any debt against it. But reverse mortgages are different from "home equity loans" in two important ways:
   1. You do not need an income to qualify for a reverse mortgage.
   2. You do not have to make monthly repayments on a reverse mortgage.

B. Cash advances provided by a reverse mortgage are referred to in various ways, and are paid out to borrowers in various ways.
   1. Cash advances are also known as "loan advances," "payments," "disbursements," and - in the case of line-of-credit reverse mortgages - "draws."
   2. Cash advances can be paid out in a single "lump sum" of cash, a series or "stream" of periodic advances (for example, monthly), a line of credit that the borrower controls, or any combination of these types of advances.

C. Repayment of principal (cash advances), interest, and loan costs is not required until the borrower dies, sells the home, or permanently moves away.

2.2 COMPARISON: The purpose and operation of a reverse mortgage are different from those of a standard "forward" mortgage.

A. The purpose of a forward mortgage is usually to purchase a home. **The purpose of a reverse mortgage is usually to generate cash.**

B. In a forward mortgage, the borrower's equity increases over time. The loan balance (amount owed) decreases as payments are made to the lender. Meanwhile, the value of the home is usually increasing (see Table 2-a and Figure 2-a). Forward mortgages are "falling debt, rising equity" transactions.
C. In a reverse mortgage, the borrower’s equity generally decreases over time. The loan balance rises as loan advances are made to the borrower, interest is added to the outstanding loan balance, and no repayments are made. Unless the home appreciates (grows in value) at more than a moderate rate, the loan balance starts "catching up" to the home value (see Table 2-b and Figure 2-b).

Reverse mortgages are typically "rising debt, falling equity” transactions.

2.3 EXAMPLE: A simple example of a reverse mortgage loan is presented in Table 2-b. Note how the monthly loan advances plus monthly interest at 0.5% equal the loan balance. Note also that the loan balance is subtracted from the home’s value to give the amount of net home equity.

- Column C shows the "rising-debt” nature of a reverse mortgage.
- Column (D - C) shows the "falling equity” held by the borrower.

2.4 BASIC FEATURES: All reverse mortgages share certain common characteristics relating to homeownership, loan advances, loan cost financing, loan balances, repayment, and debt limits.

A. The borrower retains title to the home. The lender does not own the home, and does not "get" the home when the borrower dies.

B. The borrower is still responsible for taxes, insurance, and upkeep.

C. The borrower's estate must pay off the loan upon the borrower's death.

D. The amount of the loan advances generally depends on the value of the home, the age of the borrower, and the cost of the loan (that is, the loan fees and interest rate).

1. The greatest amounts are generally available to the oldest borrowers with the most valuable homes who take loans that have the lowest costs.

E. Loan fees can generally be "financed," that is, added to the loan balance at loan closing so that the borrower does not have to pay them out of pocket. This means, in effect, that some or all of the cost of setting up the loan (closing costs, origination fee, insurance premium) can be paid with an extra loan advance at closing.

F. The loan balance (amount owed) rises over time.

1. It grows because the borrower keeps getting loan...
advances and interest is charged and keeps accruing on the outstanding balance while the borrower is making no repayment until a future time.

G. **No repayment is required on most reverse mortgages for as long as the borrower lives in the home as a principal residence.** When the last surviving borrower dies, sells the home, or permanently moves away, then the full loan balance becomes due and payable.

### Table 2-a

**Comparison of Typical "Forward" and Reverse Mortgages**

<table>
<thead>
<tr>
<th>Item</th>
<th>&quot;Forward&quot; Mortgage</th>
<th>Reverse Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose of loan</td>
<td>to purchase a home</td>
<td>to generate income</td>
</tr>
<tr>
<td>Before closing,</td>
<td>no equity in the home</td>
<td>substantial equity in the home</td>
</tr>
<tr>
<td>borrower has…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At closing, borrower</td>
<td>owes a lot, and has little equity</td>
<td>owes very little, and has</td>
</tr>
<tr>
<td>…</td>
<td></td>
<td>substantial equity</td>
</tr>
<tr>
<td>During the loan,</td>
<td>makes monthly payments to the</td>
<td>receives payments from the lender</td>
</tr>
<tr>
<td>borrower…</td>
<td>lender</td>
<td></td>
</tr>
<tr>
<td>Loan balance</td>
<td>decreases</td>
<td>increases</td>
</tr>
<tr>
<td>Equity</td>
<td>grows</td>
<td>declines</td>
</tr>
<tr>
<td>At end of loan,</td>
<td>owes nothing</td>
<td>borrower owes</td>
</tr>
<tr>
<td>borrower…</td>
<td></td>
<td>substantial amount</td>
</tr>
<tr>
<td>Borrower’s heirs</td>
<td>could receive substantial equity</td>
<td>could receive much less, little,</td>
</tr>
<tr>
<td>…</td>
<td></td>
<td>or no equity</td>
</tr>
</tbody>
</table>

**Falling Debt - Rising Equity**

**Rising Debt - Falling Equity**
Table 2-b

Simplified* Reverse Mortgage Example

Assumptions:

- Monthly Loan Advance: $1000
- Monthly Interest Rate: 0.5% (6% per year)
- Original Home Value: $200,000
- Appreciation Rate: 4% per year

<table>
<thead>
<tr>
<th>End of Year</th>
<th>Cumulative Principal Advances</th>
<th>Cumulative Interest + (0.5%/mo.)</th>
<th>Loan Balance</th>
<th>Home Value</th>
<th>Net Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12,000</td>
<td>397</td>
<td>12,397</td>
<td>208,000</td>
<td>195,602</td>
</tr>
<tr>
<td>2</td>
<td>24,000</td>
<td>1,559</td>
<td>25,559</td>
<td>216,320</td>
<td>190,760</td>
</tr>
<tr>
<td>3</td>
<td>36,000</td>
<td>3,532</td>
<td>39,532</td>
<td>224,872</td>
<td>185,339</td>
</tr>
<tr>
<td>4</td>
<td>48,000</td>
<td>6,368</td>
<td>54,368</td>
<td>233,971</td>
<td>179,602</td>
</tr>
<tr>
<td>5</td>
<td>60,000</td>
<td>10,118</td>
<td>70,118</td>
<td>243,330</td>
<td>173,211</td>
</tr>
<tr>
<td>6</td>
<td>72,000</td>
<td>14,840</td>
<td>86,840</td>
<td>253,063</td>
<td>166,222</td>
</tr>
<tr>
<td>7</td>
<td>84,000</td>
<td>20,594</td>
<td>104,594</td>
<td>263,186</td>
<td>158,591</td>
</tr>
<tr>
<td>8</td>
<td>96,000</td>
<td>27,442</td>
<td>123,442</td>
<td>273,713</td>
<td>150,270</td>
</tr>
<tr>
<td>9</td>
<td>108,000</td>
<td>35,453</td>
<td>143,453</td>
<td>284,662</td>
<td>141,208</td>
</tr>
<tr>
<td>10</td>
<td>120,000</td>
<td>44,698</td>
<td>164,698</td>
<td>296,048</td>
<td>131,349</td>
</tr>
</tbody>
</table>

* Illustrative example only; does not include closing costs, fees, mortgage insurance.
Figure 2-a: Forward Mortgage

Figure 2-b: Reverse Mortgage

Home Value

Loan Balance

Home Equity

Home Equity

Loan Balance

Home Value

time

$
H. There is a "non-recourse" limit on the borrower's repayment obligation. This important consumer safeguard means that the **total amount owed by the borrower can never exceed the value of the home at the time the loan becomes due and payable.** In seeking repayment, the lender does not have recourse to anything other than the home's value.

1. Even if the loan balance grows to be greater than the home's future value, the borrower's repayment obligation is limited by the value of the home.

2. The non-recourse feature protects the borrower and the borrower's estate and heirs from "deficiency judgments," that is, from being required to pay back more than the home's value.

2.5 **REVERSE MORTGAGE INSURANCE**

A. The **purpose of reverse mortgage insurance** is to permit borrowers to remain in their homes for as long as they choose, to protect borrowers with a non-recourse loan limit (see 2.4.H), and to protect lenders from the risk that some loan balances may exceed home values.

1. As shown in Figure 2-b, a reverse mortgage loan balance could grow to exceed the value of a home.

2. But the non-recourse feature of these loans (see 2.4.H) limits the borrower's liability to the value of the home.

3. Without reverse mortgage insurance (or some other method of "pooling" or spreading out the risk), lenders would face the loss of expected interest and, in some cases, principal.

B. The risk of loss is managed by reverse mortgage insurance (and other risk-pooling methods) in three basic ways:

- controlling the risk of loan losses by controlling the total amount of loan advances, and
- charging a premium on all loans to create a reserve fund for covering loan losses.
- controlling the timing and limiting the amount of early loan draws (new as of 9/30/13)

1. Loss risk is controlled by relating the total amount of the loan advances to the life expectancy (age) of the borrower, the value of the home, and the cost of the loan:

   a. the longer the life expectancy (that is, the lower the age), the smaller the loan advances;
b. the greater the home value, the greater the loan advances; and

c. the greater the loan costs, the smaller the loan advances.

2. A loan loss reserve is created by charging a premium on all loans sufficient at a minimum to cover expected losses. The type of premium or risk-pooling charge can be structured in various ways.

3. As of 9/30/13, risk of borrower default is further controlled by limiting the amount that a borrower can take in the first year of the loan.

2.6 BASIC TYPES OF REVERSE MORTGAGES: There are three basic types of reverse mortgages.

A. Single-purpose reverse mortgages are offered by some state and local government agencies. Each loan can only be used for a single purpose. For example, some are limited to home repairs, others to paying property taxes. These plans generally have maximum income eligibility requirements, but the cost is usually very low or moderate.

B. Federally-insured reverse mortgages are known as Home Equity Conversion Mortgages (HECMs). This course focuses on the HECM product.

C. Proprietary reverse mortgages are developed, owned, and insured by private companies. They may be more costly than the federally-insured HECM. Proprietary reverse mortgages have historically targeted owners of homes whose high values made the HECM loan more limiting. For this reason, they are sometimes referred to as “jumbo” reverse mortgages. At present (3/2015), there are very few proprietary products on the market.
HECM PROGRAM OVERVIEW

PROGRAM SUMMARY: The summary on the next few pages highlights the main features of the HECM program for consumers. This document can be used in the counseling process to review these major points with clients. References are to the HUD HECM Handbook 4235.1, which sets out the rules for HECM loans.

ELIGIBLE HOMEOWNERS (see HECM Handbook: 4-3, 4-4, 4-5, and 4-6)
- Age 62 and over (All borrowers. Non-borrower spouses may be younger but will not be borrowers on the loan.)
- Occupy home as principal residence (live in home at least 6 months of year);
  - at least one owner must be residing in the home at the time of closing
- Own the home
  - existing mortgage must be paid off before or at closing, or must be subordinated to the HECM
  - HECM must be first mortgage, but can be used to pay off existing liens on the property

ELIGIBLE PROPERTIES (see HECM Handbook: 3-4, 3-5, and 3-6)
- Home must be a single-family, 1- to 4-unit, owner-occupied dwelling
  - Condominium developments must be FHA approved.
  - Manufactured homes are eligible if they meet FHA standards, including:
    - Borrower owns land beneath the home, and
    - Home is permanently affixed to a foundation
    - Home was built after June 15, 1976 (and has sticker to so indicate)
  - Planned unit developments may be eligible
  - Mobile homes are not eligible
  - Cooperatives are not eligible (authorized by Congress in 2008 but implementing regulations have not yet been issued).
- Home must meet FHA minimum property standards
  - HECM loan may be used to make required repairs if the cost is within program limits
PAYMENT OPTIONS: Approved borrowers can choose from 6 payment options:

- TENURE: Borrower receives monthly payments from the lender for as long as the home is occupied as the principal residence.
- TERM: Borrower receives monthly payments from the lender for a period of months selected by the borrower.
- LINE OF CREDIT: Borrowers can draw up to a pre-established limit at times and in amounts they choose until the creditline is exhausted. The amount of cash available grows larger each month until then.
- MODIFIED TERM: Borrower may combine a line of credit with monthly payments for fixed number of months (term option).
- MODIFIED TENURE: Borrower may combine a line of credit with monthly payments for as long as one borrower remains in the home (tenure option).
- Borrowers may also change between the above payment options during the loan term as long as there are still unused loan proceeds remaining. The maximum charge for each change is $20.
- SINGLE DISBURSEMENT LUMP SUM – (new 9/30/13) – Borrower takes all available funds at closing, subject to first year limitations, and cannot take any additional funds after that. Primarily designed for fixed rate HECM products. Borrowers who choose this option cannot switch to another plan later.

REPAYMENT: A HECM does not have to be repaid until the last surviving borrower dies, sells the home, or permanently moves from the home.

- Borrowers may partially or fully repay the loan balance at any time without any penalty.

COSTS: Except as noted, all costs can be financed, that is, added to the loan balance (amount owed).

- Property Appraisal: Generally an advance payment of about $350 - $500, but may be refunded to borrower and added to loan balance at loan closing.
- Credit Report: Generally an advance payment of about $25 for a simplified credit report, but may be refunded to borrower and added to the loan balance at closing.
- Standard Local Closing Costs: Title search and insurance, surveys, required inspections, recording fees, settlement fees, mortgage-related taxes, etc.
- Hazard or Flood Insurance Premiums: Replacement value coverage is required; may require advance premium to be paid at closing if coverage is increased.

Appraisal = Estimate of the current market value of a property
• Origination Fee: May vary by lender. Maximum origination fee is 2% of home value up to $200,000 plus 1% of any amount over $200,000. Lenders are permitted to use a minimum origination fee of $2500 and may not charge more than $6000 regardless of home value. (Mortgagee Letter 08-34)

• Mortgage Insurance Premium1:
  - The upfront or initial MIP is paid or financed at closing.
  - Prior to 9/30/2013, the upfront mortgage insurance premium on a HECM loan was a flat 2% (two percent) of the Maximum Claim Amount. HUD changed the amounts charged for upfront mortgage insurance premiums on HECM loans effective 9/30/13 through Mortgagee Letter 2013-27.
  - The amount of the upfront mortgage premium charged to the borrower now depends on the amount of funds the borrower draws within the first year of closing the loan. If the borrower draws less than 60% of the available funds in the first 12 months of the loan, then the upfront mortgage insurance premium is 0.5% (one half percent) of the Maximum Claim Amount.
  - The upfront mortgage insurance premium jumps to 2.5% (two and one half percent) of the Maximum Claim Amount if the borrower draws more than 60% of the available loan funds in the first 12 months of the loan. This is permitted only if the HECM is being used to pay off large “mandatory obligations” such as forward mortgages and tax liens. We will discuss this new mortgage insurance premium structure in more detail in TAB 5.
  - The second charge for the Mortgage Insurance Premium occurs after closing and is an annual charge of 1.25% percent, or 125 basis points, on the rising loan balance.

• Servicing Fee: flat monthly charge, if not included in interest rate; cannot exceed $30 per month for HECMs with annually adjustable interest or fixed rate, and $35 per month for HECMs with monthly adjustable interest.

---

1 Prior to 9/30/2013, there was a HECM Standard product and a HECM Saver. The upfront MIP for the HECM Standard equalled 2 (two) percent of the Maximum Claim Amount, paid or financed at closing, plus an annual premium of 1.25% percent, or 125 basis points, charged on the rising loan balance. For the HECM Saver, the upfront premium was 0.01% (one one-hundredth of a percent) of the Maximum Claim Amount, paid or financed at closing. The annual premium was the same as for HECM Standard. HUD eliminated the HECM Saver product in Mortgagee Letter 2013-27.
• Interest is charged and accrued on all payments made to the borrower and on all loan costs that have been added to the loan balance, including previous interest. Thus the interest on a HECM is compounding. Interest rates may be either fixed or adjustable, though fixed rates may only be used for lump sum disbursements.
  - Annually adjustable interest rates cannot adjust by more than 2 percentage points per year, or 5 points over the life of the loan.
  - Lenders may also offer a monthly-adjustable rate with only a lifetime cap established by the lender.
  - Interest rate adjustments do not affect the amount of a monthly advance, but they do change the rate at which a creditline grows larger. They also affect how quickly the HECM loan balance grows.

FEDERAL GUARANTEES

• In the event of lender default, the loan will be assigned to HUD, which will continue to make payments to the borrower based on the original terms of the loan.
• A HECM is a "non-recourse" loan, which means that a borrower can never owe more than the value of the property at the time the loan is repaid.

BORROWER OBLIGATIONS

• Continue to maintain, insure, and pay taxes on the property.
  - Unless borrowers choose to pay and provide evidence of paying property taxes and insurance, lenders are authorized to make these payments from HECM proceeds.
  - Lenders are also authorized to use the loan to pay for property repairs if they are needed to maintain HUD property standards. If there are insufficient HECM proceeds remaining, the lender may call the loan in default and the loan could become due and payable.
• Continue to occupy the property as primary residence (where at least one borrower spends the majority of the year).
  - Borrower may reside elsewhere for a maximum of 12 consecutive months, due to physical or mental illness. At this point, if a determination is made that it is unlikely that the borrower would return, the home would no longer be considered owner-occupied and the loan could become due and payable.
LENDER PARTICIPATION

- Any FHA-approved lender may originate HECM loans. Lenders offering HECM loans are listed on HUD’s website at www.hud.gov/l/ll/code/llplcrit.html. See also the National Reverse Mortgage Lenders Association’s consumer website for a list of their members (www.reversemortgage.org).
- Lenders earn an origination fee and either earn servicing fees or sell servicing rights to other companies.
- Investors purchase HECM loans and several companies offer loan servicing systems or services. Fannie Mae, which was the primary investor for HECM loans from the inception of the program, ceased to purchase any new HECM loans in October 2010.
- Lenders are protected by FHA insurance against loan losses that occur because the non-recourse feature limits how much a borrower must repay.
- HECM loans may be assigned to HUD when the total loan balance equals 98% of the Maximum Claim Amount.
- FHA HECM insurance benefits may equal up to the Maximum Claim Amount.
SELF-TEST #1

1) A reverse mortgage is
   a) a loan against equity in a home
   b) a loan providing cash advances to a borrower
   c) a loan requiring no repayment until a future time
   d) a, b, and c above

2) A reverse mortgage is different from a home equity loan because
   a) you need a good income to qualify for a reverse mortgage
   b) you need little home equity to get a reverse mortgage
   c) you do not have to make monthly repayments on a reverse mortgage

3) A reverse mortgage must be repaid
   a) by the 10th of every month
   b) when the borrower dies, sells or permanently moves away
   c) when the loan balance equals the value of the home
   d) when the borrower uses up all available loan funds

4) The purpose of a reverse mortgage is most often
   a) to buy a home
   b) to sell a home
   c) to generate cash

5) Reverse mortgages are typically loans with
   a) rising debt and falling equity
   b) falling debt and rising equity
   c) rising debt and rising equity

6) When a reverse mortgage becomes due and payable
   a) the lender gets the house
   b) the federal government gets the house
   c) the area agency on aging gets the house
   d) none of the above
7) The “non-recourse” limit on a reverse mortgage means
   a) the lender cannot seek repayment from anything other than the home’s value
   b) the borrower’s estate and heirs are protected against deficiency judgments
   c) the borrower cannot owe more than the value of the home
   d) all of the above

8) The purpose of reverse mortgage insurance is
   a) to protect lenders against loan losses
   b) to protect borrowers with a non-recourse limit
   c) to let borrowers remain in their homes as long as they choose
   d) a, b, and c above

9) The risk of loan losses in reverse mortgage lending is controlled by
   a) controlling the amount of the loan advances
   b) limiting loan advances to 28% of income
   c) charging a premium on all loans to create a reserve fund
   d) a and/or c above

10) To qualify for a HECM loan
    a) at least one owner must be aged 65 or over
    b) a mobile home or cooperative must be FHA-approved
    c) a home must be debt free prior to loan application
    d) none of the above

11) To qualify for a HECM loan
    a) the home must be completely paid off
    b) the home must have been originally financed with an FHA “forward” mortgage
    c) the borrower must live in the home as a principal residence
    d) the borrower must be low-income
12) When a HECM loan is repaid, the borrower must pay back
   a) only the funds they received
   b) the funds received plus simple interest
   c) the funds received plus loan fees such as mortgage insurance and servicing fees
   d) the funds received plus loan fees and interest compounded on the entire balance

13) The payment options in the HECM program include
   a) a fixed monthly advance for as long as a borrower lives in the home
   b) a fixed monthly advance for a period chosen by the borrower
   c) a creditline that lets the borrower select the timing and amount of the advances
   d) a combination of monthly advances and creditline
   e) all of the above

14) The HECM loan may be used to pay for
   a) repairs needed to meet FHA minimum property standards
   b) standard closing costs
   c) upfront mortgage insurance premium
   d) the origination fee
   e) all of the above

15) When the adjustable interest rate on a reverse mortgage goes up
   a) the monthly payments to the borrower go down
   b) the rate at which the creditline grows goes up
   c) the loan balance grows faster
   d) b and c above
TAB 3

WHO IS YOUR CLIENT?

CLIENT GOALS AND ELIGIBILITY ISSUES
### 3.1 WHY USE A HECM?

What are some reasons why homeowners might use a HECM?

<table>
<thead>
<tr>
<th>Reason 1</th>
<th>Reason 2</th>
<th>Reason 3</th>
<th>Reason 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

**Collect as many reasons as you can!**
3.2 REASONS FOR USING REVERSE MORTGAGES

Homeowners may use reverse mortgage funds for any purpose they choose.

Some of the more common goals may include:

- Paying off an existing mortgage
- Paying off other debt
- Increasing available funds for normal monthly expenses
- Establishing a source of funds for future major needs
- Home repair or improvement
- Lifestyle improvements (“live better and enjoy life”)
- In-home care to avoid institutionalization
- Helping family members
- Travel

A special use of a HECM is to purchase a home, using the HECM loan plus a large borrower down payment. We will cover this in more detail in TAB 6.
3.3 CASE STUDY INTRODUCTION – Meet Jim & Patsy Henderson

Let's meet a couple that sometimes runs out of money before they run out of month. We'll be following them throughout the rest of our discussion of HECM loans.

Florida couple, Patsy (age 73) and Jim (age 72) Henderson are both retired and bringing in Social Security plus his small pension, about $2200/month total.

- Their 401-K and savings are gone.
- Their home is in need of some repair, especially the roof.
- Their property insurance is relatively high ($2400 per year). Last year it almost got cancelled because they had trouble coming up with the money.
- Taxes are $2400 per year.
- They believe their home should appraise for about $200,000.
- They owe $20,000 on a home equity line of credit (HELOC) they set up a few years ago to pay off other debt. Their HELOC payment is about $300 per month.

The Hendersons think they’d be fine if they didn’t have the mortgage payments to make, and if they could have some cash to pay for the roof repairs and other emergencies.
3.4 ELIGIBLE HOMEOWNERS

To be eligible for a HECM loan all borrowers must:

A. Be age 62 or over
   1. If there is a spouse who is under 62, that person cannot be a borrower on the HECM, but, as of 8/2014, there are provisions for that “non-borrowing spouse” to be able to stay in the home after the borrower’s death.

B. Own the home (Non-owner spouses are treated as described above.)

C. Occupy the home as a principal residence.
   1. This is defined as the home where the borrower typically spends the majority of the calendar year.
   2. If there are two owners, one may be out of the home for medical reasons, but at least one owner must be residing in the home at the time of closing.

D. Not have delinquent Federal debt.
   1. Outstanding Federal debt is acceptable if the borrower has an established payment agreement and has been making payments as agreed.
   2. Includes any Federal debt, such as income tax debt, small business loans, student loans, etc.
   3. Delinquency is defined by the agency to which the money is owed.
   4. In the case of Federal income tax debt, the delinquency may be resolved by agreeing to use the HECM to pay off the tax debt.
   5. For other Federal debt, the borrower will not be eligible to apply for the HECM until the delinquency has been resolved. The HECM may not be used to resolve the delinquency.

E. All pre-existing liens against the home must be paid off or subordinated.
   1. The borrower may use HECM or other funds, but may not take out additional debt in connection with getting the HECM.
   2. Some existing liens may be subordinated to the HECM. This means that the HECM would take priority over repayment of the subordinated lien.
   3. If the borrower has any liens which originated within the past 12 months and resulted in more than $500 cash to the borrower, the borrower is not eligible for the HECM. (Seasoning requirement, set in Mortgagee Letter 2014-22)
F. **Financial Assessment:** In the past, there were no income or credit criteria for HECM loans. However, effective April 27, 2015, lenders will be required to perform a Financial Assessment for all HECM applicants. The purpose of the assessment is not primarily to determine eligibility for the loan, but to assess whether the borrower is likely to be able and willing to meet their financial obligations (property taxes and insurance) after obtaining a HECM loan. The details of this assessment are set out in Mortgagee Letters 2014-21 and 2014-22.

1. The underwriting process for HECM loans will probably continue to change over the next year or two at least as lenders try to implement the new HUD requirements. Underwriters are given a significant amount of discretion in applying the new guidelines and may consider extenuating circumstances and compensating factors in their decisions.

2. The Financial Assessment process and standards that will be used by underwriters are described in great detail in the HECM Financial Assessment and Property Charge Guide, which was published as an attachment to Mortgagee Letter 2014-22.

3. Underwriters will examine credit reports with an emphasis on the borrower’s history of timely payments. Credit scores will **not** be used in making eligibility decisions.

4. Underwriters will also look specifically at the borrower’s history of payment of property taxes and insurance.

5. There is no minimum income standard, but the underwriter will collect documentation of all forms of income and assets. After subtracting monthly debt obligations, property charges (taxes, insurance, etc.) and an estimate of utility and maintenance costs, the borrower must show a minimum amount of “residual income.” Borrowers without sufficient residual income will be required to have a Life Expectancy Set-Aside to cover property taxes and insurance (see TAB 5 for details).

6. **COUNSELORS ARE NOT RESPONSIBLE FOR ASSESSING THE POTENTIAL BORROWER’S ELIGIBILITY.**
3.5 OWNERSHIP TYPES

A property may be owned in a variety of ways, including:

A. Sole ownership
B. Joint tenancy
C. Life estate: This is a divided form of ownership in which one person owns the right to live in the home, while one or more others own the right to sell the property and to take full possession when the life-estate holder dies or leaves (the “remainder interest”).
   1. A HECM can be done on a property where the borrower has only a life-estate interest, as long as the owners of the remainder interest agree and sign the mortgage. The owners of the remainder interest do NOT need to be eligible HECM borrowers.
D. Living Trust: A living trust is a legal entity created during a person’s lifetime, to hold the ownership of money and real property, often for estate planning purposes

   1. Property held in a living trust may be eligible if the current beneficiaries are eligible HECM borrowers.
3.6 ELIGIBLE PROPERTIES

A. The home must be a single-family, owner-occupied dwelling.

B. For the purposes of HECM eligibility, the definition of a single-family residence includes 2-4 unit properties as long as at least one unit is occupied by the owners.

C. If the home is a condominium, the condominium project as a whole must be FHA-approved.
   1. “Spot” approvals, where a single unit is approved, are not permitted.

D. Manufactured homes are eligible if:
   1. They meet FHA standards, including:
      a. Borrower owns the land beneath the home, and
      b. Home is permanently affixed to a foundation approved for its location
      c. Home was built after June 15, 1976 and bears the sticker to so indicate. The sticker is usually on the door facing and near the heating unit of the home.
   2. The lender is willing to do the loan. Some lenders have chosen not to do HECMs on manufactured homes at all.

E. Homes in planned unit developments (PUDs) may be eligible.

F. Mobile homes are not eligible.

G. Cooperatives were authorized by Congress in 2008, but the implementing regulations have not been issued. Therefore, a HECM cannot be placed on a cooperative property at present.

H. Also, the home must meet FHA minimum property standards.
   1. No major health or safety hazards
   2. All basic systems work
   3. No conditions that will cause deterioration
   4. The HECM may be used to make required repairs if the cost is within program limits.
      a. If repairs are less than 15% of home value (up to a cap called the Maximum Claim Amount), repairs may be completed after closing using loan funds
      b. 150% of the estimated cost will be set aside for the repairs

I. The home must be located in an area zoned for residential use.

J. Lenders and their underwriters may impose additional requirements.
Question: Based on the information you know so far, are the Hendersons and their property likely to be eligible? Are there any further questions you need to ask?

✔

✔

✔

✔
REVIEW QUESTIONS

1. Name three eligibility requirements for HECM borrowers

   __________________________________________________
   __________________________________________________
   __________________________________________________

2. Name one property type that may or may not be eligible for a HECM, depending on the lender.

   __________________________________________________

3. If a property is held as a life estate, who has to agree in order to allow a HECM to be approved?

   __________________________________________________

4. When a property is placed in a trust, the three “roles” are the

   ____________, the beneficiaries, and the _____________.

5. If a property is owned by a trust, who has to be at least 62 years old in order for the property to be HECM-eligible?

   __________________________________________________
TAB 4

HOW MUCH CAN THEY GET?

CALCULATING LOAN AMOUNTS
4.1 HECM Loan Amounts

HECM loans are made against the entire value of the property, not just the equity that the borrower has in the home. In this way, they are different from home equity lines of credit (HELOCs).

However, many borrowers are surprised to learn that they cannot access the entire value of their home and that there is no standard loan-to-value ratio (LTV) for all borrowers.

If borrowers were permitted to receive the whole value of the home, the accruing interest and fees would quickly cause the loan balance to exceed the home's value.

Instead, each borrower’s loan amount, or Principal Limit, depends on a Principal Limit Factor (PLF) applied to home value. The Principal Limit Factor is essentially a percentage of home value.

Principal Limit = Total HECM Loan Amount, or maximum loan balance
The following factors all play a part in determining the borrower’s Principal Limit:

- the **value** of the home, up to a cap
- the **age** of the youngest borrower
- the **cost** of the loan (expected interest rate)

A. **Home value**: The first factor to be considered is the value of the home, as determined by a HUD-approved appraiser. This is the market value of the property at the time the loan is originated. This value is subject to a limit.

1. **Mortgage Limits (also called Lending Limits)**: There is a cap, or limit, on the amount of home value that can be used to calculate loan advances.
   a. Prior to 11/2008, the mortgage limit was based on rules established in section 203(b) of the National Housing Act, so was known as a “203(b) limit.” These limits varied by location.
   b. After 11/2008, a single national limit was set across the country, based on section 305(a)(2) of the Federal Housing Home Loan Mortgage Corporation Act. This limit is also known as the Freddie Mac conforming limit. This limit was at $417,000 in 11/2008.
   c. In 2/2009, the limit for HECM loans was temporarily increased to 150% of the Freddie Mac conforming limit. This change raised the national mortgage limit for HECMs to $625,500. This new limit will be **in effect until 12/31/2015** unless it is extended.

   **These limits do not mean that homes of greater value are ineligible for HECM insurance.** Instead, they limit the amount of home value that can be used to determine the loan advances.

   For example, the value that can be used for a $625,500 home and a $1,000,000 home are the same. In other words, any additional value, beyond the national mortgage limit, is simply ignored when the principal limit is calculated.
2. The "Maximum Claim Amount" is the home value up to the mortgage limit. Another way to say it is that the Maximum Claim Amount is the lesser of a home’s appraised value or the national mortgage limit. It is this figure that is used to calculate the loan amount.

It is called the Maximum Claim Amount (MCA) because it is the maximum amount that HUD will pay on a lender’s claim for reverse mortgage insurance benefits.

3. The Maximum Claim Amount multiplied by the Principal Limit Factor equals the Principal Limit.

<table>
<thead>
<tr>
<th>What is the MCA for the following home values?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraised value $200,000 _____________________</td>
</tr>
<tr>
<td>Appraised value $500,000 _____________________</td>
</tr>
<tr>
<td>Appraised value $750,000 _____________________</td>
</tr>
</tbody>
</table>

B. Age: The borrower’s age is important because age determines life expectancy, and life expectancy is seen as the best predictor of how long it will be until the borrower repays the loan.

1. The longer the loan remains outstanding, the more interest will accrue, and the greater the chance that the loan balance will equal or exceed the value of the home.

2. Therefore, the younger the borrower, the less they can borrow, as a percentage of home value. Conversely, the older the borrower, the more they can borrow.

3. When there is more than one borrower, the age of the youngest borrower is used to determine the loan amount.
4. If there is an “eligible non-borrowing spouse”, then the age of the youngest borrower OR the non-borrowing spouse will be used, whichever is less.

5. Although men and women have different life expectancies, the loan amounts were based on the female life expectancy tables, since typically women live longer.

6. There is no allowance made for health or disability, only age.

C. Cost – The Expected Rate: The rate that is used to calculate the loan amount available to the borrower (the Principal Limit) is called the “expected average mortgage interest rate” or simply the expected rate.

1. This rate is meant to be a predictor of the rates that will be charged over the life of the loan. It is never actually used to calculate accrued interest once the loan has closed.

2. The higher the expected rate, the lower the loan amount. If a loan is going to grow quickly, it needs to start out smaller in order to stay within the home’s value.

3. For the purposes of calculating the principal limit, the expected rate for all HECMs has a floor of 5.0%, regardless of whether the loan has a fixed or adjustable rate.
   a. This means that expected rates of 5.0% or below will generate the same principal limits
   b. Two loans with different expected interest rates will generate identical principal limits, as long as both rates are below 5.0%.

D. Principal Limit Factors (PLF) are periodically changed by HUD to allow HUD to manage risk to the FHA insurance pool. By decreasing the PLF’s, borrowers receive less funds from the HECM and there is a lesser chance that the loan balance will exceed the value of the home at the end of the loan. The following chart shows a sample of the current HECM Principal Limit factors. It may help to think of the Principal Limit Factors as percentages: .50 = 50%, .483 = 48.3%, etc. That’s really all they are.
### Sample HECM Principal Limit Factors

<table>
<thead>
<tr>
<th>Age</th>
<th>Expected Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.50%</td>
</tr>
<tr>
<td>62</td>
<td>.524</td>
</tr>
<tr>
<td>72</td>
<td>.591</td>
</tr>
<tr>
<td>82</td>
<td>.674</td>
</tr>
<tr>
<td>92</td>
<td>.750</td>
</tr>
</tbody>
</table>

The complete list of Principal Limit Factors can be found at:

**Figure the principal limit for a HECM loan**
(Yes, you can do it! Without a calculator!):

**Find the Principal Limit Factor in the table above, and multiply it by the home value.**

Bob is 72, the house appraises for $100,000 and he is considering a loan with an interest rate of 5.5%.

What is the Principal Limit for the HECM loan?

Another client is 62 with a $100,000 house and is looking at a loan at 6.0%.

What is the Principal Limit for a HECM loan?

What do you notice about the PLFs for 4.5% vs. 5%?
The reason they are the same is because the current floor on the rate at the time of this writing is 5%. The lower the rate, the higher the principal limit factor, which results in a larger loan amount. Setting a floor below which future rate reductions do not affect the PLF is another way for HUD to manage risk.

Principal Limit Factor tables may be adjusted by HUD based on economic and market conditions. The floor may also change. This comparison chart illustrates such changes.

### OLD HECM vs. NEW vs. NEAREST HECM PLF COMPARISONS

|                  | OLD HECM (BEFORE 9/30/13) | NEW HECM (9/30/2013 – 8/3/2014) | NEAREST (8/4/2014….)
|------------------|----------------------------|---------------------------------|------------------
| **Age 62**       | 5% expected rate 100,000 home value Could borrow 61.9 % or $61,900. | 5% expected rate 100,000 home value Could borrow 52.6 % or $52,600. | 5% expected rate 100,000 home value Could borrow 52.4 % or $52,400. |
| **Age 75**       | 5% expected rate 100,000 home value Could borrow 69.3% or $69,300. | 5% expected rate 100,000 home value Could borrow 58.9 % or $58,900. | 5% expected rate 100,000 home value Could borrow 61.4 % or $61,400. |
| **Age 85**       | 5% expected rate 100,000 home value Could borrow 74.7% or $74,700. | 5% expected rate 100,000 home value Could borrow 63.5 % or $63,500. | 5% expected rate 100,000 home value Could borrow 69.9 % or $69,900. |

#### 4.2 DELETED

Until 9/30/13, there was a fourth factor that determined HECM loan amounts – whether the borrower selected the HECM Standard or HECM Saver. In October 2010, HUD released a new variation on the HECM loan called the HECM Saver. The original HECM was called the HECM Standard. The HECM Saver was designed for borrowers who did not want or need to borrow all the funds they could have accessed under the Standard Program especially if they planned to keep the home for a relatively short period of time. The Saver used significantly lower Principal Limit Factors (Loan-to-Value ratios) in exchange for a much lower upfront Mortgage Insurance Premium - .01% (one-one hundredth of a percent) of the Maximum Claim Amount as opposed to 2% (two percent) of the Maximum Claim Amount under the HECM Standard. By lowering the loan amounts, HUD reduced the risk, and eliminated the need for the upfront MIP.
4.3  CASE STUDY

Using the loan comparison illustration at the end of this TAB, find the following:

1. Maximum Claim Amount (how much home value can be used) __________________

2. Principal Limit on the HECM 1 ________________________________

3. Principal Limit on the HECM 2 ________________________________

4. Principal Limit on the HECM 3 ________________________________
# The Reverse Mortgage Analyst

Jim and Patsy Henderson

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>LIBOR HECM 1</th>
<th>ANNUAL HECM 2</th>
<th>FIXED HECM 3</th>
</tr>
</thead>
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<td>1-yr LIBOR</td>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Adjusting Period</td>
<td>Monthly</td>
<td>Annual</td>
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<tr>
<td>Current Index Value</td>
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<tr>
<td>Plus Lender's Margin</td>
<td>2.250%</td>
<td>2.500%</td>
<td></td>
</tr>
<tr>
<td>Initial Loan Interest Rate</td>
<td>2.422%</td>
<td>3.174%</td>
<td>5.000%</td>
</tr>
<tr>
<td>Plus Mortgage Insurance</td>
<td>1.25%</td>
<td>1.25%</td>
<td>1.25%</td>
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<tr>
<td>Initial Total Loan Rate</td>
<td>3.672%</td>
<td>4.424%</td>
<td>6.250%</td>
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<tr>
<td>Initial Creditline Growth Rate</td>
<td>3.672%</td>
<td>4.424%</td>
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<tr>
<td>Lifetime Cap on Loan Rate</td>
<td>12.422%</td>
<td>8.174%</td>
<td>5.000%</td>
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<tr>
<td>HECM Expected Rate</td>
<td>4.460%</td>
<td>4.710%</td>
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<td>Monthly Service Fee</td>
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<td>$0.00</td>
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<td>$200,000</td>
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<tr>
<td>Home Value Limit</td>
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<tr>
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# The Reverse Mortgage Analyst

## Jim and Patsy Henderson

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<tr>
<th>Loan Program</th>
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<th>FIXED HECM3</th>
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<td>Monthly</td>
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<td>0.50%</td>
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<tr>
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<td>$0.00</td>
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<tr>
<td>Left for Monthly Advance</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
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<tr>
<td>Desired Monthly Advance</td>
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<td>$0.00</td>
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<td>Tenure</td>
</tr>
<tr>
<td>Total Upfront Costs</td>
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<td>$5,631</td>
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<tr>
<td>Maximum Tenure Advance</td>
<td>$187.00</td>
<td>$177.00</td>
<td>$146.15</td>
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</tbody>
</table>

**Notes:**
- **Frequency of rate change:**
- **Lender's rate to borrow:**
- **Lender's profit:**
- **Compounding (Total) rate:**
- **For ARM - 10% plus initial rate:**
- **10yr LIBOR + margin:**
- **Most borrower can owe at this point in time:**
- **One time fee. Part of Mandatory Oblign:**
- **5% or 2.5% depending on First 12 Month Disbursement:**
- **Mandatory Oblign - payoff forward mtg:**
- **Add'l funds available to borrow in year 1:**
- **Tenure payment using funds available after year 1:**
- **Annual MIP:**
- **Interest rate plus 1.25%:**
- **Not currently charged:**
- **Max Claim Amount:**
- **Not currently charged:**
- **2% MCA up to $200K + 1% add't MCA ($2500-$6000):**
- **Title ins, appraisal, etc.:**
- **Lump Sum Disbursement:**
- **Max: borrower can draw after Mandatory Obligns paid:**
- **Sum of orig. fee, Upfront MIP, and other closing costs:**
- **Monthly payment for as long as the borrower has the loan:**

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**NeighborWorks®America, 2015**

Page 49
**REVIEW QUESTIONS**

1. A HECM is a loan against the equity in a home. True or False?

2. The three factors that determine the loan amount for a HECM are:
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________

3. The Maximum Claim Amount on a HECM is defined as:
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________

4. The Principal Limit Factor is similar to the ______________________
in the forward mortgage world

5. A 62 year old borrower would get ____________ money from a HECM than an 82 year old borrower.

6. HUD recently lowered the Principal Limit Factors on a HECM because
   ____________________________________________________________
TAB 5

HOW MUCH DOES IT COST?

UPFRONT FEES AND SET-ASIDES
5.1 LOAN COSTS

HECMs, like any other mortgage, typically involve both upfront and recurring costs.

A. Upfront costs may include:
   1. Origination Fee
   2. Mortgage Insurance Premium (MIP)
   3. Third Party Costs

B. The borrower may pay these costs by using a loan advance (i.e., part of their principal limit) so the costs are “financed” and become part of the loan balance.
   1. This makes it easier for the borrower to afford the loan, but also adds to the final loan balance, since interest is charged on these amounts.

C. Recurring costs may include:
   1. Servicing Fees
   2. Annual Mortgage Insurance
   3. Interest

D. These costs are also financed, and become part of the growing loan balance. As a result, the interest and mortgage insurance costs are compounded – interest is charged on the interest. We will discuss these compounding costs later, in TAB 8.

5.2 UPFRONT COSTS

A. Origination Fee
   1. The origination fee compensates the lender for the activities involved in setting up the loan.
   2. Although origination fees in the forward mortgage world are typically 1% or less of the loan amount, the origination fee for HECMs is permitted by HUD to be as much as:
      a. 2% of the first 200,000 of Maximum Claim Amount
      b. plus 1% of additional home value
      c. BUT not more than $6000 total
      d. Lenders may always charge at least $2,500 on lower value homes
      e. Lenders may offer to waive or reduce origination fees.

COUNSELING PROTOCOL:

Counselors must explain the costs as well as the benefits of the HECM loan as part of the counseling session.

Origination = Lender activities related to setting up the loan
Practice calculating Origination Fee charges.
Remember: Origination fees may range from $2,500 - $6,000.

<table>
<thead>
<tr>
<th>Home value</th>
<th>2% x the first $200,000 of value</th>
<th>1% x the remaining value</th>
<th>Allowed origination fee</th>
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<td>$100,000</td>
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<td>+________________________</td>
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<td>+________________________</td>
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<tr>
<td>$700,000</td>
<td>____________________________</td>
<td>+________________________</td>
<td>__________________________</td>
</tr>
</tbody>
</table>

B. Mortgage Insurance Premium (MIP)

1. Mortgage insurance on HECM loans is paid to FHA, not to a private insurer, so it is referred to as MIP rather than PMI (private mortgage insurance). The premium comes in two parts
   a. Upfront premium: a one-time charge based on home value (MCA)
   b. Annual premium: an annual charge based on the loan balance

2. The upfront mortgage insurance premium is paid by the lender to HUD, typically using an advance from the borrower’s loan funds. The money becomes part of FHA’s mortgage insurance fund.
   a. This fund is used to pay claims to lenders if the borrower’s loan balance exceeds their home value at the time the loan is paid off.
   b. When the loan balance reached 98% of the Maximum Claim Amount, the lender may “assign” the loan to HUD and be paid the full loan balance from the FHA mortgage insurance fund.
c. This protection makes the HECM product more attractive to lenders, who know they have minimal risk of loss, regardless of what happens to the borrower’s home value.

d. FHA mortgage insurance also protects the borrower since it guarantees that:

   i. The borrower never has to repay more than the value of the house.

   ii. The borrower’s heirs do not have to use other funds to repay amounts that exceed the value of the home. This is called the “non-recourse” provision of the loan.

   iii. If the lender is unable to make loan advances to the borrower for any reason, HUD will take over and make the payments as agreed.

  e. The annual mortgage insurance premium will be discussed further in TAB 8.

3. Upfront mortgage insurance premiums

   a. must be charged on all HECM loans

   b. are not negotiable, though the lender could offer to offset the MIP by charging less for some other fee

   c. are based on home value (MCA), not loan amount

   d. are never refundable, regardless of the duration of the loan

4. Thus, MIP can represent a major part of the cost of a HECM, especially if a borrower plans to keep the loan a relatively short time or is borrowing a relatively small amount of money.

   a. Prior to 9/30/2013, the upfront mortgage insurance premium on a HECM loan was a flat 2% of the Maximum Claim Amount. HUD changed this through Mortgagee Letter 2013-27.

   b. The amount of the upfront mortgage premium charged to the borrower now depends on the amount of funds the borrower draws within the first year of closing the loan.

      i. If the borrower draws less than 60% of the available Principal Limit in the first 12 months of the loan, then the upfront mortgage insurance premium is 0.5% (one half percent) of the Maximum Claim Amount and can be paid or financed at closing.

      ii. The upfront mortgage insurance premium jumps to 2.5% of the Maximum Claim Amount if the borrower draws more than 60% of the available Principal Limit in the first 12 months of the loan.

COUNSELING PROTOCOL

Counselors must ensure that potential borrowers understand the benefits of FHA mortgage insurance.
iii. Note that the borrower rarely has a choice about which MIP they pay. A borrower without large existing liens or other mandatory obligations does not have the option of borrowing more than the 60% limit. Therefore, the 2.5% MIP will apply almost always where the HECM is being used to pay off large existing property liens such as forward mortgages.

c. The 60% limit includes any amounts used to pay off “mandatory obligations” such as an existing forward mortgage, property tax or other liens, loan proceeds set aside for required home repairs, all financed closing costs, delinquent Federal taxes, property taxes and/or insurance to be paid from closing, property taxes and/or insurance to be paid within the first 12 months of the loan. It also includes any amounts that the borrower chooses to take as a cash advance at closing.

i. For purchase transactions, the amount of Principal Limit advanced towards the purchase price of the property is considered a Mandatory Obligation.

Upfront MIP Examples:

<table>
<thead>
<tr>
<th>Example #1: Mandatory Obligations less than 60% of Principal Limit</th>
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</thead>
<tbody>
<tr>
<td>Maximum Claim Amount:</td>
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<tr>
<td>Principal Limit:</td>
</tr>
<tr>
<td>60% of Principal Limit:</td>
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<tr>
<td>Mandatory Obligations</td>
</tr>
<tr>
<td>Cash Available to Borrower at Closing:</td>
</tr>
<tr>
<td>Initial Mortgage Insurance Premium:</td>
</tr>
</tbody>
</table>
Example #2: Mandatory Obligations more than 60% of Principal Limit

Maximum Claim Amount: $200,000
Principal Limit: $100,000
60% of Principal Limit: $100,000 x .60 = $60,000
Mandatory Obligations: $70,000
10% of Principal Limit (optional draw): $100,000 x .10 = $10,000
Maximum Initial Disbursement at Closing: $70,000 + $10,000 = $80,000

Because the $80,000 disbursement is greater than 60% of the Principal Limit, the Initial Mortgage Insurance Premium will be 2.5% instead of 0.5%:

$200,000 x 0.025 (2.5%) = $5,000

**** If some of the HECM loan proceeds are used to pay off existing property liens, the borrower is allowed to draw the greater of 60% of the Principal Limit OR the sum of the Mandatory Obligations plus an additional 10% of the Principal Limit (assuming that much is left over). We will discuss this in greater detail in TAB 6.

Example #3: Mandatory Obligations between 50-60% of Principal Limit (Rare situation)

Maximum Claim Amount: $200,000
Principal Limit: $100,000
60% of Principal Limit: $100,000 x .60 = $60,000
Mandatory Obligations: $55,000
10% of Principal Limit (optional): $100,000 x .10 = $10,000
Maximum Initial Disbursement at Closing: $55,000 + $10,000 = $65,000

The $65,000 disbursement is greater than 60% of the Principal Limit so the Initial Mortgage Insurance Premium:

$200,000 x 2.5% (.025) = $5,000

HOWEVER, if this borrower chose an initial draw of only $5,000 instead of $10,000 beyond the Mandatory Obligations, s/he could keep the Upfront MIP at 0.5% and realize a $4,000 savings in closing costs ($5,000 MIP at 2.5% vs. $1,000 MIP at 0.5%).
Now let’s see how the Upfront MIP is reflected on the IBIS loan estimates:

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### TAB 5: How Much Does It Cost?  
Upfront Fees and Set-Asides

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<th>Loan Program</th>
<th>LIBOR HECM 1</th>
<th>ANNUAL HECM 2</th>
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<tr>
<td>Initial Total Loan Rate</td>
<td>3.672%</td>
<td>4.424%</td>
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<td>6.250%</td>
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<tr>
<td>Mortgage Insurance</td>
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<td>$1,000</td>
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<tr>
<td>MIP Percent</td>
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<td>0.50%</td>
<td>0.50%</td>
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<td>Other Closing Costs</td>
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<tr>
<td>Less Expenses in Year 1</td>
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<tr>
<td>Less Upfront Cash</td>
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</tr>
<tr>
<td>Available Funds in Year 1</td>
<td>$34,951.00</td>
<td>$34,951.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Less Selected Creditline</td>
<td>$82,231.00</td>
<td>$82,231.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Available in Year 1</td>
<td>$34,951.00</td>
<td>$34,951.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Left for Monthly Advance</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Desired Monthly Advance</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Possible After Year 1</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Monthly Term</td>
<td>Tenure</td>
<td>Tenure</td>
<td>Tenure</td>
</tr>
<tr>
<td>Total Upfront Costs</td>
<td>$6,969</td>
<td>$6,969</td>
<td>$6,969</td>
</tr>
<tr>
<td>Maximum Tenure Advance</td>
<td>$489</td>
<td>$501</td>
<td>$0</td>
</tr>
</tbody>
</table>
TAB 5: How Much Does It Cost?

Upfront Fees and Set-Asides

**The Reverse Mortgage Analyst**
Jim and Patsy Henderson

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>LIBOR</th>
<th>LIBOR 2</th>
<th>FIXED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HECM 1</td>
<td>HECM 2</td>
<td>HECM 3</td>
</tr>
</tbody>
</table>

- **Interest Rate Index**: 1-mo LIBOR, 1-mo LIBOR, Fixed Rate
- **Adjusting Period**: Monthly, Monthly, --
- **Current Index Value**: 0.173%, 0.173%, --
- **Plus Lender's Margin**: 2.673%, 2.923%, 5.060%
- **Initial Loan Interest Rate**: 1.25%, 1.25%, 1.25%
- **Initial Total Loan Rate**: 3.923%, 4.173%, 6.310%
- **Initial Creditline Growth Rate**: 3.923%, 4.173%, 6.310%
- **Lifetime Cap on Loan Rate**: 12.673%, 12.923%, 5.060%
- **HECM Expected Rate**: 5.280%, 5.530%, 5.06%
- **Monthly Service Fee**: $0.00, $0.00, $0.00
- **Home Value**: $100,000, $100,000, $100,000
- **Home Value Limit**: $625,500, $625,500, $625,500
- **Lesser of limit or home value**: $100,000, $100,000, $100,000
- **Loan Principal Limit**: $54,600, $52,400, $57,500
- **Less Service Fee Set-Aside**: $0, $0, $0
- **Available Principal Limit**: $54,600, $52,400, $57,500

- **Net Principal Limit**: $48,969, $46,769, $51,869
- **Less Current Debt Payoff**: $20,000, $20,000, $20,000
- **Less Home Repairs**: $0, $0, $0
- **Less Expenses in Year 1**: $0, $0, $0
- **Less Upfront Cash**: $0, $0, $0
- **Available Funds in Year 1**: $7,128.00, $5,809.00, $0.00
- **Less Selected Creditline**: $28,969, $26,769, $0
- **Available in Year 1**: $7,128.00, $5,809.00, $0.00
- **Left for Monthly Advance**: $0.00, $0.00, $0.00
- **Desired Monthly Advance**: $0.00, $0.00, $0.00
- **Possible After Year 1**: $187.98, $177.06, $0.00
- **Monthly Term**: Tenure, Tenure, Tenure
- **Total Upfront Costs**: $5,631, $5,631, $5,631
- **Maximum Tenure Advance**: $187, $177, $145

- **Annual MIP**
- **Interest rate plus 1.25%**
- **Not currently charged**
- **Max Claim Amount**
- **Not currently charged**
- **2% MCA up to $200K + 1% add'l MCA ($2500-$5000)**
- **Title ins, appraisal, etc.**
- **Lump Sum Disbursement**
- **Max. borrower can draw after Mandatory Obligns paid**
- **Sum of orig. fee, Upfront MIP, and other closing costs**
- **Monthly payment for as long as the borrower has the loan**

- **Frequency of rate change**
- **Lender's rate to borrow**
- **Lender's profit**
- **Compounding (Total) rate**
- **For ARM - 10% plus initial rate**
- **10yr LIBOR + margin**
- **Most borrower can owe at this point in time**
- **One time fee. Part of Mandatory Oblgn**
- **.5% or 2.5% depending on First 12 Month Disbursement**
- **Mandatory Oblgn - payoff forward mtg**
- **Add'l funds available to borrow in year 1**
- **Tenure payment using funds available after year 1**
## The Reverse Mortgage Analyst

**Jim and Patsy Henderson**

### Upfront Fees and Set-Asides

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>LIBOR HECM 1</th>
<th>LIBOR HECM 2</th>
<th>FIXED HECM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Value</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Home Value Limit</td>
<td>$625,500</td>
<td>$625,500</td>
<td>$625,500</td>
</tr>
<tr>
<td>Maximum Claim Amount</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Loan Principal Limit</td>
<td>$32,760</td>
<td>$31,440</td>
<td>$34,500</td>
</tr>
<tr>
<td>60% of Principal Limit</td>
<td>$19,656</td>
<td>$18,864</td>
<td>$20,700</td>
</tr>
<tr>
<td><strong>Mandatory Obligations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Origination Fee</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>3rd-Party Closing Costs</td>
<td>$2,631</td>
<td>$2,631</td>
<td>$2,631</td>
</tr>
<tr>
<td>Current Liens Paid Off</td>
<td>$20,000.00</td>
<td>$20,000.00</td>
<td>$20,000.00</td>
</tr>
<tr>
<td><strong>0.50% MIP Option</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Mortgage Insurance</td>
<td>$500</td>
<td>$500</td>
<td>$500</td>
</tr>
<tr>
<td>Total Mandatory Obligations</td>
<td>$25,631</td>
<td>$25,631</td>
<td>$25,631</td>
</tr>
<tr>
<td>60% of PL less Obligation</td>
<td>$7,129</td>
<td>$5,809</td>
<td>$8,869</td>
</tr>
<tr>
<td><strong>Cash Available in Year 1</strong></td>
<td><strong>$7,129.00</strong></td>
<td><strong>$5,809.00</strong></td>
<td><strong>$8,869.00</strong></td>
</tr>
</tbody>
</table>

**2.50% MIP Option**

<table>
<thead>
<tr>
<th>Loan Recap</th>
<th>LIBOR HECM 1</th>
<th>LIBOR HECM 2</th>
<th>FIXED HECM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIP Option Chosen</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Extra Cash w 2.50% in Year 1</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Extra MIP Expense w 2.50%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>APR on Extra Cash in Year 1</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Upfront Cash</td>
<td>$7,869</td>
<td>$7,869</td>
<td>$7,869</td>
</tr>
<tr>
<td>Creditline</td>
<td>$28,969</td>
<td>$26,769</td>
<td>$23,000.00</td>
</tr>
<tr>
<td><strong>Fixed-Rate Unusable Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Left for Monthly Advances</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>Advance if No Restriction</strong></td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Monthly Term</td>
<td>Home Tenure</td>
<td>Home Tenure</td>
<td>None</td>
</tr>
</tbody>
</table>

**First-Year Monthly Advances**

Possible after Year 1
Final Total Mandatory Obligation
Principal Limit after Year 1
Less Loan Balance
Less Service Set-Aside
Est. Avail. after Year 1
C. Third Party Costs: Third party costs are those paid to someone else besides the lender. The lender pays these charges and then passes them on to the borrower at closing. These costs can vary considerably from state to state, especially with regard to recording fees and taxes/stamps:

1. Appraisal
2. Credit report
3. Attorney or other settlement fees
4. Title search and title insurance
5. Required inspections
   a. Foundation inspections may be required on manufactured homes
   b. Well/septic inspections may be required if there are signs of problems
   c. Wood-destroying insect inspections may be required in some parts of the country.
6. Recording fees
7. Document preparation
8. Courier fees
9. State taxes and stamps
10. Counseling fees!

3rd Party Costs = Fees paid to service providers other than the lender
5.3 SET-ASIDES

Set-asides are not costs, because they don't immediately become part of the loan balance. Instead, they represent money reserved for a future purpose. The amounts will be added to the loan balance only when the funds are disbursed or earned by the servicer. Set-asides can be created for several purposes, described below.

A. Servicing Fees:
   1. The servicing fee compensates the loan servicer for ongoing activities that include:
      a. Making both scheduled and unscheduled payments to borrowers
      b. Accepting prepayments from borrowers
      c. Making mortgage insurance premium payments to HUD
      d. Keeping accurate records of mortgage balances
      e. Sending out regular statements of mortgage activity to borrowers
      f. Monitoring payment of property taxes and insurance
      g. Ensuring that borrowers are in compliance with the loan agreement
   2. Most consumers are perplexed by the monthly servicing fee. Most wonder why it is charged on reverse mortgages when it is not charged on forward mortgages. In fact, it is charged on forward mortgages, but it is included in the interest rate, so it is never explicitly identified and quantified.
   3. Monthly servicing fees may not exceed $30 for fixed rate HECMs and HECMs with annually adjusting interest.
   4. Monthly servicing fees may not exceed $35 for HECMs with monthly adjusting interest.
   5. Lenders may choose to waive the servicing fee entirely ($0 service fee), and this has become commonplace since 2010. In that case, the servicing costs are included in the interest rate as is commonly done with forward mortgages.

Set-Aside = Loan funds reserved for a specific future purpose

Servicing = Managing the loan after it is originated.
6. **Service Fee Set-Aside (SFSA):** If a servicing fee is charged, the lender sets aside from the borrower's principal limit the "present value" of the total monthly servicing fees from closing until the borrower would reach age 100, taking into account the growth of the principal limit.

   a. This reduces the funds available to the borrower at closing, typically by $4000-6000.

   b. This amount is credit, not debt, so it is NOT added to the loan balance at closing. Instead, it is "set aside" or held in reserve so that it cannot be spent in other ways.

   c. The loan servicer deducts its monthly fee from this credit amount and adds it to the loan balance each month during the life of the loan.

   d. Since very few borrowers live to age 100, the total amount set aside by the HECM program typically overstates the actual total amount likely to be charged on most HECMs during the life of the loan.

   e. If the loan is paid off early, the remaining amount in the SFSA is like the line of credit – simply money that was never borrowed and thus never has to be repaid. There is no “refund” of the SFSA because it was never charged to the borrower in the first place.

**B. Required Repairs**

1. If the home does not meet HUD’s Minimum Property Standards, the borrower must complete required repairs.

2. If the cost of the repairs is estimated to be **less than 15% of the Maximum Claim Amount**, the borrower may complete the work **after closing**. In these cases, the lender attaches a "repair rider" to the Loan Agreement, certifying that the work will be completed as required.

3. A **repair set-aside of 150% of the estimated cost of the repairs** is created, and this credit is not available for any other purpose until the repairs are complete and approved.

   a. Once repairs have been inspected, the money is disbursed to pay the contractors.

   b. Any remaining amount is returned to the borrower’s available credit (adjustable rate loans only).

   c. Fixed rate loans with a lump-sum distribution at closing do allow for the possibility of a repair set-aside, which is treated as a Mandatory Obligation. Unused funds may NOT be disbursed to the borrower after the repairs are complete.
C. Property Charge Set-Asides for Taxes and Insurance

1. Beginning in April 2015, lenders will be carrying out a Financial Assessment for each potential borrower. Based on this assessment, some borrowers will be required to have a Life Expectancy Set Aside (LESA) for property taxes and hazard/flood insurance.

2. A **Fully Funded Life Expectancy Set Aside** is required for borrowers whose credit and payment history does not indicate a willingness to pay property charges on time.

   a. If a Fully Funded Life Expectancy Set Aside is required, the amount of the set aside will be based on the amount of the property taxes and hazard and flood insurance each year with an adjustment factor to reflect anticipated rate increases over the loan term.

   b. The number of years of taxes/insurance set aside is based on the estimated life expectancy of the youngest borrower. In this case, the age of any non-borrowing spouse is NOT factored in.

   c. In addition, the set-aside takes into account the expected interest rate and annual mortgage insurance on the loan, because the funds set aside will grow over time. (See TAB 6 regarding creditline growth.)

   d. If there is a Fully Funded Life Expectancy Set Aside, the lender will draw funds from the set aside to pay property taxes and insurance on behalf of the borrower.

   e. Borrowers who are not required to have a Fully Funded Life Expectancy Set Aside can choose to set one up voluntarily. **HOWEVER, if a voluntary set aside is created, the borrower will NOT be permitted to revoke that choice later and use those funds for another purpose.**

3. Borrowers who have a good history of making their tax and insurance and other debt payments, but who may lack sufficient documented “residual income”, may be required to have a **Partially Funded Life Expectancy Set Aside**.

   a. The Partially Funded Life Expectancy Set Aside is based on the amount of additional income that would be required to bring the borrower up to a certain minimum level.

   b. For these borrowers, the lender will disburse a certain amount of money from the set aside directly to the borrower on a semi-annual basis, with the intent that the money will be used to pay property charges. The lender will not necessarily be checking to see that the money is used for that purpose, as long as the property charges actually get paid.

Property Charges = Property taxes, hazard insurance, HOA or condo fees, ground rents
c. **This option is only available to borrowers with adjustable rate loans.** Borrowers with fixed rate loans will be required to have the Fully Funded Life Expectancy Set-Aside, if a set-aside is determined to be necessary.

4. If the amount of funds set aside by the lender is not enough to cover the property taxes and insurance for the life of the loan, then the borrower is responsible for paying the taxes and insurance on their own after the funds in the set-aside are exhausted.

5. Borrowers are required to pay all other property charges (such as Homeowner Association dues) on their own.

6. Non-borrowing spouses in deferral status will not have access to any funds remaining in a property charge set-aside.
REVIEW QUESTIONS

1. Name three types of upfront costs that may be charged on a HECM loan

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

2. The ______________________ fee may always be at least $2500 but no more than ____________.

3. The upfront ______________________ on a HECM loan ranges from ____% to ____% depending on how much of the loan proceeds the borrower needs to draw in the first year of the loan.

4. Three other specific fees that may be charged on a HECM are:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

5. A ______________________ is money that is reserved from the principal limit for a future purpose.

6. Two examples of the above are:

________________________________________________________________________
________________________________________________________________________

7. True or False: If the borrower keeps the HECM for only a year, the remaining SFSA will be refunded.

8. If required repairs are less than __________% of the ________________________________, they may be completed after closing.
How do they get the money?
Payment plans
The HECM program was designed to allow maximum flexibility to meet a variety of financial needs. This tab section describes the ways in which borrowers can choose to access their loan funds, and the impact that this choice may have on the amount of credit available.

6.1 DISBURSEMENT LIMITS – NEW – 9/30/2013

During the foreclosure crisis and economic recession, there was severe pressure on the HECM mortgage insurance pool causing higher payouts of insurance claims. Contributing factors have been borrower selection of a fixed rate HECM product where they were required to draw all funds at closing (thereby leaving no funds to pay ongoing taxes and insurance), younger borrowers with large forward mortgage balances that needed to be paid off, loss of retirement savings, and high healthcare costs.

As a result, HUD has been working on a major overhaul of the HECM loan program with the primary goals of preventing borrower defaults and safeguarding the insurance fund.

On September 3, 2013, HUD released Mortgagee Letter 2013-27 which represented some of the most significant changes to the HECM program in over a decade. Changes that went into effect September 30, 2013 include the following.

A. There is now an initial disbursement limit on all HECM loans. The maximum disbursement allowed at closing is the greater of 60% of the Principal Limit OR the sum of all Mandatory Obligations plus 10% of the Principal Limit.

1. Mandatory Obligations include: the initial MIP, the loan origination fee, the HECM counseling fee, all third party closing costs, credit report, survey, title insurance, title exam, appraisal fees, delinquent Federal tax debt, first year property taxes and hazard/flood insurance if paid from loan proceeds, payoffs of forward mortgages and other property liens, and required set-asides.

2. The borrower is not required to take all or part of the available funds at closing. The disbursement limit only sets a cap on what the borrower is allowed to withdraw in the first year of the loan.

3. The borrower may choose to withdraw the available loan funds using any one of the six payment options described in Section 6.2 below, but the funds that s/he gets in the first year will be limited.

4. A borrower whose home is in good repair and who has a minimal forward mortgage balance typically will be able to withdraw up to 60% of his/her Principal Limit at closing or during the first year of the loan (including loan costs).

5. A borrower who has a large forward mortgage balance or other major property liens, or who needs costly home repairs will be allowed to withdraw more than 60% of the available Principal Limit at closing in order to cover these Mandatory Obligations, plus an additional 10% of the Principal Limit if desired.
EXAMPLE 1 – Mandatory Obligations of 60% or less of the Principal Limit:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Limit</td>
<td>$100,000</td>
</tr>
<tr>
<td>60% of Principal Limit:</td>
<td>$100,000 x .6 = $60,000</td>
</tr>
<tr>
<td>Mandatory Obligations:</td>
<td>$40,000</td>
</tr>
<tr>
<td>Initial Disbursement Limit:</td>
<td>$60,000 less $40,000 to pay off Mandatory Obligations leaves $20,000 that the borrower can withdraw at closing or in the first year after closing. The borrower can choose how to receive those funds.</td>
</tr>
</tbody>
</table>

EXAMPLE 2 – Mandatory Obligations greater than 60% of the Principal Limit:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Limit</td>
<td>$100,000</td>
</tr>
<tr>
<td>60% of Principal Limit:</td>
<td>$100,000 x .6 = $60,000</td>
</tr>
<tr>
<td>Mandatory Obligations:</td>
<td>$65,000</td>
</tr>
<tr>
<td>10% of Principal Limit (optional draw)</td>
<td>$100,000 x .1 = $10,000</td>
</tr>
<tr>
<td>Initial Disbursement Limit:</td>
<td>$65,000 + $10,000 = $75,000 which will pay off Mandatory Obligations and leave $10,000 that the borrower can withdraw at closing or in the first year after closing.</td>
</tr>
</tbody>
</table>

6. If the loan is an adjustable rate product, at the end of the first 12 months, the borrower may withdraw the remaining loan proceeds up to the available Principal Limit. Fixed rate loans do not permit draws after closing.

7. The lender is responsible for calculating the Initial Disbursement Limit dollar amount as well as any Mandatory Obligations.

8. The servicer is responsible for monitoring and tracking all disbursements made to the borrower in the first 12 months of the loan, to make sure they do not exceed the Initial Disbursement Limit.
6.2 PAYMENT PLANS

The borrower may select any one of six payment plans, or patterns of loan advances:

- tenure,
- term,
- line of credit,
- modified tenure
- modified term or
- single lump sum disbursement

These options, and their combinations, give the borrower great flexibility in accessing their loan funds. In every case, **interest is charged only on the amount that the borrower has actually received at a particular point in time.** Therefore, different payment plans can result in significantly different costs to the borrower over time.

Payment plans can be thought of as simply different ways of “slicing the pie” of available credit:

- Do I want small slices on a regular basis, letting someone else figure out how large the slices should be?
- Do I want to decide for myself when to get a slice and how large the slices are?
- Do I want it all at once?

A. The **tenure** option provides equal monthly payments to the borrower for as long as the borrower lives in the home as a principal residence.

1. This plan provides the long-term security and convenience of a **monthly income supplement that lasts until the borrower dies, sells, or moves.**

   (Although the loan balance is scheduled to equal the principal limit when the youngest borrower reaches age 100, payments continue for as long as the borrower lives in the home as a principal residence, no matter how long that is.)

2. Remember that tenure payments are **not “for life”**; they are for “as long as the borrower lives in the home”. Payments would stop if the borrower moves elsewhere.
3. The payments are a fixed amount; they do not change from month to month and are not adjusted to account for inflation. In the future, they will probably buy less than today because of inflation.

4. Tenure payments are not affected by interest rate changes during the life of the loan. Payment amounts are calculated using the expected rate that was in effect at the time of loan origination.

5. Tenure payments are very convenient for the borrower, because the payments are disbursed automatically on the first of each month, and can be direct-deposited to the homeowner’s bank account, so that no action needs to be taken to get the money.

B. The term option provides equal monthly payments to the borrower for a fixed period of time chosen by the borrower at closing.

1. This plan can provide larger monthly payments than the tenure plan. Because the borrower is electing a smaller number of payments, each payment will be larger, compared to a tenure plan. The shorter the term, the larger the payments will be.

2. The borrower may either select a period of time over which to receive the funds (e.g., 7 years), or an amount of money they wish to receive (e.g., $1000/month for as long as possible.). If the latter, then the lender calculates how long the term will be before the available funds run out.

3. Either way, the payments stop on a specific date, based on the chosen term, and no further loan advances are available once the term runs out. Repayment is not required for as long as the borrower lives in the home as a principal residence.

4. Like tenure payments, term payments are fixed amounts and thus are vulnerable to erosion by inflation.

5. Term payments are calculated using the expected rate at closing and are not affected by later interest rate adjustments.

6. Like tenure payments, term payments are disbursed automatically, making them convenient for the borrower.

C. With the line of credit (or creditline) option, the borrower selects the timing and amount of the loan advances, until the line of credit is exhausted.

1. The HECM line of credit functions very much like a standard home equity line of credit (HELOC) or, in many ways, like a credit card. The credit card analogy often helps clients understand how it works.

2. Interest is charged on only the amount that is actually borrowed (i.e., drawn as a loan advance.)
3. Borrowers can request loan advances at will, as often as they like.

4. Creditline draws may be in any amount, up to the maximum available (subject to the First 12 Month disbursement restrictions). Some lenders may have a minimum draw, such as $100, to prevent the servicing cost of many small draws.

5. This plan may be attractive to persons who do not have a monthly income shortfall, but who do have difficulty paying for larger, irregular, or unexpected expenses.
   a. Some borrowers use the line of credit for predictable but major expenses, such as property taxes.
   b. Others might use the line of credit for less predictable needs, such as to replace a heating system, repair a roof, or pay for a major car repair or medical bill.
   c. Some borrowers set up the line of credit “just in case” because they want to have the security of knowing they have funds available for unknown future needs.
      i. If a borrower obtains a reverse mortgage “just in case,” and then does not use the line of credit very much, the cost of setting up and insuring the loan could be expensive relative to the amount of cash received by the borrower.
      ii. On the other hand, many borrowers feel that the peace of mind they are purchasing is worth the financial cost.

6. Many borrowers like the control and flexibility offered by the line of credit. Others may not like the responsibility of managing the funds, and may prefer the certainty of a monthly payment plan.

7. The amount of credit available to the borrower in a HECM line of credit grows larger every month until all remaining funds have been withdrawn by the borrower. This is called “creditline growth”.
   a. The creditline growth rate is exactly the same as the rate at which the loan balance is growing (the compounding rate, see TAB 8).
   b. **Creditline growth is NOT “interest”** paid to the borrower. Instead, it is an increase in the borrowing capacity under the loan, similar to a credit-limit increase on a credit card.
c. The result of creditline growth is that the borrower who does not use all the funds right away will end up with access to a larger amount of their home’s value than if they had taken the funds all at once.

d. The line of credit continues to grow monthly even if borrower has “maxed out” the first year disbursement amount. The additional funds would become available after the first year.

e. Credit remaining at the time of the borrower’s death is simply money that was never borrowed and does not have to be repaid.

f. Remaining credit does NOT represent money that the heirs can use to pay off the loan or for other expenses after the borrower’s death. This is similar to a credit card, which also cannot be used after the cardholder’s death.

D. The modified tenure and modified term options combine either monthly payment plan described above with a line of credit.

1. Adding a line of credit to a tenure or term plan reduces the monthly payment, because part of the available principal limit is being reserved in the creditline and thus cannot be used to create monthly payments.

2. The borrower decides how much of the available credit should be reserved in the line of credit, or can specify a desired monthly payment and put the remainder in a line of credit.

3. Consumers thinking about a monthly payment plan should consider the added flexibility that a modified plan provides.

   a. The line of credit creates a readily-available cash reserve for emergency or occasional expenses. This can be especially valuable for borrowers who have no savings or other liquid assets at their disposal in case of a sudden and urgent need for funds such as a furnace repair.

4. Borrowers who have limited income may choose to use a modified plan in order to have monthly cash flow combined with available credit that can be used to pay taxes or do home repairs.

5. If the borrower elects a plan that includes a monthly payment, the payments in the first year might be reduced because of the first year disbursement limit. After the first year has passed, the full remaining principal limit will become available, and the remaining monthly payments will be based on that amount.

E. A single disbursement lump sum payment option is a new payment choice effective 9/30/2013. This replaces the old lump sum payment option that permitted the borrower to access 100% of the Principal Limit. Instead, this option is limited to a single disbursement at loan closing which cannot exceed the greater of 60% of the Principal Limit OR Mandatory Obligations (forward mortgage payoff, financed closing
costs, tax liens, repair set asides, and first year tax and insurance payments if required by the lender) plus an additional 10% of the Principal Limit. The borrower cannot make any additional draws after closing.

This option was created in order to prevent borrowers from taking the full principal limit at closing, whenever possible, since these full draws were associated with a much higher default rate.

1. This is the only payment option that is available with a fixed interest rate. As of June 2014, HUD guidelines allow it to be used only with a fixed rate; it is not available with an adjustable rate.
   a. Lenders historically have preferred the fixed rate option because they could earn a higher profit when they sell these loans.
2. When a borrower withdraws all currently available funds in a lump sum, the borrower cannot obtain any additional cash advances. Therefore, borrowers who take out all of the available loan proceeds in an initial lump sum after closing will lose the benefit of creditline growth as well as potentially losing part of the Principal Limit due to the initial disbursement limit.
   a. Often borrowers, trained that fixed rate loans are “safer” in the forward mortgage arena, will choose a fixed rate HECM thinking that it is always more advantageous than an adjustable rate loan. Of course one of the reasons to get a fixed rate forward mortgage is to avoid fluctuations in monthly payments. HECM borrowers do not make monthly payments on the loan.
3. Borrowers who do not need all of the funds available from the HECM or who prefer a fixed rate loan may prefer the single disbursement lump sum payment. However, it is very important for them to understand that they may be giving up access to some of their loan funds if they choose this option.
   a. An initial lump sum advance can be used to pay off an existing mortgage or other lien. This strategy can be used to stop foreclosure on a delinquent forward mortgage or home equity loan.
   b. Lump sum advances can also be used for other purposes, such as to purchase an annuity or other investment, to buy a second home, to pay off credit cards, or simply to have money readily available for future uses. There are no restrictions on the use of the loan funds.
   c. Some borrowers just prefer to have their money in their own bank account rather than having to request a draw from the servicer. However, with the new Single Disbursement option, this will likely be less appealing since it will significantly lower the amount they can get.
d. One particular use of a lump sum is to purchase a home, using the HECM for Purchase option.

i. Using this option, the borrower makes a substantial down payment or “required monetary investment”, effectively establishing instant equity in the property. Then the HECM is used to pay the remainder of the sales price.

ii. Loan calculations for the HECM for Purchase are identical to the ordinary HECM.

iii. See Mortgagee Letter 09-11 for more details.

iv. Under the new rules, the borrower can make use of 100% of the Principal Limit to cover the down payment and closing costs. The down payment is not limited by the 60% initial disbursement amount because it is considered a mandatory obligation.

6.3 FUTURE CHANGES IN PAYMENT PLANS

The HECM program permits the borrower to change from one payment plan to another at any time for a small fee (now limited to $20), as long as funds remain available. Note that borrowers who choose the Single Disbursement Lump Sum draw will not have the option of changing plans later.

A. The borrower may also change the term of a payment plan, suspend payments, or request an unscheduled lump sum payment at any time.

1. However, borrower draws are restricted to 60% of the principal limit in the first year of the loan or the mandatory obligations plus 10% whichever is greater.

2. After the first year of the loan, the borrower can access the remaining loan proceeds as a creditline, term, tenure, modified term, modified tenure. If the borrower withdrew all available funds, this draw could be as large as the difference between the principal limit (less any set asides) and the current principal loan balance (This is called the net principal limit).
Why does the line of credit grow?

The strange story of Lucy Lumpsum and Connie Creditline *

Once there were two sisters who were the same age and had houses of exactly the same value, $250,000. They both got HECM loans on the same day, from the same lender, at the same interest rate.

Lucy wanted all of her money at one time, so she took the maximum single disbursement lump sum draw from her HECM. She borrowed $100,000: $90,000 for herself and $10,000 for closing costs. After 5 years, Lucy had a loan balance of $150,000, which included the $10,000 in closing costs, $90,000 draw, and $50,000 of ongoing interest and mortgage insurance charges.

Her sister, Connie, chose to draw only $25,000 at closing: $15,000 for herself and $10,000 for closing costs. Connie did not want to take advances until later, when she really needed the money. After 5 years she had a loan balance of $30,000, which included the $10,000 in closing costs, $15,000 draw and $5,000 of ongoing interest and mortgage insurance charges. The money she held back in the creditline started with a beginning balance of $75,000. If $75,000 were all that Connie could borrow, it would seem like Lucy “borrowed” more money, even if Lucy didn’t “get” more money (Lucy’s loan balance was already up to $150,000.)

However, HUD makes it possible for each borrower to hold the same amount of debt. To do this, HUD allows the creditline to grow continuously at the very same rate that the loan balance grows – the interest rate plus the annual mortgage insurance rate. By waiting, a patient borrower will see his or her creditline grow, making more money available to be borrowed later. This way, at any given time, both borrowers can achieve the same debt, although Lucy’s debt is made up of more interest and mortgage insurance charges, whereas Connie’s debt can be made up of more draws.

<table>
<thead>
<tr>
<th>LUCY LUMP SUM</th>
<th>CONNIE CREDITLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Balance</td>
<td>Available</td>
</tr>
<tr>
<td>100,000</td>
<td>0</td>
</tr>
<tr>
<td>106,000</td>
<td>0</td>
</tr>
<tr>
<td>117,000</td>
<td>0</td>
</tr>
<tr>
<td>128,000</td>
<td>0</td>
</tr>
<tr>
<td>139,000</td>
<td>0</td>
</tr>
<tr>
<td>150,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Balance owed grows at Compounding Rate  
Balance owed + Available Creditline $  
both grow at the Compounding Rate

By being patient, in Year 5 Connie can draw $120,000 to add to the $15,000 she originally drew for herself ($135,000). Meanwhile, Lucy only received her initial $90,000. Should Connie choose to take the funds, she and Lucy will now have the same debt balance.

The way that this actually works is that the entire principal limit for any HECM loan starts growing from Day One, and continues growing until the loan is paid off. Remember that the principal limit is defined as the maximum possible loan balance at any given time in the life of the loan. For people who take the lump sum, all the growth gets used up by the accruing interest and mortgage insurance. For the borrowers who get monthly payments, the estimated growth is factored in when the payments are calculated, and the real growth is hidden behind the unchanging monthly payments. Only for the creditline borrowers does the growth clearly show up in additional borrowing power.

* This is a simplified example.
Matching Payment Plans with Client Goals or Needs

Client 1 Name: _______________________________________________________

Payment Plan: _______________________________________________________

Client Goal that goes with this Payment Plan ___________________________

____________________________________________________________________

Name of participant who had this Client Goal ____________________________

Client 2 Name: _______________________________________________________

Client Goal _________________________________________________________

____________________________________________________________________

Payment Plan that goes with this Client Goal _____________________________

____________________________________________________________________

Name of participant who had this Payment Plan _________________________
Uses of Payment Plans

Why might someone choose these payment plans?

**Tenure:** Fixed monthly payment for the duration of the loan
- ________________________________
- ________________________________
- ________________________________
- ________________________________

**Term:** Fixed payment for a specified period of time
- ________________________________
- ________________________________
- ________________________________
- ________________________________

**Line of Credit** (aka creditline or LOC): Payments as chosen by the borrower.
- ________________________________
- ________________________________
- ________________________________
- ________________________________

**Lump Sum:** All at once
- ________________________________
- ________________________________

**Modified Tenure or Term:** Line of credit plus smaller monthly payment
- ________________________________
- ________________________________
- ________________________________
REVIEW QUESTIONS

1. Tenure payments last for as long as ____________________________

2. True or false: Changes in the interest rate after closing will affect the amount of monthly term payments.

3. The unused part of the line of credit grows at a rate which is equal to:

4. True or false: If the borrower dies, the remaining creditline can be used to pay off part of the loan balance.

5. An increase in the interest rate will cause the creditline to grow _____________.

6. If the home value decreases, the creditline will ________________________.

7. Fixed rate loans require which payment plan?_________________________

8. When can changes to the borrower's payment plan be made?

______________________________________________________________
HOW DOES IT HAPPEN?
LOAN PROCESS
7.1 BEFORE COUNSELING

Reverse mortgage counseling is meant to ensure that a potential borrower has an opportunity to learn about the reverse mortgage from a neutral source -- **before the borrower has made any commitments or spent any money.**

Therefore, some restrictions are placed on what a lender is permitted to do prior to counseling. Lenders may vary in terms of their internal policies, and some may do as little as possible before counseling, while others do as much as they are allowed to do.

A. **Initial Contact:** Borrowers hear about reverse mortgages through a variety of sources: television advertising, a letter or postcard in the mail, an unsolicited phone call, articles in the news media, websites, or through a friend or family member.

1. If interested, the homeowner makes contact with a lender via a phone call or internet information request.

2. A lender, or in some cases a “lead management” company, responds to the request by providing brochures, a DVD, or other materials, usually followed up with a phone call (or several).

3. Once the potential borrower has been determined to be interested and to be a viable lead, some lenders will go beyond general loan information to provide personalized loan estimates and disclosures. Some lenders choose to wait until after counseling to provide these documents.

   a. If the loan officer is in the client’s local area, a home visit is common, with an extended conversation regarding the borrower’s needs and goals.

   b. If the loan officer is working out of a call center, this stage may consist of multiple, sometimes lengthy, phone calls.

   c. Some lenders also send the borrower a loan application at this point and ask them to sign and return it, with personal documents such as a copy of the borrower’s Social Security card and driver’s license. While this is not prohibited, it frequently does make it harder for a borrower to consider “shopping around” for another lender.

   d. The goal at this stage is to forge a relationship with the potential borrower, and, if possible, create a sense of loyalty to this loan officer prior to counseling.

B. **Referral to Counseling:** Before the lender can do anything that results in a charge to the consumer, such as ordering an appraisal, the lender must refer the borrower for counseling.

1. The lender may not collect any fees from the borrower prior to counseling, except for the cost of a credit report.
2. Lenders are required to give the borrower a list of counseling agencies, which must include the “intermediaries” (large national and regional organizations which may have a number of individual counseling agencies under their umbrella) designated by HUD.

3. Lenders must also provide names of at least five agencies which are in the borrower’s home state or a neighboring state, at least one of which is to be within 50 miles of the borrower’s residence so that they can seek face-to-face counseling if desired.

4. Lenders are not supposed to “steer” borrowers toward or away from particular agencies, but they are also not required to give the borrower a complete list of agencies in the borrower’s state or local area.
   a. It is allowable, and common practice, for the lender to do some legwork such as finding out how long the wait will be, or whether particular agencies charge a fee or not.

5. Lenders are not permitted to make the appointment for the borrower.
   a. This includes the lender dialing the phone and then handing it to the borrower, the lender leaving the counselor a message to call the borrower, etc.

6. Lenders are also not permitted to contact the counseling agency for the purpose of finding out whether an appointment has been scheduled or completed, whether a certificate has been issued, etc.
   a. When agencies receive such calls, the appropriate response is to refer the caller back to their client for that information, neither confirming nor denying that an appointment has been scheduled or completed.

7. The borrower selects an agency from the lender’s list, and contacts a counseling agency for an appointment. The counseling request is to be made by the borrower or their legal representative, not by other third parties.
7.2 COUNSELING

The following is a brief outline of the counseling process. Details are provided in TAB 16 and in the HECM Counseling Protocol.

A. Intake: The counseling agency collects basic information from the borrower and schedules an appointment.

B. Pre-counseling information gathering: Some agencies mail a budget questionnaire or other application form to the borrower for completion prior to the appointment.

C. Counseling session: This may be in person, by telephone, or potentially using interactive online methods such as webinars or Skype, but must be individual. Group educational sessions in themselves are not sufficient to qualify as counseling. There may be a single contact or in some cases two or more contacts.

D. Counseling certificate: After completion of counseling, the client receives the official HUD Certificate of HECM Counseling. This certificate is given to the lender if the borrower has chosen to proceed with the loan.

7.3 BETWEEN COUNSELING AND CLOSING

A. On receipt of the Certificate from the homeowner, the lender gets the borrower to sign a loan application, if not already done, and then orders an FHA case number and an appraisal.

1. The application package may include loan estimates, sample mortgage, note, and loan agreement documents, a Good Faith Estimate of closing costs, a TALC disclosure and other disclosures.

   a. Signing the loan application is not a commitment! (Though lenders obviously hope clients will feel that it is.)

   b. Borrowers can still choose to go to another lender, or choose a different loan product.

   c. It is common to find out during the counseling session that borrowers have already signed a loan application for a particular product, without understanding what that meant. It is NOT too late to change to a different loan product at that point – the lender just has to redisclose and have the borrower sign some different paperwork.

2. The FHA case number links a particular borrower to a particular lender.

   a. If the borrower chooses to go to a different lender, the case number and certificate will need to be transferred.

   b. For this reason, it may be a good idea for the client to retain the certificate until they have made a final choice of lender. (Holding on to the certificate is also good for the client’s bargaining power.)
c. Recent changes do allow a new lender to transfer the case number without the active cooperation of the original lender.

3. The lender is not permitted to hand-pick an appraiser or to have extensive communication with the appraiser.
   a. This is an attempt to prevent formerly commonplace practices in which the lender would tell the appraiser what value was needed in order to make the loan go through, and the appraiser, in order to receive further work from the lender, would write the appraisal to match the stated need. Inflated appraisals have been a significant method for fraud in the HECM program.

4. If the appraisal is too low, the borrower must wait 4 months before obtaining another appraisal. Again, this is to help prevent appraisal-shopping for a particular value.

B. The **FHA-approved appraiser will determine the fair market value of the home**, and will also determine whether or not the house meets FHA minimum standards for health and safety, location/zoning, property type, etc.
   1. As discussed earlier, the appraiser is responsible for identifying any repairs that would be required to meet FHA standards.
      a. FHA standards require the home to be free of health or safety hazards, and to have all basic systems (windows, doors, roof, heating, plumbing, electricity) intact and functioning.
      b. Cosmetic problems, such as defective interior paint or carpeting, are not typically a problem, unless they cause a safety hazard.
   2. If there are required repairs, the borrower will be asked to get estimates for the cost of the repairs.
   3. Again, this process should be independent of the lender, to prevent possible collusion between dishonest lenders and contractors. There have been a number of cases of fraud involving contractors who took all the loan money and did not complete the work.

C. In addition to checking property eligibility via the appraisal, the lender will check on borrower eligibility.
   1. This includes verifying the borrower's age, ownership and occupancy status.
   2. As noted previously, beginning April 27, 2015, lenders are required to perform a Financial Assessment for all HECM applicants. The assessment will include traditional income sources used in a forward mortgage analysis as well as income from assets that the borrower can convert to cash. The lender will also look at the borrowers' expenses and credit history to determine whether they will be able to meet their financial obligations after obtaining a HECM loan. The details of this assessment are set out in Mortgagee Letter 2014-22, which includes the HECM Financial Assessment and Property Charge Guide.
a. These new FHA lender guidelines are intended to ensure that applicants can responsibly meet the obligations of a HECM loan.

b. At this time (March 2015), it is unclear at what point in the process the Financial Assessment will be carried out. It may or may not take place prior to the appraisal.

3. As part of the financial assessment, the client’s credit report will be pulled. The credit report is used for several purposes.
   a. To check for existing mortgages or other liens (such as tax liens, judgment liens or contractors’ liens) on the property
   b. To check for delinquent federal debt (e.g., income taxes, student loans, small business loans, etc.), which must be paid or a satisfactory repayment plan put in place in order for a HECM to be insured by FHA. Reverse mortgage funds can be used to pay delinquent income tax debt, but other forms of federal debt need to be resolved with the relevant agency before the client can get a HECM.
   c. To examine the borrower’s payment history on installment and revolving debt,
   d. To look for accounts sent to collections

4. The client will be required to supply detailed documentation of income, assets, expenses, and payment of property charges including taxes and insurance. Once this information has been reviewed by the underwriter, a decision will be made as to whether a Life Expectancy Set-Aside for taxes and insurance will be required.

5. The lender will also carry out other activities such as:
   a. ordering the title search
   b. procuring title insurance
   c. verifying homeowner’s (hazard) insurance and flood insurance if required.
      i. Borrower must have replacement value coverage for the structure.
      ii. If the borrower has not been carrying homeowner’s insurance because s/he doesn’t have a mortgage that requires it, s/he will need to arrange for coverage and pay a year’s premium in advance at closing.
   d. verifying property tax payment status (must be current or made current using reverse mortgage funds or otherwise)
   e. arranging services from an attorney or other closing agent, and other third party providers.

6. The lender’s underwriting department reviews the loan for compliance with HUD regulations and additional investor requirements.
a. Underwriters may impose requirements that go beyond FHA’s minimum standards. For example:

i. Some lenders will not do HECMs on manufactured housing

ii. Some will not do HECMs on properties in foreclosure

iii. Some will impose a minimum “seasoning” requirement, meaning that the homeowner must have lived in the home for a particular period of time, such as six months or a year.

7.5 CLOSING

Once the lender’s underwriting department has reviewed and approved the loan, a closing date will be set.

A. At closing, the borrowers sign documents including the:

1. First Mortgage (or Deed of Trust) and First Note
   a. These documents establish the borrower’s pledge of the property as collateral for the loan, and the borrower’s promise to pay.

2. Second Mortgage (or Deed of Trust) and Second Note
   a. These documents establish that FHA holds second position.
   b. This guarantees that, if the lender fails or assigns the loan to HUD, HUD will have legal right to take over the HECM and enforce the terms of the mortgage, with no possible intervening liens.
   c. The Second Mortgage and Note are no longer required for fixed rate loans with the Single Disbursement Lump Sum payment. (ML 2014-11)

3. Loan Agreement
   a. This document sets out the terms of the loan, and the agreements, or “covenants”, that the borrower is making with the lender.

4. Truth-in Lending Disclosure (TIL)
   a. Required by federal law, the TIL discloses the true cost of the credit being extended. There are different disclosures for open-ended and closed-ended loans (i.e., in the HECM world, adjustable and fixed-rate HECMs).

5. HUD-1 Settlement Statement
   a. This document itemizes the costs being charged to the borrower at closing.

6. Other required items such as Non-Borrowing Spouse disclosures.
# 7.6 AFTER CLOSING

A. Borrowers are granted a **3-day Right of Rescission** after closing, meaning they have three business days to cancel the agreement.

1. This cancellation must be in writing and be post-marked no later than midnight of the third business day after closing.
2. Business days include Saturday as long as Saturday is not a holiday.
3. After the Right of Rescission period, loan funds are disbursed to pay 3rd party costs, existing liens, and unpaid first-year property taxes and insurance.
4. Any remaining credit is now available to be used by the borrower.
5. The 3-day Right of Rescission does not apply to HECM for Purchase transactions.

B. **Two liens are recorded** against the borrower’s property, at least for adjustable rate loans.

1. As previously noted, the lender will be the first lien holder and HUD will be in second position.
2. Each lien may be recorded for up to 150% of the Maximum Claim Amount.

C. The loan goes to HUD for endorsement of insurance, which can take a few weeks.

D. The loan will almost certainly be sold to an investor or group of investors.

1. In the past, all HECMs were sold to Fannie Mae as the sole investor.
2. More recently, HECMs are being securitized (“ Bundled” with other loans and sold in shares).

E. The responsibility for managing the loan day-to-day is contracted to a **servicer**. In some cases, this could be the same lender that originated the loan, but more often it is a third party.

1. The borrower is notified of the loan sale and who the servicer is but often doesn’t read or understand the notification. Many borrowers think the loan originator is handling the transactions.
2. The servicer interacts with the borrower in a number of ways, including:
   a. Disbursing funds to the borrower after closing, via monthly payments or creditline draws
   b. Sending mortgage insurance premiums to HUD each month
   c. Issuing notifications of interest rate changes
      i. Notifications must be sent prior to each change, so they are issued monthly in the case of the monthly adjustable HECM. In that case they
are typically combined with the statement of balance and remaining credit, described below.

d. Issuing statements of the mortgage balance and remaining credit
   i. Creditline borrowers are to receive a statement after every draw, informing them of the amount of remaining credit.
   ii. All borrowers must get at least an annual statement of their balance. Some borrowers may receive them as often as every month.

e. Processing payment plan change requests.

f. Monitoring borrower residency and obtaining at least annual certification of residency from the borrower and any non-borrowing spouse.

g. Monitoring payment of property taxes and insurance and notifying the borrower if there is a problem.

h. Paying property taxes and insurance on the borrower’s behalf if the borrower has a full life expectancy set-aside, and notifying the borrower if set-aside funds run out.

i. Issuing due-and-payable requests when appropriate.

j. Working with the borrower or estate to get the loan paid off.

7.7 PAYMENT PROCESS

It is important for the borrower to understand the normal process by which loan funds are to be disbursed. Some borrowers have been defrauded by loan officers or brokers who persuaded them to sign over proceeds, supposedly to be disbursed by the loan officer.

A. If the borrower has chosen to take any available credit as a lump sum draw, the funds are disbursed after the expiration of the rescission period.

B. Borrowers who choose the creditline option may request funds at any time after the rescission period, in any amount up to the First 12 Month Disbursement Limit. After the first year, the remaining loan proceeds (up to the Net Principal Limit) will be available to the borrower.

1. With this option, the borrower is in charge of the creditline – it is up to them to make the money last as long as it needs to.

2. The borrower is not required to explain why they want the money, and they cannot be turned down, as long as there are funds in the creditline.

3. The servicer has 5 business days from receipt of each request to forward the funds by live check or
electronic funds transfer (direct deposit.)

C. Monthly payments (tenure or term) are disbursed automatically on the first business day of each month.

1. The payments are made by the servicer from the remaining credit. The servicer is in charge of the credit, in the sense of determining the amount that can be disbursed each month in order to make the requested number of monthly payments.

2. However, remember that the borrower can always change payment plans as long as there are undisbursed loan proceeds!

3. A borrower may request an unscheduled draw from the remaining credit at any time. This would require a recalculation of monthly payments and would lower the monthly payment amount.

D. At any point, as long as there is remaining credit, the borrower can change payment plans.

1. The servicer is allowed to charge a fee of no more than $20 to change the plan.

E. If a payment is made late, the servicer must pay a penalty of 10% of the payment amount to the borrower, plus interest. This fee is capped at $500.

1. This penalty may **not** be added to the borrower’s loan balance.

### 7.8 WHAT IF THE MONEY RUNS OUT?

Reverse mortgages provide a limited amount of funds to the borrower; therefore, it is possible for the borrower to reach that limit.

A. Each advance from the HECM causes the loan balance to grow, and the **net** principal limit to shrink.

1. Net Principal Limit = Principal Limit – Set-asides (if any) – Loan Balance

2. The net principal limit is the part of the loan that is still available to the borrower.

3. Once the loan balance is equal to the Principal Limit, borrowers have no access to additional funds -- regardless of what happens to the value of the home or the age of the borrower. “When it’s gone, it’s gone!”

This would happen if the borrower uses all the remaining funds in the line of credit at any time in the life of the loan.
B. What does this mean for the borrower? Do they have to move out of the home?

1. **NO!**
2. As long as the homeowner keeps up with maintaining the house and fulfilling their financial obligations (taxes, insurance, HOA fees), they may keep the loan and continue to live there.

C. There are some cases when the loan balance can actually exceed the principal limit and the borrower can still receive payments – the monthly payment plans.

1. **“Tenure”** in the HECM world means “as long as the borrower lives in the house”, so these payments will continue even if the loan balance equals the principal limit.
   a. Tenure payments are calculated with the assumption that the borrower will receive payments until age 100. The calculation also assumes that the available credit, from which the monthly payments are drawn, is growing at the expected interest rate plus the annual MIP throughout the life of the loan. (This could be called the “expected compounding rate”.)
   b. In reality, though, the actual amount of credit available at any particular time is determined by the actual compounding rate (current interest rate plus annual MIP) on the loan. If the actual interest rate on the loan remains lower than the expected rate, the available credit does not grow as quickly as predicted, and the loan balance might actually equal the principal limit before the borrower reaches age 100.
   c. However, the borrower will still continue to receive monthly payments indefinitely, even after the principal limit has been reached.
   d. Even if the borrower lives beyond age 100, payments continue.
   e. With a modified tenure plan, the borrower might exhaust the creditline but the tenure advances keep on going.

2. **A term** plan is calculated for a specific period of time, and the lender is committed to providing the number of payments offered.
   a. As with the tenure payment, it is possible that the actual available credit might not be growing as quickly as is assumed by the payment calculation, so that the credit would run out before the planned number of payments.
   b. However, the borrower will still receive the number of payments specified by their plan.
   c. The same is true of a modified term plan.
### 7.9 WHAT ABOUT A REFINANCE?

Some borrowers believe that if they use up all the available funds from their HECM, they will be able to go back and refinance for more money.

A. **It is true that a HECM can be refinanced with another HECM**, and in some cases, additional funds may become available. This could happen if:

1. Home prices increase at a rate **higher** than the rate assumed by HUD in the loan calculations (currently 4% per year).
2. Expected interest rates for the refinance loan are lower than on the original loan.
3. The home’s value was higher than the national HECM mortgage limit at the time of the original loan, and then the limits are increased so that the borrower has access to more of the full home value.

B. It is possible to refinance a HECM even if additional funds will not become available. This might make sense if:

   1. A spouse that was too young at the time of the original HECM wants to be added back to the deed and be on the HECM loan after turning 62.
   2. A borrower gets married and wants to get a new HECM with both spouses on the mortgage.
C. In any of these circumstances, refinancing the loan means getting a brand new loan to replace the current one. It is not possible to add a borrower or access higher home value without getting a new loan.

1. Clearly, there is no guarantee that a refinance to include a younger spouse would work, since the younger spouse would be eligible for a smaller amount of money, and the loan balance would have grown
   a. Couples who hope to do this need to be careful not to allow their loan balance to get too large before the refinance is attempted. They may even choose to prepay on the loan until the younger spouse is 62.

2. Since it is a new loan, the homeowner will most likely be charged a new origination fee and will most definitely be charged again for third party costs.

3. Mortgage insurance on the new loan will be based on the difference between the old Maximum Claim Amount and the new Maximum Claim Amount. In other words, the borrower gets credit for any upfront MIP that was paid on the original loan.

   EXAMPLE: From Old Standard HECM to New HECM with Initial Disbursement more than 60% of the Principal Limit:

   | Old Maximum Claim Amount - $100,000 |
   | OLD MIP - $100,000 x 2% (.02) = $2,000 |
   | New Maximum Claim Amount - $150,000 |
   | NEW MIP - $150,000 x 2.5% (.025) = $4,500 |
   | Upfront MIP Paid on New HECM = $4500 - $2000 = $2500 |

4. Since the Upfront MIP on the old HECM program was as high as 2% of the Maximum Claim Amount and the Upfront MIP under the new HECM program is as low as 0.5% of the Maximum Claim Amount, it is possible that the Upfront MIP on the refinanced HECM will be less than the amount the borrower paid on the first HECM. If that occurs, then the borrower does not get a credit or refund for the excess Upfront MIP, but they will not have to pay any additional Upfront MIP on the new HECM.

   EXAMPLE: From Old Standard HECM to New HECM with Initial Disbursement less than 60% of the Principal Limit:

   | Old Maximum Claim Amount - $200,000 |
   | OLD MIP - $200,000 x 2% (.02) = $4,000 |
   | New Maximum Claim Amount - $280,000 |
   | NEW MIP - $280,000 x .5% (.005) = $560 |
   | Upfront MIP Paid on New HECM = $560 - $4000 =($3440) = 0 |
D. The borrower may be required to have a new counseling session and get a new certificate. Under some circumstances, the borrower may choose to waive repeat counseling. All three of the following must be true:

1. The lender has provided the borrower with a copy of the official “anti-churning” disclosure (a form showing both the benefit and the cost of the refinance), AND

2. The ratio of the increase in the principal limit to the cost of the refinance must be greater than 5:1. (In other words, the benefit of the loan must be 5 times the cost.) AND

3. The time elapsed between the closing of the original loan and the application for the new loan is less than 5 years.

E. Sometimes borrowers will come for counseling even though they meet all of the above criteria.

1. This could be at the request of either the borrower or the lender.

2. Repeat counseling protects the borrower by making sure they are aware of any changes in the program and what the costs of the refinance are relative to the benefits, and protects the lender by showing that the borrower was adequately informed.

3. More counseling can only be a good thing!
REVIEW QUESTIONS

1. True or False: The lender may set up the counseling session on the client’s behalf.

2. True or False: Prior to counseling, the lender may charge an application fee.

3. The appraisal and other documents are reviewed by the _________________ prior to final approval of the loan.

4. True or False: The borrower will have to supply detailed documentation of income, assets, and expenses.

5. Activities performed by the servicer include:

   ________________________________
   ________________________________
   ________________________________

6. At least annually, the borrower has to verify

   ________________________________

7. True or false: If a borrower remarries, the new spouse can be added to the HECM simply by changing the title and notifying the lender.

8. If a borrower has a tenure plan and then later needs a larger sum to complete a home repair, he would ask for an ______________________________
   and the future monthly payments would ____________________________.
TAB 8

HOW MUCH DOES IT COST? PART 2
COMPOUNDING COSTS
8.1 ONGOING AND COMPOUNDING COSTS

There are two kinds of costs that continue through the life of the loan:

A. Servicing fees: a fixed amount added to the loan every month, discussed in TAB 5.

B. Compounding charges: a percentage of the loan balance, added to the balance each month. These costs then become part of the principal balance, and the next month’s charges are calculated based on the new, larger balance. Thus these costs are said to be “capitalized” or “compounding”. These compounding charges are the primary way that a reverse mortgage uses up the borrower’s home equity over time. They are:

1. Annual Mortgage Insurance Premium
2. Interest

8.2 ANNUAL MORTGAGE INSURANCE PREMIUM

In addition to the upfront MIP discussed in TAB 5, HUD also requires an annual mortgage insurance premium.

A. The annual premium is 1.25% of the outstanding mortgage balance.
   
   1. The premium is calculated monthly (1/12th of 1.25%) and added to the mortgage balance each month, where it becomes part of the loan principal.
   
   2. The premium was 0.5% until October 2010. You may still find references to 0.5% annual premiums in some HUD documents and the HECM counseling protocol.
   
   3. Because it is a percentage of the balance, rather than a percentage of the whole home value, it is proportional to the amount borrowed. This way, homeowners who borrow a larger amount pay more, compensating for the greater risk to the FHA insurance fund.

8.3 INTEREST

Interest is charged on the entire loan balance as it rises, including previous interest and mortgage insurance charges as well as loan advances to the borrower.

A. Interest is calculated daily and is added to the loan balance monthly. The monthly interest charge is 1/12 of the applicable annual rate.

B. Interest rate choices: HECM borrowers can choose between two types of interest rates:
   
   - Adjustable
   - Fixed
1. The choice of interest rate may have significant short- and long-term consequences for the borrower.
   a. Interest rates and the availability of particular products are driven by marketplace factors, including investor demand. Lenders may vary in the rates they offer, though the range tends to be fairly small.

C. Adjustable rates are made up of two parts: the index and the margin.

1. The **index** is a standard rate, not controlled by the lender, which the lender must consult whenever a rate change is scheduled. When the index goes up, the rate charged on the loan goes up; when the index goes down.
   a. You can think of the index as the lender’s cost to get the money they lend.
   b. Lenders are permitted by HUD to offer HECM adjustable rate loans indexed to either:
      i. US Treasury rates (Constant Maturity Treasury, CMT)
      ii. LIBOR (London Interbank Offered Rate).

2. The **margin** is an amount that the lender adds to the index. The margin is specified in the loan documents and remains the same throughout the life of the loan.
   a. You can think of the margin as the lender’s profit on the loan.
   b. Investors, who purchase HECM loans on the secondary market, control the margins to a large degree.
   c. Historically, margins on HECM loans were controlled by a single investor, Fannie Mae, and remained stable for long periods of time. This is no longer the case, and margins can now fluctuate quite frequently.
   d. Margins on monthly-adjustable HECM loans have varied from 0.5% to 3.5% in the last few years, with margins generally rising as index rates have fallen to historic lows.

D. Adjustable rate loans also vary in the frequency of interest rate changes. The borrower may select either a monthly-adjustable or an annually-adjustable interest rate.

1. The borrower must select the type of rate prior to closing, and may not change this choice during the life of the loan.
2. Monthly-adjustable interest rates are nearly always the lowest available rates, but they will change more often and potentially more dramatically over the life of the loan.
   a. There is typically a 10% cap on the changes to the interest rate over the life of the loan, but this is not required by FHA.
b. There is no periodic (i.e., monthly) cap on changes in the monthly-adjustable interest rate, only the lifetime cap.

c. This means that a monthly-adjustable rate could theoretically change as much as 10% in a single month. However, this is very unlikely since the underlying index rate would not typically change so quickly and so dramatically.

3. Annually-adjustable interest rates may be somewhat higher than monthly-adjustable rates, but they offer some protection against rapid and severe changes in rates.

a. Annually-adjustable rates change just once a year. Over the life of the loan, the annually-adjustable rate may change no more than 5% (based on HUD HECM Handbook 4235.1: 8-A-2).

b. At each yearly adjustment, the rate may rise or fall no more than 2%.

c. Therefore, a borrower who anticipates sharp increases in interest rates in the coming years, and who is concerned about preserving equity for the future, might prefer an annually-adjustable rate.

d. Because annually-adjustable rates are typically higher, they may offer lower principal limits. In that case, borrowers who want to maximize the funds available immediately after closing would typically select the monthly-adjustable option.

e. Annually-adjustable rates are less desirable for investors, because there may be as much as a year’s lag between a rise in market interest rates and the lender’s opportunity to raise the rate the borrower is charged.

f. Annually-adjustable rates were missing from the HECM marketplace from about 2009 until 2014, but they are now becoming more widely available.

4. Fixed rates on HECM loans became widely available in 2009, and dominated the HECM marketplace from early 2009 until March 31, 2013 when HUD eliminated the Fixed Rate Standard HECM. As of June 2014 (ML 2014-11), lenders are only permitted to offer a fixed rate with the Single Disbursement Lump Sum Payment Option.

a. If mandatory obligations are small, the borrower’s total loan proceeds will be limited to no more than 60% of the principal limit.

b. The borrower may still obtain a fixed rate HECM if the mandatory obligations exceed 60% of the principal limit. However, the amount the borrower may withdraw from the loan will be limited to the amount of the mandatory obligations plus 10% of the principal limit – all of which must be withdrawn at closing. No further withdrawals will be permitted after closing.

c. Fixed rates on HECM loans, like fixed rates on “forward” mortgages, offer certainty about the interest costs of the loan over time, because the rate will remain the same until the loan is paid off.
d. This certainty comes at a cost – fixed rates are typically somewhat higher than adjustable rates.

e. Fixed-rate HECMs are now only permitted to be structured as closed-end credit.

i. A closed-end loan is one where borrowers are not allowed to borrow and repay and borrow again.

ii. Ordinary home mortgages are typically closed-end.

iii. A closed-end loan also typically has a fixed loan amount, which is borrowed as a lump sum at the outset of the mortgage. Borrowers getting fixed rate HECMs are required to borrow all available funds in a lump sum at closing.

f. Older borrowers typically strongly prefer having a fixed interest rate, based on their experiences with forward mortgages. It can be important to help them understand that the consequences of interest rate changes are very different for HECM loans, since no monthly payment is required.

8.4 INITIAL INTEREST RATE

The rate that is actually used to calculate interest as it accrues through the life of the loan is referred to at the start of the loan as the initial rate. At later points in the life of the loan, it is referred to as the current rate or the note rate.

A. The initial rate is based on a short-term index (1-month or 1-year), not the long-term, 10-year index used for the expected rate.

1. If the lender elects to use the LIBOR index, the initial rate is based on the 1-month LIBOR rate for monthly-adjustable loans, or the 1-year LIBOR rate for annually-adjustable loans.

2. If the lender offers a Treasury-based adjustable-rate HECM, the index used for the initial rate is the US Treasury Securities rate adjusted to a constant maturity of one year, also known as the 1-year Constant Maturity Treasury, or 1-year CMT.
Lenders are also permitted by HUD to use the 1-month CMT, but this option has never been widely used.

8.5 **EXPECTED AVERAGE INTEREST RATE**

We discussed the expected average interest rate, or simply, expected rate, in TAB 4 when we looked at how principal limits are calculated. As noted there, the expected rate represents the lender’s best estimate of what the interest rate will average over the life of the loan.

A. The expected rate for a fixed rate loan is the same fixed rate that will be charged on the loan balance.

B. The expected rate on an adjustable rate loan includes the same margin that is used for the current rate, but a different index.

1. **Current rates** use a **short-term index**, because the rate will only be in effect for a short time.

2. **Expected** rates use a **long-term index**, because they attempt to predict interest rates over the long-term.

3. Lenders may use either a CMT-based index, the 10 year CMT, or a LIBOR-based index, the 10 year LIBOR swap rate.
   a. For a given loan, the short term index (LIBOR or CMT) must match the long-term index (LIBOR or CMT).

C. The expected rate is used for several purposes:
   1. To determine principal limits
   2. To calculate the service fee and life expectancy set-asides
   3. To calculate monthly tenure or term payment amounts

D. The expected rate floor (discussed in chapter 4) applies ONLY to the calculation of principal limits, not to the other two purposes.

E. The expected rate never changes throughout the life of the loan. If monthly payments ever need to be recalculated, the lender will go back to the original expected rate from the time of loan closing.
8.6 **COMPOUNDING RATE:** The balance on a HECM loan grows at a rate that is made up of the two compounding charges just discussed.

- Annual mortgage insurance premium
- Interest

A. The sum of these two charges is called the **compounding rate**.

B. Because this is the total rate at which the loan is growing, it is sometimes called the **Total Loan Rate**. At the beginning of the loan, it is called the **Initial Total Loan Rate**.

C. **Both the loan balance and the creditline grow at this same rate.**

8.8 **CASE STUDY COMPARISON SHEET EXERCISE**

Refer to Jim and Patsy Henderson’s comparison sheet on the following page to fill in the blanks below.

The HECM 1 is tied to the ________ index.

The HECM 2 adjusts ________.

The index on the HECM 1 is ________%.

The index on the HECM 2 is ________%.

The margin on the HECM 1 product is ________%.

The initial loan interest rate on the HECM 2 is ________%.

The compounding rate on the HECM 1 adjustable is ________%.

The fixed rate is ________%.
### INTEREST RATE SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Annually-Adjustable</th>
<th>Monthly-Adjustable</th>
<th>Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expected Rate</strong> (used only to determine loan amounts)</td>
<td>Index (10-year Treasury rate or 10 year LIBOR swap rate) plus margin</td>
<td>Index (10-year Treasury rate or 10 year LIBOR swap rate) plus margin</td>
<td>Set by lender; no prescribed index. Typically higher than adjustable rate HECMs.</td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>Higher</td>
<td>Lower</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Adjustment Frequency</strong></td>
<td>Once per year</td>
<td>Once per month</td>
<td>No adjustments</td>
</tr>
<tr>
<td><strong>Initial Rate/Note Rate/Current Rate</strong> (interest rate charged on the loan balance)</td>
<td>Index (1-year CMT or 1-year LIBOR) plus margin</td>
<td>Index (1-year CMT, 1-month CMT or 1-month LIBOR) plus margin</td>
<td>Same as expected rate</td>
</tr>
<tr>
<td><strong>Interest Rate Cap</strong></td>
<td>2 points per year; 5 points over the life of the loan</td>
<td>No periodic cap; no lifetime cap mandated by HUD. Cap of 10 points over the life of the loan used by most lenders</td>
<td>Same as expected rate</td>
</tr>
<tr>
<td><strong>Compounding Rate</strong> (total periodic rate charged on loan balance)</td>
<td>Note rate plus 1.25% for annual mortgage insurance premium (MIP)</td>
<td>Note rate plus 1.25% for annual mortgage insurance premium (MIP)</td>
<td>Note rate plus 1.25% for annual mortgage insurance premium (MIP)</td>
</tr>
<tr>
<td><strong>Creditline Growth Rate</strong></td>
<td>Same as compounding rate</td>
<td>Same as compounding rate</td>
<td>Not available</td>
</tr>
<tr>
<td><strong>Monthly creditline growth is</strong></td>
<td>Larger</td>
<td>Smaller</td>
<td>Not available</td>
</tr>
<tr>
<td><strong>Payment plans available</strong></td>
<td>Tenure, Term, Line of Credit, or modified plans</td>
<td>Tenure, Term, Line of Credit, or modified plans</td>
<td>Single Disbursement Lump Sum</td>
</tr>
</tbody>
</table>
### The Reverse Mortgage Analyst
Jim and Patsy Henderson

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>LIBOR HECM 1</th>
<th>ANNUAL HECM 2</th>
<th>FIXED HECM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Index</td>
<td>1-mo LIBOR</td>
<td>1-yr LIBOR</td>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Adjusting Period</td>
<td>Monthly</td>
<td>Annual</td>
<td></td>
</tr>
<tr>
<td>Current Index Value</td>
<td>0.172%</td>
<td>0.674%</td>
<td>–</td>
</tr>
<tr>
<td>Plus Lender's Margin</td>
<td>2.250%</td>
<td>2.500%</td>
<td>–</td>
</tr>
<tr>
<td>Initial Loan Interest Rate</td>
<td>2.422%</td>
<td>3.174%</td>
<td>5.000%</td>
</tr>
<tr>
<td>Plus Mortgage Insurance</td>
<td>1.25%</td>
<td>1.25%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Initial Total Loan Rate</td>
<td>3.672%</td>
<td>4.424%</td>
<td>6.250%</td>
</tr>
<tr>
<td>Initial Creditline Growth Rate</td>
<td>3.672%</td>
<td>4.424%</td>
<td>6.250%</td>
</tr>
<tr>
<td>Lifetime Cap on Loan Rate</td>
<td>12.422%</td>
<td>8.174%</td>
<td>5.000%</td>
</tr>
<tr>
<td>HECM Expected Rate</td>
<td>4.460%</td>
<td>4.710%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Monthly Service Fee</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Home Value</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Home Value Limit</td>
<td>$625,500</td>
<td>$625,500</td>
<td>$625,500</td>
</tr>
<tr>
<td>Lesser of limit or home value</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Loan Principal Limit</td>
<td>$118,200</td>
<td>$118,200</td>
<td>$118,200</td>
</tr>
<tr>
<td>Less Service Fee Set-Aside</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Available Principal limit</td>
<td>$118,200</td>
<td>$118,200</td>
<td>$118,200</td>
</tr>
<tr>
<td>Less Fees and Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Origination Fee</td>
<td>$4,000</td>
<td>$4,000</td>
<td>$4,000</td>
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<tr>
<td>Mortgage Insurance</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>MIP Percent</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Other Closing Costs</td>
<td>$1,969.00</td>
<td>$1,969.00</td>
<td>$1,969.00</td>
</tr>
<tr>
<td>Net Principal Limit</td>
<td>$111,231</td>
<td>$111,231</td>
<td>$111,231</td>
</tr>
<tr>
<td>Less Current Debt Payoff</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Less Home Repairs</td>
<td>$9,000</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Less Expenses in Year 1</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Less Upfront Cash</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$34,951.00</td>
</tr>
<tr>
<td>Available Funds in Year 1</td>
<td>$34,951.00</td>
<td>$34,951.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Less Selected Creditline</td>
<td>$82,231.00</td>
<td>$82,231.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Available in Year 1</td>
<td>$34,951.00</td>
<td>$34,951.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Left for Monthly Advance</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
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<tr>
<td>Desired Monthly Advance</td>
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<td>$0.00</td>
<td>$0.00</td>
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<tr>
<td>Possible After Year 1</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Monthly Term</td>
<td>Tenure</td>
<td>Tenure</td>
<td>Tenure</td>
</tr>
<tr>
<td>Total Upfront Costs</td>
<td>$6,969</td>
<td>$6,969</td>
<td>$6,969</td>
</tr>
<tr>
<td>Maximum Tenure Advance</td>
<td>$489</td>
<td>$501</td>
<td>$0</td>
</tr>
</tbody>
</table>
### The Reverse Mortgage Analyst

**Jim and Patsy Henderson**

#### Loan Amortization Schedule

**LIBOR HECM 1 (1-mo L + 2.25) Reverse Mortgage**

Assuming a 4.460% per year annual interest rate and 4.00% per year future home appreciation.

<table>
<thead>
<tr>
<th>End of Year Age</th>
<th>Unused Creditline Draws</th>
<th>Available Creditline</th>
<th>Annual Totals Service Fees</th>
<th>Accrued Interest</th>
<th>Accrued MIP</th>
<th>Loan Balance</th>
<th>Home Value</th>
<th>Net Home Value</th>
<th>Net Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 71</td>
<td>4,920</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,000</td>
<td>66,000</td>
<td>200,000</td>
<td>188,000</td>
<td>120,000</td>
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<tr>
<td>1 72</td>
<td>55,260</td>
<td>0</td>
<td>0</td>
<td>3,022</td>
<td>847</td>
<td>69,899</td>
<td>208,000</td>
<td>193,440</td>
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<td>2 73</td>
<td>58,499</td>
<td>0</td>
<td>0</td>
<td>3,199</td>
<td>897</td>
<td>73,964</td>
<td>216,320</td>
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<td>3 74</td>
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<td>0</td>
<td>0</td>
<td>3,387</td>
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<td>78,300</td>
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<td>209,225</td>
<td>130,925</td>
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<tr>
<td>4 75</td>
<td>65,558</td>
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<td>0</td>
<td>3,585</td>
<td>1,005</td>
<td>82,890</td>
<td>233,972</td>
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<td>5 76</td>
<td>69,401</td>
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<td>0</td>
<td>3,795</td>
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<td>87,749</td>
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<td>6 77</td>
<td>73,469</td>
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<td>0</td>
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<td>1,126</td>
<td>92,892</td>
<td>253,064</td>
<td>235,349</td>
<td>142,457</td>
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<tr>
<td>7 78</td>
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<td>0</td>
<td>0</td>
<td>4,253</td>
<td>1,192</td>
<td>98,338</td>
<td>263,186</td>
<td>244,763</td>
<td>146,426</td>
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<tr>
<td>8 79</td>
<td>82,335</td>
<td>0</td>
<td>0</td>
<td>4,502</td>
<td>1,262</td>
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<tr>
<td>28 99</td>
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<td>14,068</td>
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<td>29 100</td>
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<td>344,339</td>
<td>623,730</td>
<td>580,069</td>
<td>235,730</td>
</tr>
</tbody>
</table>

*Be sure to review the Amortization Schedule Notes that accompany this page.*
REVIEW QUESTIONS

1. In an adjustable rate loan, the part of the rate that stays the same is called the _________.

2. The index most often used now for HECM interest rates is the _____________.

3. The principal limit is determined by the __________________________ rate.

4. Both the __________________________ and the __________________________

   grow at the __________________________ rate.

5. The annual mortgage insurance premium is _____% of the __________________________

6. An open-end loan allows the borrower to __________________________

   __________________________

7. In an adjustable rate loan, how do prepayments affect the available line of credit?

   __________________________

8. If a borrower chooses a fixed interest rate, s/he will be limited to a single payment plan, which is the __________________________
TAB 9

HOW MUCH DOES IT COST?  PART 3
COMPARING LOANS AND WEIGHING COSTS
9.1 COMPARING LOANS AND WEIGHING COSTS

The Truth In Lending Act of 1968 requires, among other things, that lenders disclose the cost of credit to consumers and have a standard way to compare loans.

A. To meet this requirement, the Annual Percentage Rate (APR) for traditional mortgages represents a single rate that includes origination fees and other costs in addition to interest. In other words, if the lender could only charge interest, and not any upfront fees, what would the rate have to be in order to produce equivalent total costs over the life of the loan?

B. Creating this single rate was meant to help consumers to compare loans with different cost structures-- higher fees and lower interest rates vs. lower fees and higher interest rates, for instance.

C. The Total Annual Loan Cost (TALC) rate is the reverse mortgage equivalent of the APR – an attempt to create a single rate that includes all loan costs and would allow borrowers to compare one loan offer to another.

1. Example: Jim Henderson, our 72 year old borrower, has several offers to compare. How can he tell which is the best deal?

<table>
<thead>
<tr>
<th>Lender 1</th>
<th>TALC</th>
<th>Lender 2</th>
<th>TALC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different upfront costs</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>7.09%</td>
</tr>
<tr>
<td>Different interest rates</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>7.09%</td>
</tr>
<tr>
<td>Different costs AND different interest rates</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>7.09%</td>
</tr>
</tbody>
</table>

D. However, reverse mortgages differ in important ways from forward mortgages. So the TALC disclosure had to be designed to take all this into account.
E. Some of the most important differences are:
   1. No fixed loan term
   2. No fixed loan amount
   3. Varying payment plans
   4. Rising loan balance
   5. Non-recourse limit on repayment

9.2 LOAN TERM: Forward mortgages commonly have a fixed term of 15 or 30 years. In contrast, HECM loans have no fixed term.

A. The APR for a forward mortgage assumes that the borrower keeps the loan for the full term.

B. What term should be used for the HECM? In the table above, the term was assumed to be the borrower’s life expectancy.
   1. Jim Henderson, our 72 year old borrower, has a life expectancy of 14 years.
   2. What if he and Patsy sold their Florida house in just 2 years and paid off the HECM? Would the annual cost be the same? Would they choose the same loan offer?

<table>
<thead>
<tr>
<th></th>
<th>Lender 1</th>
<th>TALC</th>
<th>Lender 2</th>
<th>TALC</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 years</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>7.09%</td>
<td>5.5% interest</td>
</tr>
<tr>
<td>2 years</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>11.49%</td>
<td>5.5% interest</td>
</tr>
</tbody>
</table>

3. This tells us that, for a borrower who only plans to keep the loan a short time, it may be more important to look for low upfront costs, even at the expense of a higher interest rate.
**9.3 LOAN AMOUNTS AND PAYMENT PLANS:** HECM loans have a principal limit, but borrowers are not required to use the whole amount. Furthermore, there are different payment plans, or patterns of loan advances.

A. The APR calculation on an ordinary purchase mortgage assumes a fixed loan amount which is borrowed all at once, at the beginning of the loan.

B. What loan amount should be assumed for a HECM?

1. The example above assumes that Jim and Patsy are taking a lump sum draw of all available funds at closing.

2. What if Jim and Patsy paid off their $20,000 existing debt, and then drew on the remainder in monthly tenure payments for the next 2 years instead of taking the remainder as a lump sum?

<table>
<thead>
<tr>
<th></th>
<th>Lender 1</th>
<th>TALC</th>
<th>Lender 2</th>
<th>TALC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 years, lump sum</td>
<td>5% interest</td>
<td>$6000 upfront costs</td>
<td>11.49%</td>
<td>5.5% interest</td>
</tr>
<tr>
<td>2 years, tenure</td>
<td>3.2% interest, 5% expected rate</td>
<td>$6000 upfront costs</td>
<td>16.06%</td>
<td>3.7% interest, 5.5% expected rate</td>
</tr>
</tbody>
</table>

3. The total annual loan cost is higher for the tenure loan, even though the interest rate is lower, because TALC is based on the ratio of costs to benefits. With the tenure loan, the Hendersons have not received as much cash, so their benefit is lower, relative to the costs of the loan.

   a. In the lump sum example, they have received $55,600 after closing costs.

   b. In the tenure example, they have received $26,060 after closing costs.

4. If the most important thing to Jim and Patsy was the annual percentage cost of the loan, would it be better to do a lump sum or tenure?

   a. Is there another way to look at costs? What about the actual dollar amount of the costs?

      i. The cost of the lump sum loan for two years is $14,877

      ii. The cost of the tenure loan for two years is $6,266
9.4 HOME VALUE APPRECIATION AND NON-RECOUSE

HECM loans have a non-recourse limit, meaning that the borrower never has to repay more than the value of the house.

A. APR on a normal, forward mortgage assumes that the borrower will pay off the entire loan balance, no matter what their home is worth.

B. But for a HECM, this might not be true -- if the borrower keeps the home a long time, and the value of the house does not increase, the borrower will not have to pay back the whole loan amount.

1. What if Jim and Patsy stayed in their home for 20 years, taking monthly tenure payments? Let’s say their home grows in value at 4% a year (HUD’s standard assumption) and then compare that with home appreciation of 0% a year.

<table>
<thead>
<tr>
<th></th>
<th>Lender 1</th>
<th>TALC</th>
<th>Lender 2</th>
<th>TALC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>20 years, tenure</strong></td>
<td>3.2% interest</td>
<td>$6000 upfront costs</td>
<td>5.05%</td>
<td>3.7% interest</td>
</tr>
<tr>
<td><strong>4% appreciation</strong></td>
<td>5% expected rate</td>
<td></td>
<td></td>
<td>5.5% expected rate</td>
</tr>
<tr>
<td><strong>20 years, tenure</strong></td>
<td>3.2% interest</td>
<td>$6000 upfront costs</td>
<td>0.92%</td>
<td>3.7% interest</td>
</tr>
<tr>
<td><strong>0% appreciation</strong></td>
<td>5% expected rate</td>
<td></td>
<td></td>
<td>5.5% expected rate</td>
</tr>
</tbody>
</table>

2. The rates are so much lower with 0% appreciation because after 20 years, Jim and Patsy’s loan balance will be greater than their home value. Instead of paying back the full loan balance at that point, they will only pay back what they are able to sell the house for, less costs of sale. As a result, their average cost will be lower than the nominal interest rate on the loan.
3. Let’s see how that works in a simplified way (NOT the official TALC formula!):
   a. Even assuming interest rates stay low, they will owe $164,000 on the lower cost loan after 20 years.
   b. If their house only sells for its original value of $100,000, they will be paying back only $93,000 of the $164,000 debt (assuming 7% cost of sale).
   c. Over the 20 years, they have received $82,000 of benefit through the tenure payments and their initial draw.
   d. The actual dollar cost of the loan for them is only $93,000-$82,000= $11,000, or an average of $550 per year.
   e. What interest rate would cause a loan balance to grow from $82,000 to only $93,000 over 20 years?
   f. A very low rate!
      i. A HECM can be VERY cheap if you keep it a long time and your house does not increase in value.
   g. On the other hand, if Jim and Patsy live in their home for 20 years, would they rather have a low TALC rate because their home did not appreciate, or a higher TALC rate because it did? [Assuming a constant interest rate at the initial rate of 3.2%]
      i. 0% appreciation, 0.92% TALC, $0 left for their heirs
      ii. 4% appreciation, 5.05% TALC, $40,000 left for their heirs
      iii. 8% appreciation, 5.05% TALC, $270,000 left for their heirs
9.5 TALC Summary

Putting all these factors together results in the TALC disclosure form that we see today. Jim and Patsy’s TALC disclosure for the tenure loan at 5% interest and $6000 closing costs looks like this:

<table>
<thead>
<tr>
<th>Assumed Annual Appreciation</th>
<th>Total Annual Loan Cost Rate</th>
<th>Disclosure Periods</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2-year loan term</td>
<td>7-year loan term</td>
</tr>
<tr>
<td>0%</td>
<td>16.06%</td>
<td>7.04%</td>
</tr>
<tr>
<td>4%</td>
<td>16.06%</td>
<td>7.04%</td>
</tr>
<tr>
<td>8%</td>
<td>16.06%</td>
<td>7.04%</td>
</tr>
</tbody>
</table>

A. TALC disclosures project the future total annual cost of the loan
   1. Assuming a constant interest rate (initial rate)
   2. Taking the payment plan into account
      a. TALC for tenure, term, and lump sum use actual amount of funds disbursed
      b. TALC for creditline assumes 50% draw at closing and none thereafter.
   3. At different points in time:
      a. 2 years after closing,
      b. [50% of borrower’s life expectancy] (optional)
      c. at the borrower's life expectancy,
      d. at 40% beyond that life expectancy
   4. At different appreciation rates:
      a. 0%
      b. 4%
      c. 8%
B. TALC rates show several notable patterns.
   1. Rates are greatest in the early part of the loan, and then decline over time because:
      a. The upfront costs become a smaller part of the growing loan balance.
      b. For some payment plans, the amount received by the borrower continues to increase.
      c. The loan balance may be limited by the non-recourse limit.
   2. Rates are highest when the loan term is shortest.
   3. Rates vary with payment plans, and vary the most over time with tenure advances.
   4. Rates drop most dramatically with 0% appreciation.
C. The effect of the non-recourse feature (lower TALC with less appreciation) may be the most difficult part to explain to your clients.
D. For the purpose of counseling, you may want to focus on three critically important cost patterns:
   1. Reverse mortgages can be very expensive, on a percentage basis, if they are repaid within a few years.
   2. The overall annual average cost goes down over time.
   3. The cost can be quite moderate or even inexpensive if the borrower lives in the home beyond life expectancy and the home has little or no appreciation.

9.6 Another way of looking at loan costs:

TALC rates provide a standardized way for borrowers to compare different loan offers, using percentages that reflect cost relative to the benefit of the loan.

However, in practical terms, borrowers are more likely to be comparing different options from the same lender. Should they take a single disbursement lump sum loan with a fixed interest rate? Or would an adjustable rate loan, where they could choose a different payment plan, be a better choice?

The answer partly depends on the borrower's goals and needs:

- Do they want or need the most cash they can get right now?
- Do they want the most cash over time?
- Do they only want a smaller amount for a specific purpose?
- Do they plan to stay in the home a long time?
- Do they have any plans to make payments on the loan?
• Do they care about leaving the property (or some part of the value of the property) to their heirs?

• Do they have other resources that will help meet their future needs if they use up the home value now?

A. Another issue is that percentage rates are not very easy for many people to understand. Another way to look at the relative costs and benefits of different options is to ask three simple questions:

1. How much will I get?
2. How much will it cost me?
3. How much will be left over?

B. All of these questions can be answered using an amortization schedule for each potential option that the borrower is considering.

1. Select interest rate, servicing fee, and closing cost options based on market conditions or using an estimate that the client already has.

2. Enter any upfront draw that the borrower wants or needs.

3. Set up a payment plan to match a borrower scenario. For instance, “I want $500 per month for the next 5 years until I reach my full retirement age. I want the rest of the money available in case of major expenses.” There are a couple of different ways the borrower could accomplish this goal.

   a. Term plan with payments of $500/month for 5 years, plus line of credit

   b. Line of credit with draws of $500/month

4. Create an amortization schedule for each of these options

   a. Consider whether you want to adjust assumptions about interest rate and appreciation rate.

   b. Print the schedules

   c. Highlight Year 5 on each schedule

   d. How much did they get? Add up how much the borrower has received by that point. Don’t forget to include monthly payments, credit line draws, and any initial draws that were used to pay off a mortgage, do repairs, etc.

   e. How much did it cost? Subtract the number you just calculated from the Loan Balance in Year 5

   f. How much is left over? Read the number in the far right column, under Net Equity.
REVIEW QUESTIONS

1. TALC stands for ________________________________________________

2. The TALC rate is comparable to the ______ disclosure used with forward mortgages.

3. The TALC disclosure is designed to account for several factors not present in forward mortgages, such as ____________________________________________

   and ____________________________________________________________

4. A TALC disclosure displays rates at different time periods, including ___________ and ________________________________________________

5. The payment plan that shows the highest rate in the early years of the loan is ____________________.

6. TALC rates for all payment plans ______________ over time.
TAB 10

HOW DOES HECM AFFECT THE BORROWER WHILE THEY HAVE IT?

LOAN CONSEQUENCES
10.1 BENEFITS OF THE HECM

Homeowners may experience several important benefits, depending on what their situation is and how they use the loan.

A. No mortgage payment
B. Better cash flow
C. Ability to afford things they otherwise could not

10.2 OTHER FINANCIAL IMPLICATIONS

On the other hand, homeowners may experience other consequences of the HECM that may or may not be so positive for them. Part of the counselor’s job is to alert the homeowner to these potential consequences.

According to the law establishing the HECM program, counselors must advise prospective borrowers that a reverse mortgage "may have tax consequences, affect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the homeowner."

**A. Tax Consequences:**

1. **HUD-approved reverse mortgage counselors do not provide legal or tax advice unless they are trained in those fields.** However, they may cite information on the general nature of these financial implications that has been published by other sources.

2. Source: IRS.gov, Publication 936, 2014 edition, Home Mortgage Interest Deduction: “Because reverse mortgages are considered loan advances and not income, the amount you receive is not taxable. Any interest (including original issue discount) accrued on a reverse mortgage is not deductible until you actually pay it, which is usually when you pay off the loan in full. Your deduction may be limited because a reverse mortgage loan generally is subject to the limit on Home Equity Debt...."

3. Source: IRS.gov, Publication 575, 2014 edition: Pension and Annuity Income “In general, you can recover the cost of your pension or annuity tax free over the period you are to receive the payments. The amount of each payment that is more than the part that represents your cost is taxable.”

   a. In other words, if a borrower uses a reverse mortgage to buy an annuity that yields monthly payments, part of every payment is taxable. There is a formula to divide each payment into taxable and non-taxable portions.

   b. Income from other types of investments made with reverse mortgage proceeds would be similarly subject to taxation based on rules for those types of income.
B. **Public Benefits:** Most reverse mortgage borrowers either do receive or expect to receive important public benefits such as Social Security and Medicare. Others may receive or may be eligible for a variety of other benefits such as Supplemental Security Income (SSI) or Medicaid. It is vital for borrowers to understand how the reverse mortgage may affect these benefits.

1. **Social Security:** Social Security is a guaranteed stream of retirement income, funded by payroll taxes. Most people who have worked in paid employment are eligible, though there are exceptions such as Federal workers, railroad retirees, and some other public employees such as teachers in some states. (These workers receive their retirement income from another source such as a Federal, State, or Railroad retirement plan.)
   
a. Benefit amounts are based on the worker’s earnings over the period they paid into the system. A person must have at least 10 years of total work income in order to qualify for the minimum benefit under their own work record.
   
b. A spouse who did not work may receive benefits based on their working spouse’s contributions.
   
c. A widowed spouse may choose between her own benefit and that of the deceased spouse.
   
d. A divorced spouse, who was married for at least 10 years, may be able to get benefits based on the ex-spouse’s record, if her own benefits are less than half of his.
   
e. Social Security benefits are NOT affected by reverse mortgage loan advances.

2. **Medicare:** Medicare is the federal health insurance program for people who are either over 65 or disabled under Social Security guidelines. It is funded by payroll taxes and other federal funding.
   
a. Medicare benefits are NOT affected by reverse mortgage loan advances.

3. **“Means-tested” benefits:** These are public benefits that are only available to people who qualify based on their income and assets. They are typically aimed at low-income people
   
a. Means-tested benefits MAY be affected by reverse mortgage loan advances.
   
b. Reverse mortgage loan advances are NOT considered income.
   
c. However, loan advances that are retained in a borrower’s bank account may be counted as assets (also referred to as “liquid resources” or “reserve”).
i. As a result, low-income borrowers who receive public benefits may be at risk of losing valuable assistance that they depend on.

ii. The risk is especially high for fixed-rate loans that require a single disbursement lump sum draw.

10.3 **BENEFITS 101:** Reverse mortgage counselors are not expected to be prepared to do detailed benefits counseling. However, it is important to be familiar with some of the major means-tested benefits that borrowers may be receiving so that you can alert them to possible problems and refer them to experts for more details about how the reverse mortgage may affect them.

- Medicaid
- SSI
- Food Stamps (Food and Nutrition Services)
- Medicare Savings (QMB, SLMB, etc.)
- Medicare Part D Low Income Subsidy
- Some Veterans Administration benefits
- Prescription assistance programs
- Payment plans for medical bills

A. **Medicaid:**

1. Medical insurance for very low-income seniors and disabled individuals
2. For those with Medicare, Medicaid serves as supplemental coverage, paying for Medicare deductibles and copayments, and usually offering some additional services.
3. Combination of Federal and state funding
4. Benefits and eligibility guidelines vary state-to-state
5. Income limits may match SSI limits or may be indexed to the Federal Poverty Level or other guideline.
6. Some states are much more generous than others.
7. Some individuals with extremely high medical costs may qualify even if their income is higher than the standard limit.
8. Individuals may qualify for Medicaid in a nursing home even though their income is too high for Medicaid in a private residence setting.
   a. Most middle-class people who need long-term nursing home care rely on Medicaid (not Medicare) as a payment source.
b. Medicaid planning can be especially critical for clients who are in frail health and seeking the reverse mortgage to pay for care.

9. Typical Medicaid asset limits in 2015 are $2000 for an individual or $3000 for a couple, but limits vary state-by-state.

a. Some states have very generous asset limits, or even no asset limits at all.

b. Others allow very minimal assets for Medicaid recipients.

c. The value of the house does not count in most cases (very high value homes may be an exception.)

10. Medicaid is an extremely valuable benefit for many seniors, as it not only pays for the large amounts of medical costs that are not covered by Medicare (copays, coinsurance, and deductibles), but sometimes also for dental care, home care services, glasses, transportation to doctors’ appointments, etc. Clients who have Medicaid also pay much less for prescription drugs.

a. Getting a lump sum draw from a reverse mortgage, unless it is immediately spent, is very likely to cause the loss of Medicaid, except in those states with high asset limits.

b. Medicaid recipients must account for all the money that comes in and goes out of their bank accounts.

B. Supplemental Security Income (SSI):

1. Not the same as Social Security!

2. Federally-funded with state supplements in some states

3. Eligibility and benefit amount varies state-to-state due to state subsidies

4. SSI is for people who are elderly or disabled AND have extremely low income

5. Income limit is below the Federal Poverty Level

6. SSI is designed to bring people up to a very minimal income level by supplementing their other income from Social Security, work, etc.

7. For example, a senior with a $500/month Social Security income may receive an additional $200 or so.

8. People with very low Social Security payments can get both SS AND SSI.

9. People who never worked and aren’t eligible for Social Security at all sometimes get SSI only.

10. 2015a asset limits are $2000 for an individual or $3000 for a couple.

11. SSI recipients who are later found to have received benefits during a time when they had assets beyond the limit, may be forced to return those benefits through a reduction in their Social Security check.
C. **Food and Nutrition Assistance ("Food Stamps", “SNAP”)**
   1. Monthly voucher or electronic benefit card to buy food
   2. Available to low income people of all ages
   3. Benefit determined by income, assets, AND expenses, including housing payment
      a. Income and asset limits vary by state.
   4. When a reverse mortgage pays off an existing mortgage, the borrower may lose food stamps even if they get no cash out!
      a. This is because the food stamp formula takes into account the applicant’s housing costs. If they have no monthly payment to make, the calculation will change, potentially making them eligible for a much lower amount or perhaps not eligible at all.

D. **Medicare Subsidy Programs (Medicare Savings, QMB, SLMB, etc.)**
   1. Sometimes called “Partial Medicaid”
   2. May pay for Medicare Part B premiums and sometimes deductibles
   3. Designed for low-income people whose income and/or assets are a little too high for full Medicaid
   4. Multiple levels for eligibility and benefits depending on income and assets
   5. Medicare Part B premium is currently about $100/month for most seniors, and higher for younger seniors
   6. These programs can make a big difference for a senior whose income is only $1000/month!
   7. Many borrowers are not aware of this program and may not be taking advantage of it even though they are eligible.

E. **Medicare Part D “Extra Help” (aka Low Income Subsidy or LIS)**
   1. Medicare Part D = prescription drug coverage
      a. Optional coverage, requiring a monthly premium
   2. “Extra Help”/ LIS reduces premiums, deductibles and copayments
   3. Designed for Medicare recipients whose income/assets meet criteria
   4. Both income and asset limits are higher than for Medicaid so more clients qualify.
   5. Eliminates “donut hole” coverage limit (when coverage for prescription drugs runs out in the middle of the year).
   6. Critical for low income people who take lots of meds (many seniors)
   7. Very easy to apply for online at www.ssa.gov. No income documentation is required.
10.4 HOW CAN COUNSELORS HELP BORROWERS PROTECT THEIR BENEFITS?

A. Know what the asset limits are for major benefits in your state!
   1. Many clients do not know or remember because they never dreamed they would have more than the limit.
   2. Suggest talking to case workers at the agency where they applied for the benefit, to be sure what the rules are.

B. Caution borrowers not to take loan advances that are larger than they plan to spend in a month.
   1. Typically, if funds are spent within 30 days, they will not be countable.
   2. Clients may have to produce receipts to show what happened to the money.
   3. Giving money away (e.g. to family) is generally not considered an acceptable use!
   4. Caseworkers can advise clients about acceptable ways to spend excess funds if needed.

C. Caution borrowers about borrowing money that they don’t need to spend right away. Some lenders are urging borrowers to take the largest possible initial draw and then borrow any remaining amount immediately after the first 12-month period. In some cases, lenders have even told borrowers that this is a requirement of the loan.

D. In general, money in the creditline does not count as an asset!
   1. Borrowers need to verify this with the agency that administers their specific benefits.
   2. Remind borrowers getting adjustable rate loans that they can pay back excess funds into the reverse mortgage at any time, and then access those funds through creditline draws in the future.

10.5 LEARNING MORE ABOUT BENEFITS

A. BenefitsCheckUp (BCU) is an online tool, sponsored by the National Council on Aging
   1. Screens for benefits eligibility for major Federal and state benefits
   2. Uses a guided interview format to ask relevant questions regarding income, assets, household size, etc.
   3. Does not include all important benefits, but does include the major ones

PROTOCOL
All HECM counseling clients must be offered the option of completing BenefitsCheckUp. It is mandatory for very low-income and disabled clients.
4. Use of BCU is mandatory for
   a. all clients whose income is below 200% of the Federal Poverty Level,
   b. all clients who are disabled regardless of income.
5. Can be accessed through IBIS and also through some Client Management Systems
6. More on this in TAB 17
B. Eldercare Locator: www.eldercare.gov or 1-800-677-1116 is a source of information about the regional Area Agencies on Aging and local aging service providers that can help with information about benefits the borrower may be able to access.

10.6 IMPACT ON THE ESTATE AND HEIRS OF THE HOMEOWNER
This topic will be covered in TABs 13 and 14 when the repayment process is discussed.

REVIEW QUESTIONS
1. True or False: Loan advances from a reverse mortgage are taxable to the borrower.
2. If a reverse mortgage borrower takes a large cash draw, they could lose their __________________, which is a means-tested benefit.
3. SSI stands for ________________________________
4. A single SSI recipient may retain no more than $__________ in assets.
5. Enrolling in a ____________________________________________ could save an eligible senior citizen about $100/month, by paying for the Medicare ________ premium.
6. A newer name for the “food stamp” program is ________
7. Benefits CheckUp is mandatory for any client whose income is below ________ of the Federal Poverty Level, or who is ___________________________
WHAT DO THEY HAVE TO DO, ONCE THEY HAVE THE LOAN?
BORROWER RESPONSIBILITIES
11.1 BORROWER RIGHTS AND RESPONSIBILITIES

HECM borrowers remain the owners of their homes; therefore they retain both the rights and responsibilities of any homeowner.

A. They can sell the home at any time, subject to paying off the lien.
B. They can change the home: add on to it, remodel it, paint it purple, etc.
C. They can have others living with them if they choose.
D. They must retain ownership in order to keep the loan.
E. They must keep the home as their primary residence.
F. They must fulfill standard homeowner obligations, including:
   1. Property taxes - must be paid on time
      a. Property tax deferral loans are not usually permitted in conjunction with HECMs.
      b. Property tax relief programs that do not involve a lien are not a problem (e.g. senior or homeowner exemptions)
   2. Homeowners'/hazard insurance
      a. Covers repair or rebuilding in case of fire or other catastrophe
      b. Replacement value coverage is required
      c. Flood insurance may be required if the home is in a flood zone.
   3. Other required property charges such as Homeowners' Association (HOA) dues, condo fees, ground rents, etc.
   4. Maintenance and repair of the home

Jim and Patsy Henderson

What are some of the things that the Hendersons are currently responsible for as homeowners with a forward mortgage?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Does the HECM require anything really different?
11.2 RESIDENCY OBLIGATIONS

A. HECM borrowers **must live in the home** as their primary or principal residence in order to keep the HECM loan.

1. Principal residence means
   a. “Where the borrower typically spends the majority of the calendar year”
   b. “Where the borrower maintains their permanent place of abode”

2. Functionally, the **borrower could be away for up to 6 months of the year** and still claim the home as their primary residence
   a. Longer absences may be possible if approved on a case-by-case basis by the servicer.

3. Borrowers are advised to notify the servicer if they plan to be away more than 2 months.
   a. **Servicers must verify residency at least annually**, and if borrowers do not respond promptly to these requests, the servicer might assume that the property had been abandoned.
   b. Shutting off utilities may also be seen as a sign that the borrower has vacated or abandoned the property.

4. If there are two borrowers, the loan stays in place indefinitely, as long as at least **one borrower** maintains the home as their principal residence.

5. If the last surviving borrower cannot live in the home due to **health conditions**, they are permitted to be away from the home for as much as **12 consecutive months** before the loan would be called due and payable.

6. There is no restriction on other people living in the home. For instance, there is no problem with having one of the borrower’s children living in the home, or having a health care worker or other staff person living in the home.

7. The borrower is **NOT permitted to rent the entire property** to someone else and live somewhere else.
   a. Short-term rentals (e.g., of a home at the beach during the tourist season) may be permitted. Borrowers should check with the servicer if they plan to do this. Borrowers must retain the right to return to the home at any time.
   b. The borrower may be permitted to rent a room or small apartment within the home to someone else, as long as most of the home is available for the borrower’s own use. Again, check with the lender/servicer.
11.3 OWNERSHIP

A. The borrower must retain the ownership of the home in order to keep the HECM.

1. The home may be transferred to a living trust, as long as the borrower remains a lifetime beneficiary of the trust and retains the right to live in the home.

2. The borrower may be allowed to add other owners, as long as the HECM borrower retains at least a life estate interest.

3. Additional owners, added to the deed after closing, are NOT borrowers on the HECM loan, and have no right to loan proceeds. The loan will come due whenever the original borrower dies, sells, or moves out of the home.
   a. This means that a newly-acquired spouse may NOT be added to the loan after origination, even if they are added to the title.
   b. Adding a spouse to the loan requires refinancing into a new HECM, subject to prevailing interest rates, closing costs, eligibility guidelines, etc.
   c. A non-borrowing spouse, if declared at closing, and if s/he continues to live in the home, may be eligible for a deferral of loan payment. This will be discussed further in TAB 14.

11.4 PAYMENT OF PROPERTY CHARGES

A. At closing, HECM borrowers can elect to:

1. Pay the taxes and insurance themselves and furnish proof of payment to the servicer.

2. Have the servicer withhold part of each monthly tenure or term payment to cover taxes and insurance, and have the lender take responsibility for making those payments when they are due.

3. Have the lender draw funds from the line of credit each year for payment of taxes and insurance, as long as funds are available.
   a. Borrowers may also choose to establish a set-aside specifically for property charges, from which the servicer will draw funds. This separates these funds from the remainder of the line of credit, making it less likely that the borrower will spend the money on something else. Voluntary set-asides are rarely used.

4. As discussed earlier, due to increased HECM defaults for non-payment of property taxes and Insurance, lenders are now required to perform a Financial Assessment and Credit Analysis for each HECM applicant. If the lender determines that the borrower may have credit or affordability issues which would make it difficult for them to pay their ongoing property taxes and hazard and flood insurance, the lender may set up a mandatory Lifetime Expectancy Set-Aside (LESA) and hold back funds from the loan proceeds to pay the taxes and insurance as they become due.(Mortgagee Letter 2014-22)
a. There are two types of LESA -- Fully Funded LESA and Partially Funded LESA. They are calculated differently.
   i. If a lender requires a Fully Funded LESA, the amount of the set aside will be calculated using the current amount of the property taxes and hazard and flood insurance each year. To account for future property charge increases, the LESA formula multiplies the sum of the current tax and hazard and flood insurance by 1.2.
   ii. If a Partially Funded LESA is required, the amount of the set-aside is based on the amount needed to bring the borrower’s “residual income” up to a required minimum.

b. The amount of funds that will be held back for either kind of LESA will be based on the estimated life expectancy of the youngest borrower, along with the expected interest rate and the annual mortgage insurance premium (expected compounding rate). The compounding rate is used because the set-aside grows in the same way as the line of credit.

c. If the amount of funds set aside by the lender is not enough to cover the property taxes and insurance for the life of the loan, then the borrower becomes responsible for paying the taxes and insurance on their own after the LESA funds run out.

d. Borrowers are required to pay all other property charges (such as Homeowner Association dues) on their own.

B. Failure to pay taxes or insurance can cause the loan to be “accelerated” – called due and payable. The servicer must go through a series of steps before foreclosure could happen:

1. Servicer becomes aware of nonpayment.
2. Servicer notifies owner of default and requests that they pay the required property charges.
3. If no payment by borrower, servicer may use loan funds if any are available.
   a. If needed, monthly payments may be adjusted to accommodate an unscheduled draw of funds
   b. If a line of credit is available, servicer may draw from there
4. If no loan funds are available, servicer pays the charge out of its own funds and then seeks repayment from the borrower through a loss mitigation process.
   a. Servicer attempts to set up a payment plan that is affordable for the borrower
   b. If borrower fails to abide by the plan, servicer may refer them to a counseling agency for assistance with seeking other resources
5. If servicer is unable to resolve the situation after “multiple and earnest” attempts, servicer requests due-and-payable status from HUD
   a. If HUD approves the request, servicer notifies the borrower and begins foreclosure process.
b. Borrower can still cure the default at this point if they can pay back the funds advanced by the lender.

11.6 MAINTENANCE

HECM borrowers are required to keep the home in at least the condition it was in at the time of loan origination.

A. Initial required repairs must be completed within the time specified in the loan agreement, usually 6 months but not more than 12 months
B. Servicer has the right to inspect the home.
C. If the borrower fails to maintain the property, the lender may notify the borrower of the deficient condition, indicating the necessary repairs.
D. If the borrower does not begin repairs within 60 days of notification, the lender may seek permission from HUD to declare the loan due and payable.

REVIEW QUESTIONS

1. Three primary responsibilities of every borrower are

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

2. To keep the HECM loan, a borrower must reside in the home at least

_________ months out of each year.

3. True or false: It is OK for a borrower to have one of their children living with them.

4. Initial required repairs usually must be completed within no more than

_________ months after closing.

5. LESA stands for __________________________________________________________

6. True or false: If the borrower is required to have a LESA and the funds run out, the lender continues to be responsible for paying taxes and insurance.

7. Failure to maintain homeowners (hazard) insurance can result in

______________________________.
HECM LOAN AGREEMENT
Assignment: Find the answers to the following questions in the loan agreement that follows. Write down the section of the loan agreement in which the answer appears.

1) A “principal residence” is the place where borrowers:
   a) Spend the majority of the calendar year
   b) Spend most weekends and holidays
   c) Maintain their permanent place of abode
   d) a and c above
   e) b and c above

2) “Set-asides” that do not bear interest may be made for:
   a) Required repairs
   b) Taxes and insurance
   c) Monthly servicing fees
   d) Any of the above
   e) Only b and c above

3) Monthly payments to borrowers must be paid:
   a) On the first business day of a month
   b) By the fifth business day of a month
   c) By the 10th business day of a month
   d) By the 15th business day of a month
   e) By the last business day of a month

4) Line-of-credit payments must be paid to the borrower within:
   a) 5 calendar days of a written request
   b) 5 business days of a written request
   c) 7 business days of a written request
   d) 10 calendar days of a written request
   e) 10 business days of a written request

5) The charge for changing a payment plan may not exceed:
   a) 1.0% of the maximum claim amount
   b) 1.0% of the principal limit
   c) 1.0% of the net principal limit
   d) 1.0% of the current loan balance
   e) $20
6) If the actual cost of required repairs completed after closing is different from the amount set aside for this purpose:

   a) Any excess amount remains set aside for future repairs  
   b) Any excess amount is available to the borrower as a creditline advance  
   c) Any deficit amount must be paid from the loan, which decreases the borrower’s line-of-credit or monthly advance  
   d) a and c above  
   e) b and c above

7) Borrowers can choose to have their payments made:

   a) By a check sent to them  
   b) By electronic transfer into their bank account  
   c) Directly to a third party  
   d) Any of the above  
   e) a or b above

8) Lenders may use loan proceeds to preserve and protect the property if:

   a) The borrower abandons the property  
   b) The borrower fails to pay governmental charges  
   c) The borrower vacates the property  
   d) Any of the above  
   e) a or c above

9) If a lender’s payment to a borrower is late (see questions 3 and 4), the late charge the lender must pay to the borrower can be as much as:

   a) 1% of the payment  
   b) 2% of the payment  
   c) 4% of the payment  
   d) 6% of the payment  
   e) 10% of the payment

10) A lender’s legal obligation to make payments to a borrower ends when:

   a) A borrower reaches age 100  
   b) The loan balance exceeds the home value  
   c) A co-borrower permanently moves to a nursing home  
   d) The First Security Instrument is assigned to the Secretary  
   e) The Second Security Instrument is assigned to the Administrator
HOME EQUITY CONVERSION MORTGAGE
ADJUSTABLE RATE LOAN AGREEMENT (2015)

THIS AGREEMENT is made this day of ________________________, 20__, among
______________________________ (“Borrower”) and
______________________________ (“Lender”).

Article 1 - Definitions

1.1. “Borrower” is defined above. The term does not include the Borrower’s successors or assigns.

1.2 “Deferral Period” means the period of time following the death of the last surviving Borrower during which the due and payable status of a loan is further deferred based on the continued satisfaction of the requirements for an Eligible Non-Borrowing Spouse determined by the Secretary and all other FHA requirements.

1.3. “Eligible Non-Borrowing Spouse” means a Non-Borrowing Spouse who meets the Qualifying Attributes requirements established for a Deferral Period.

1.4. “Expected Average Mortgage Interest Rate” means the amount indicated on the Payment Plan. It is a constant interest rate used to calculate monthly payments to the Borrower throughout the life of the loan.

1.5. “First 12-Month Disbursement Period” means the period that begins on the day of loan closing and ends on the day before the anniversary date of loan closing. When the day before the anniversary date of loan closing falls on a Federally-observed holiday, Saturday or Sunday, the period end date will be on the next business day.

1.6. “Ineligible Non-Borrowing Spouse” means a Non-Borrowing Spouse who does not meet the Qualifying Attributes requirements established for a Deferral Period.

1.7. “Initial Disbursement Limit” means the maximum disbursement to the Borrower allowed at loan closing and during the First 12-Month Disbursement Period which is the greater of sixty percent (60%) of the Principal Limit; or the sum of Mandatory Obligations, plus an additional ten percent (10%) percent of the Principal Limit. The Initial Disbursement Limit shall not exceed the Principal Limit amount established at loan closing.

[1.8. “LA Property Charges” means certain Property Charges consisting of taxes, hazard insurance premiums, flood insurance premiums, ground rents, and any other assessments that may be required by local or state law if indicated on the Payment Plan.]

[1.8. “LESA Property Charges” means certain Property Charges consisting of property taxes including special assessments levied by Municipalities or State Law, hazard insurance premiums, and applicable flood insurance premiums.]

1.9. “Loan Advances” means all funds advanced from or charged to Borrower’s account under conditions set forth in this Loan Agreement, whether or not actually paid to Borrower.

1.11. “Mandatory Obligations” means only those charges, fees, amounts and expenses as authorized by the Secretary.

1.12. “Maximum Claim Amount” means the lesser of the appraised value of the Property, as determined by the appraisal used in underwriting the loan, or the sales price of the Property being purchased for the sole purpose of being the Principal Residence, or the national mortgage limit under Section 255(g) or (m) of the National Housing Act applicable to this Loan Agreement. Closing costs must not be taken into account in determining the appraised value.

1.13. “Non-Borrowing Spouse” means the spouse [Name], as determined by the law of the state in which the spouse [Name] and Borrower [Name] reside or the state of celebration, of the Borrower [Name] at the time of closing and who is not a Borrower.

1.14. “Note” means the promissory note signed by Borrower together with this Loan Agreement and given to Lender to evidence Borrower's promise to repay, with interest, Loan Advances by Lender or Lender's assignees.

1.15. “Payment Plan” means the payment plan set forth in Exhibit 1, which is attached to and made a part of this Loan Agreement.

1.16. “Principal” or “Principal Balance” means the sum of all Loan Advances made as of a particular date, including interest and mortgage insurance premiums.

1.17. “Principal Limit” means the amount indicated on the Payment Plan when this Loan Agreement is executed, and increases each month for the life of the loan at a rate supplied by the Secretary that is listed on the Payment Plan. The Principal Limit is calculated by multiplying the Maximum Claim Amount by a factor supplied by the Secretary.

1.18. “Principal Residence” means the dwelling where a Borrower and, if applicable, a Non-Borrowing Spouse maintains his or her permanent place of abode, and typically spends the majority of the calendar year. A person may have only one Principal Residence at any one time. The Property shall be considered to be the Principal Residence of any Borrower who is temporarily in a health care institution provided the Borrower’s residency in a health care institution does not exceed twelve (12) consecutive months. The Property shall be considered to be the Principal Residence of any Non-Borrowing Spouse, who is temporarily in a health care institution, as long as the Property is the Principal Residence of his or her Borrower spouse, who physically resides in the Property. During a Deferral Period, the Property shall continue to be considered to be the Principal Residence of any Eligible Non-Borrowing Spouse, who is temporarily in a health care institution, provided the Eligible Non-Borrowing Spouse physically occupied the Property immediately prior to entering the health care institution and the Eligible Non-Borrowing Spouse’s residency in a health care institution does not exceed twelve (12) consecutive months.


1.20. “Property Charges” means property taxes, hazard insurance premiums, flood insurance premiums, ground rents, condominium fees, planned unit development fees, homeowner’s association fees, and any other special assessments that may be required by local or state law.

1.21. “Qualifying Attributes” means those requirements established by the Secretary that the Non-Borrowing Spouse must satisfy in order to be eligible for the Deferral Period.
1.22. “Secretary” means the Secretary of the Department of Housing and Urban Development, his or her successors and assigns.

1.23. “Second Note” means the promissory note signed by Borrower together with this Loan Agreement and given to the Secretary to evidence Borrower's promise to repay, with interest, Loan Advances by the Secretary secured by the Second Security Instrument.

1.24. “Second Security Instrument” means the mortgage, deed of trust, security deed or other security instrument which is signed by Borrower together with this Loan Agreement and which secures the Second Note.

1.25. “Security Instrument” means the mortgage, deed of trust, security deed or other security instrument which is signed by Borrower together with this Loan Agreement and which secures the Note.

**Article 2 - Loan Advances**

2.1. **General.** Lender agrees to make Loan Advances under the conditions set forth in this Loan Agreement in consideration of the Note and Security Instrument given by Borrower on the same date as this Loan Agreement.

2.2. **Initial Advances.**

2.2.1. Loan Advances shall be used by Lender to pay, or reimburse Borrower for, closing costs listed in the Schedule of Closing Costs (Exhibit 2) attached to and made a part of this Loan Agreement, except that Loan Advances will only be used to pay origination fees in an amount not to exceed the greater of two thousand five hundred dollars ($2,500) or two percent (2%) of the Maximum Claim Amount, up to a Maximum Claim Amount of two hundred thousand dollars ($200,000), plus one percent (1%) of any portion of the Maximum Claim Amount that is greater than two hundred thousand dollars ($200,000). The Lender may not charge the Borrower an origination fee in excess of six thousand dollars ($6,000).

2.2.2. Loan Advances shall be used by Lender to discharge those liens on the Property listed in the Schedule of Liens/HECM for Purchase Disbursements to Seller (Exhibit 2) attached to and made a part of this Loan Agreement.

2.2.3. Lender shall pay an initial Loan Advance to Borrower in the amount indicated on the Payment Plan.

2.2.4. Initial advances required by this Section 2.2. shall be made as soon as such advances are permitted by the applicable provisions of 12 CFR Part 226 (Truth in Lending) governing Borrower's right of rescission, but not before that time.

2.2.5. Borrower's aggregate initial advances and any subsequent advances made, except for any disbursements or accruals under 2.3.3, during the First 12-Month Disbursement Period may not exceed the Initial Disbursement Limit established at closing and in the amount indicated on the Payment Plan. In the event Borrower makes a payment towards the outstanding loan balance on the line of credit during the First 12-Month Disbursement Period, the Lender may make subsequent Loan Advances during the remainder of the First 12-Month Disbursement Period only to the extent Borrower’s payment was applied to the outstanding Principal Balance.
2.2.6. If any requested Loan Advance would exceed the Initial Disbursement Limit established at closing, Lender must make a partial payment to the Borrower for the amount that would not exceed the limit. Prior to Lender paying a partial Loan Advance to avoid causing the aggregate initial advances to exceed the Initial Disbursement Limit within the First 12-Month Disbursement Period, Lender must provide Borrower with written notice about inability to exceed the threshold.

2.2.7. No Loan Advances are permitted during a Deferral Period, except for amounts disbursed or accrued from under 2.3.2, 2.3.3, 2.12.3, 2.13.3, and 2.15.3.

2.3. Set-Asides.

2.3.1. Amounts set aside from the Principal Limit shall be considered Loan Advances to the extent actually disbursed or earned by Lender.

2.3.2. Lender shall initially set aside from the Principal Limit the amount indicated on the Payment Plan for repairs to be made in accordance with a Repair Rider attached to and made a part of this Loan Agreement (Exhibit 3). This set-aside remains available for disbursement during any Deferral Period and the Lender may add such disbursements to the Principal Balance for the sole purpose of paying the cost of the repairs specifically identified in the Repair Rider. Additionally, such repairs may only be disbursed if the repairs are satisfactorily completed during the time period established in the Repair Rider.

2.3.3. Lender shall initially set aside from the Principal Limit the amount indicated on the Payment Plan to be applied to payment due for a fixed monthly charge for servicing activities of Lender or its servicer. Such servicing activities are necessary to protect Lender's interest in the Property. A servicing fee set-aside, if any, is not available to the Borrower for any purpose, except to pay for loan servicing. A servicing set-aside under this Section remains available for disbursement during any Deferral Period and the Lender may add such disbursements to the Principal Balance.

2.3.4. Lender shall set aside from the Principal Limit any amounts required by Section 2.10 as indicated on the Payment Plan.

2.4. Charges and Fees. Borrower shall pay to Lender reasonable and customary charges and fees as permitted under 24 CFR 206.207(a). Such amounts shall be considered Loan Advances when actually disbursed by Lender.

2.5. Monthly Payments.

2.5.1. Loan Advances paid directly to Borrower shall be made in equal monthly payments if requested by Borrower.

2.5.2. Monthly payments, if requested under 2.5.1, shall be calculated based on the payment option requested by Borrower.

2.5.3. Monthly payments under the term payment option are made only during a term chosen by Borrower and shall be calculated so that the sum of (i) or (ii) as applicable added to (iii), (iv), (v) and (vi) shall be equal to or less than the Principal Limit at the end of the term; except that during the First 12-Month Disbursement Period, the amount calculated shall not be greater than the Initial Disbursement Limit:
(i) Initial advances under Section 2.2 plus any initial servicing fee set-aside under Subsection 2.3.3, or

(ii) The Principal Balance at the time of a change in payments under Sections 2.8 and 2.9 plus any remaining servicing fee set-aside under Subsection 2.3.3, and

(iii) The portion of the Principal Limit set aside as a line of credit under Section 2.7, including any set-asides for repairs (Subsection 2.3.2) [and first-year LESA Property Charges/LA Property Charges (Subsection 2.3.4 and Section 2.10)], and

(iv) All monthly payments due through the payment term, including funds withheld for payment of Property Charges under Section 2.10, and

(v) All mortgage insurance premiums, or monthly charges due to the Secretary in lieu of mortgage insurance premiums, which are due through the payment term (Subsection 2.13), and

(vi) All interest through the payment term. The Expected Average Mortgage Interest Rate shall be used for this purpose.

2.5.4 Monthly payments under the tenure payment option shall be calculated as in Subsection 2.5.3 as if there were a payment term with the number of months in the term equal to the sum of one hundred (100) minus the age of the youngest Borrower multiplied by twelve (12), but payments shall continue until the loan becomes due and payable as provided in the Loan Documents.

2.5.5 Monthly payments shall be paid to Borrower on the first business day of a month.

2.5.6 If Borrower has requested monthly payments, payments shall be indicated on the Payment Plan. The payment option may be changed by Borrower as provided in Sections 2.8 and 2.9.

2.6 Line of Credit without Monthly Payments.

2.6.1 Borrower can request Loan Advances under a line of credit payment option in amounts and at times determined by Borrower, if the Principal Balance of the loan after the Loan Advance is made is less than or equal to the applicable Principal Limit, except that during the First 12-Month Disbursement Period the amount available shall not be greater than the maximum amount permitted under 2.2.5, excluding any portion of the Principal Limit set aside under Sections 2.3.2, 2.3.3, 2.3.4 and 2.10. The line of credit amount increases at the same rate as the total Principal Limit under Section 1.17.

2.6.2 Line of credit payments shall be paid to Borrower within five business days after Lender has received a written request for payment by Borrower.

2.6.3 Lender may specify a form for line of credit payment requests.

2.6.4 Lender shall provide Borrower with a statement of the account every time a line of credit payment is made. The statement shall include the current interest rate, the previous Principal Balance, the amount of the current Loan Advance, the current Principal Balance after the Loan Advance, and the current Principal Limit.
2.7. **Line of Credit with Monthly Payments.**

2.7.1. Borrower may receive monthly payments under either a term or tenure payment option combined with a line of credit, as indicated on the Payment Plan.

2.7.2. Subsections 2.6.2, 2.6.3, and 2.6.4, apply to a line of credit combined with term or tenure payments.

2.7.3. If Borrower combines a line of credit with a term or tenure payment option, the Principal Limit is divided into: (a) an amount for the line of credit payments, including any repair set-aside as provided for in Subsection 2.3.3 and amounts set-aside or withheld for Property Charges as provided for in Subsection 2.3.4 and Section 2.10, (b) an amount for monthly payments which shall be calculated under Subsection 2.5.3 or 2.5.4 and (c) an amount for a servicing fee set-aside, if required by Lender under Subsection 2.3.3. Amounts designated for line of credit payments and monthly payments increase independently at the same rate as the total Principal Limit increases under Section 1.17. Borrower can request Loan Advances in amounts and at times determined by Borrower, if the requested amount is less than or equal to the difference between (a) the Principal Limit applicable to the line of credit set aside, except that during the First 12-Month Disbursement Period instead of using the applicable Principal Limit, the maximum amount permitted under 2.2.5 shall be used, and (b) the portion of the outstanding Principal Balance attributable to draws on the line of credit, including accrued interest and mortgage insurance premium or monthly charge due to the Secretary, but excluding any portion of the Principal Limit set aside under Subsections 2.3.2, 2.3.3, 2.3.4 and 2.10.

2.7.4. A Borrower receiving monthly payments in combination with a line of credit may prepay the outstanding mortgage balance in accordance with the terms of the Note.

2.8. **Change in Payments Generally.**

2.8.1. Whenever the Principal Balance of the loan is less than the Principal Limit, Borrower may change from any payment option allowable under this Loan Agreement to another.

2.8.2. If Borrower requests that monthly payments be made after a change in payment option, Lender shall recalculate future monthly payments in accordance with Subsections 2.5.3 or 2.5.4.

2.8.3. Lender may charge a fee not to exceed twenty dollars, whenever payments are recalculated and in any other circumstances in which Borrower is required to sign a form acknowledging a change in payment option as provided in Subsection 2.8.5.

2.8.4. Loan Advances under a new payment option shall be paid to Borrower in the same manner and within the time period required under Sections 2.5, 2.6, or 2.7.

2.8.5. Changes in the payment option must be acknowledged by Borrower by signing a form containing the same information as the Payment Plan. Lender shall provide a copy of the completed form to Borrower.

2.9. **Change in Payments Due to Initial Repairs.**

2.9.1. If initial repairs after closing, made in accordance with the Repair Rider, are completed without using all of the repair set-aside, Lender shall inform Borrower of the completion and the amount then available to the Borrower to be drawn under a line of credit.
2.9.2. If initial repairs after closing, made in accordance with the Repair Rider, cannot be fully funded from the repair set aside, any additional Loan Advances needed to complete repairs shall be made in the manner provided under Section 2.16.

2.9.3. If initial repairs are not completed when required by the Repair Rider, Borrower shall not request and Lender shall not make any further payments, except as needed to pay for repairs required by the Repair Rider and mandatory Loan Advances under Section 4.6. In order to complete the required repairs, Loan Advances shall be made first from the repair set aside, and then in the manner provided under Section 2.16.

2.10. Payment of Certain Property Charges.

To be used for Fully-Funded Life Expectancy Set-Aside:

2.10.1. Except as provided herein, Borrower shall pay all Property Charges and shall provide evidence of payment to the Lender when required by Lender.

2.10.2. Borrower [is required/has elected] to have a Fully-Funded Life Expectancy Set-Aside, which the Lender shall use as Loan Advances to pay the LESA Property Charges. Borrower shall remain responsible to pay all other Property Charges.

2.10.3. Lender shall set aside from the Principal Limit the amount indicated on the Payment Plan. Lender shall use the amounts set-aside to make timely payments of the LESA Property Charges listed in Section 2.10.2. The amounts set aside shall not exceed the projected LESA Property Charges that will be required over the life expectancy of the youngest Borrower and shall be calculated in accordance with the formula established by the Secretary. Amounts set aside shall not be treated as Loan Advances and shall not bear interest except to the extent actually disbursed by Lender. During a Deferral Period, no amounts from the set-aside will be available for an Eligible Non-Borrowing Spouse.

2.10.4. Lender is required to perform an annual analysis of the Fully-Funded Life Expectancy Set-Aside to determine whether the funds are sufficient to make required distributions for the next year. If at any time the amounts remaining in the set-aside are insufficient to pay the LESA Property Charges when due or when there are no funds remaining in the set-aside, within 15 calendar days of the analysis the Lender shall notify Borrower that there are insufficient or no funds remaining and that Borrower is responsible for the timely payment of all the Property Charges, including the LESA Property Charges, throughout the remaining life of the loan. Lender shall convert any remaining funds in the set-aside to a line of credit.

2.10.5. If Borrower fails to pay any Property Charges Borrower is required to pay, including any LESA Property Charges in accordance with Section 2.10.4, Lender shall pay the Property Charges as a Loan Advance as required under Section 2.16; however, such election shall not preclude the Lender from taking action due to the Borrower’s failure to pay Property Charges under this Section.

2.10.6. Borrower may not cancel the Fully-Funded Life Expectancy Set-Aside.
To be used for Partially-Funded Life Expectancy Set-Aside:

2.10.1. Borrower shall pay all Property Charges and shall provide evidence of payment to the Lender when required by Lender.

2.10.2. Borrower is required to have a Partially-Funded Life Expectancy Set-Aside, which the Lender shall use to provide semi-annual disbursements, in the amount indicated on the Payment Plan, to the Borrower. These funds must be used to pay the LESA Property Charges.

2.10.3. Lender shall set-aside from the Principal Limit the amount indicated on the Payment Plan. Lender shall use the amounts set-aside to make semi-annual disbursements to the Borrower to be used for timely payments of the LESA Property Charges. The first semi-annual payment date will be disbursed six months from the date of loan closing. The amounts set-aside shall not exceed the projected LESA Property Charges that will be required over the life expectancy of the youngest Borrower and shall be calculated in accordance with the formula established by the Secretary. Amounts set-aside shall not be treated as Loan Advances and shall not bear interest except to the extent actually disbursed by Lender.

During a Deferral Period, no amounts from the set-aside will be available for an Eligible Non-Borrowing Spouse.

2.10.4. Lender is required to perform an annual analysis of the Partially-Funded Life Expectancy Set-Aside to determine whether the funds are sufficient to make required distributions for the next year. If at any time the amounts remaining in the set-aside are insufficient to pay the semi-annual disbursements or when there are no funds remaining in the set-aside, within 15 calendar days of the analysis the Lender shall notify Borrower that there are insufficient or no funds remaining and that Borrower will no longer receive semi-annual disbursements and continues to be responsible for the timely payment of all LESA Property Charges. Lender shall convert any remaining funds in the set-aside to a line of credit, unless such funds are retained under Subsection 2.10.5.

2.10.5. If Borrower fails to timely pay any LESA Property Charges and there are funds remaining in the set-aside, Lender shall immediately suspend future semi-annual payments, if any, and must use any funds remaining in the set-aside to directly pay the full amount owed to the taxing authority or/and insurance provider. Semi-annual disbursements are suspended indefinitely unless and until Borrower repays the full amount of funds advanced from the set-aside. Any remaining funds in the set-aside must be used to pay future LESA Property Charges if Borrower fails to timely pay them.

2.10.6 If Borrower fails to timely pay the LESA Property Charges and there are no remaining funds in the set-aside, Lender shall pay the LESA Property Charges as a Loan Advance as required under Section 2.16; however, such election shall not preclude the Lender from taking action due to the Borrower’s failure to pay Property Charges under this Section.

2.10.7. Borrower may not cancel the Partially-Funded Life Expectancy Set-Aside.
To be used for all other Borrowers:

2.10.1. Except as provided herein, Borrower shall pay all Property Charges and shall provide evidence of payment to the Lender when required by Lender.

2.10.2. Borrower may elect to require Lender to use Loan Advances to pay certain Property Charges consisting of taxes, hazard insurance premiums, flood insurance premiums, ground rents, and any other assessments that may be required by local or state law if indicated on the Payment Plan (collectively, the “LA Property Charges”). Borrower may not cancel this election.

2.10.3. If Borrower has made the election under Subsection 2.10.2 and Borrower is receiving monthly payments, Lender shall withhold amounts from each monthly payment and use the amounts withheld to make timely payments of the LA Property Charges. The amounts withheld shall be calculated as provided in Subsection 2.10.5. Amounts withheld from monthly payments shall not be treated as Loan Advances and shall not bear interest except to the extent actually disbursed by Lender.

2.10.4. If Borrower has made the election under Subsection 2.10.2, Lender shall withhold from each monthly payment an amount to pay (a) taxes and special assessments levied or to be levied against the Property, (b) leasehold payments or ground rents on the Property, (c) premiums for fire, flood and other hazard insurance required by the Security Instrument, (d) any other assessments that may be required by local or state law. Each monthly withholding for items (a), (b), (c), and (d) shall equal one-twelfth (1/12th) of the annual amounts, as reasonably estimated by Lender. The full annual amount for each item shall be paid by Lender before an item would become delinquent. Lender shall treat amounts for items (a), (b), and (c), and (d) as Loan Advances adding to the Principal Balance when paid. If at any time the withholding for item (a), (b), (c), or (d) exceeds the amount of actual LA Property Charges, Lender shall pay the excess withholding to Borrower and add it to the Principal Balance. If the total of the withholding for item (a), (b), (c), or (d) is insufficient to pay the item when due, the amount necessary to make up the deficiency on or before the date the item becomes due shall be paid as a Loan Advance in the manner provided under Section 2.16.

2.10.5. If Borrower has made the election under Subsection 2.10.2 and Borrower is not receiving monthly payments, Lender shall make Loan Advances under the line of credit payment option as needed to make timely payments of LA Property Charges, provided that no such Loan Advance shall exceed the amount permitted by Section 2.6.1.

2.10.6. Lender shall immediately notify any Borrower who has made the election under Subsection 2.10.2 whenever Lender determines that amounts available from monthly payments or line of credit payments will be insufficient to pay the LA Property Charges.

2.10.7 If Borrower who has made the election under Subsection 2.10.2 fails to timely pay any other Property Charges, Lender shall pay the Property Charges as a Loan Advance as required under Section 2.16; however, Lender’s payment of the Property Charges as a Loan Advance shall not preclude the Lender from taking action due to the Borrower’s failure to pay Property Charges under this Section.

2.10.8 If a Borrower who has not made the election under Subsection 2.10.2 establishes a pattern of missed payments for LA Property Charges, Lender may establish procedures to pay the LA Property Charges from Borrower's funds as if Borrower made such an election.

2.10.9. If Borrower who has not made the election under Subsection 2.10.2 fails to pay any Property Charges in a timely manner, and such Property Charges are not paid under Subsection 2.10.8 above, Lender shall pay the Property Charges as a Loan Advance as required under Section 2.16.
2.11. **Insurance and Condemnation Proceeds.** If insurance or condemnation proceeds are paid to Lender, the Principal Balance shall be reduced by the amount of the proceeds not applied to restoration or repair of the damaged Property and the available loan funds shall be recalculated. At the same time, the Principal Limit also shall be reduced by the amount of the proceeds applied to reduce the Principal Balance.

2.12. **Interest**

2.12.1. Interest shall be calculated as provided in the Loan Documents.

2.12.2. Interest shall accrue daily and be added to the Principal Balance as a Loan Advance at the end of each month.

2.12.3. Interest shall continue to accrue as provided in 2.12.2 during any Deferral Period.

2.13. **Mortgage Insurance Premium (MIP); Monthly Charge.**

2.13.1. Monthly MIP shall be calculated as provided by the Secretary. If the Security Instrument is held by the Secretary or if the Secretary makes Loan Advances secured by the Second Security Instrument, a monthly charge shall be due to the Secretary and shall be calculated in the same manner as MIP.

2.13.2. The full amount of monthly MIP or monthly charge, including any portion of the MIP retained by a Lender under 24 C.F.R. 206.109, shall be considered to be a Loan Advance to Borrower on the later of the first day of the month or the day Lender pays the MIP to the Secretary, if any MIP is due to the Secretary. In the event that the Note becomes due and payable or the Note is prepaid in full after the first day of the month, Lender may add the accrued MIP to the Principal Balance or the Secretary may add the accrued monthly charge to the Principal Balance.

2.13.3 In the event of a Deferral Period, the monthly MIP will continue to accrue and the Lender may add the accrued MIP to the Principal Balance.

2.14. **Manner of Payment.** Only a Borrower has a right to receive Loan Advances. Borrowers shall choose to receive by either electronic funds transfer to a bank account designated by all Borrowers or by check mailed to an address designated by all Borrowers, except where all Borrowers agree that payment should be made directly to a third party for the benefit of the Borrowers. Borrowers may change the manner of payment by notifying Lender.

2.15. **Protection of Property.**

2.15.1. If Borrower vacates or abandons the Property, or if Borrower is in default under the Security Instrument, then Lender may make reasonable expenditures to protect and preserve the Property and these expenditures will be considered Loan Advances as required under Section 2.16.

2.15.2. If Borrower fails to pay governmental or municipal charges, fines or impositions that are not included in Section 2.10 or if there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property. These expenditures will be considered Loan Advances as required under Section 2.16.
2.15.3. During a Deferral Period, if there are governmental or municipal charges, fines or impositions that are not included in Section 2.10 or if there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property. These expenditures will be considered Loan Advances as required under Section 2.16. If obligations of the Security Instrument are not satisfied during the Deferral Period, the Deferral Period will immediately cease and the Loan will be immediately due in full.

2.16. Unscheduled Payments. Loan Advances made pursuant to Sections 2.3.4, 2.4, 2.9.2, 2.9.3, [2.10.5/2.10.4, 2.10.6], and 2.15 shall be made from a line of credit under Section 2.6 or 2.7 to the extent possible. If no line of credit sufficient to make the Loan Advances exists, any future monthly payments must be recalculated in accordance with Subsection 2.5.3 or 2.5.4 to create a line of credit sufficient to make the Loan Advances.

Article 3 - Late Charge

3.1. Amount Due. Lender shall pay a late charge to Borrower for any late payment. If Lender does not mail or electronically transfer a scheduled monthly payment to Borrower on the first business day of the month or mail or electronically transfer a line of credit payment to Borrower within 5 business days of the date Lender received the request, the late charge shall be 10 percent of the entire amount that should have been paid to the Borrower for that month or as a result of that request. For each additional day that Lender fails to make payment, Lender shall pay interest on the late payment at the interest rate stated in the Loan Documents. If the Loan Documents provide for an adjustable interest rate, the rate in effect when the late charge first accrues shall be used. In no event shall the total late charge and interest exceed five hundred dollars. Any late charge shall be paid from Lender's funds and shall not be added to the unpaid Principal Balance.

3.2. Waiver. The Secretary may waive a late charge where the Secretary determines that the late payment resulted from circumstances beyond Lender's control and that no act or omission of Lender contributed to the late payment. At the time Lender requests a waiver, Lender shall inform Borrower that a waiver of late charge has been requested from the Secretary and that the late charge will be sent to Borrower if the waiver is denied. If the Secretary denies the waiver, Lender shall pay to Borrower the late charge and interest that accrued from the date the payment was late until the date the waiver was requested.

Article 4 - Termination of Lender's Obligation to Make Loan Advances

4.1. Loan Due and Payable. Lender shall have no obligation to make Loan Advances, including those under Section 2.10, if Lender has notified Borrower that immediate payment in full to Lender is required under one or more of the Loan Documents unless and until the notice is rescinded by Lender.

4.2. Deferral Period of Loan Due and Payable Status. Where the last surviving Borrower dies and an Eligible Non-Borrowing Spouse met and continues to meet all requirements established by the Secretary, the Due and Payable status will be deferred until the Property is no longer the Principal Residence of an Eligible Non-Borrowing Spouse, an Eligible Non-Borrowing Spouse fails to ensure all other requirements established by the Secretary are met, or an Eligible Non-Borrowing Spouse dies, whichever occurs first. During the Deferral Period, the Lender shall have no obligation to make Loan Advances but the Lender may not require immediate payment in full until the end of the Deferral Period. The Lender may continue
to add to the outstanding Principal Balance the amounts that accrue in accordance with Subsections 2.3.2, 2.3.3, 2.12.3, and 2.13.3. The Lender shall notify an Eligible Non-Borrowing Spouse that the Due and Payable status of the Loan is in a Deferral Period only for the amount of time that an Eligible Non-Borrowing Spouse continues to meet all requirements established by the Secretary and the Property continues to be the Principal Residence of an Eligible Non-Borrowing Spouse. Once the Deferral Period ends, the Loan is immediately due and payable. The Deferral Period is not available to any Ineligible Non-Borrowing Spouse. The Deferral Period will terminate or become unavailable to an Eligible Non-Borrowing Spouse at the time he or she becomes ineligible.

4.3. Loan Advances by Secretary. If the Security Instrument has been assigned to the Secretary or the Secretary notifies Lender and Borrower that Loan Advances are secured by the Second Security Instrument, Lender shall have no further obligation to make Loan Advances under this Loan Agreement, unless the Secretary accepts later reimbursement by the Lender for all Loan Advances made, earned or disbursed by the Secretary. The Secretary may establish procedures for handling requests for payments and changes in payment options during the interval between Lender's notification of intent to assign the Security Instrument to the Secretary and completion of the assignment. Borrower shall be informed of such procedures by Lender and/or the Secretary, and Borrower shall comply with such procedures.

4.4. Lien Status Jeopardized. Lender shall have no obligation to make further Loan Advances if the Lender or the Secretary determines that the lien status of the Security Instrument or the Second Security Instrument is jeopardized under State laws as described in Paragraph 14(A) of the Security Instrument or Second Security Instrument and the lien status is not extended in accordance with Paragraph 14(A).

4.5. Bankruptcy. Lender shall have no obligation to make further Loan Advances on or following the date that a petition for bankruptcy of Borrower is filed.

4.6. Mandatory Loan Advances. Notwithstanding anything in Sections 4.1. through 4.4., all Loan Advances under Sections 2.10 (Property Charges), 2.12. (interest), 2.13. (MIP, monthly charge or annual MIP adjustment), 2.15 (protection of Property) or 2.3.3 (servicing fee) shall be considered mandatory Loan Advances by Lender.

4.7. Prepayment in Full. Lender shall not make Loan Advances if Borrower has paid the Note in full (or the Second Note, if the Secretary has assumed the Lender's rights and obligations under Article 5).

**Article 5 - HUD Obligation**

The Secretary has no obligations under this Loan Agreement unless and until a certificate of insurance is issued by the Secretary. Where a certificate of insurance has been issued, if the Lender has no further obligation to make payments to Borrower because of Section 4.3, the Secretary shall assume the rights and obligations of Lender under this Loan Agreement, except the Secretary shall not assume any obligation of paying flood, fire and other hazard insurance from Loan Advances. If the Secretary makes Loan Advances to Borrower under the Second Security Instrument, the portion of the Principal Limit available for Loan Advances shall be the difference between the current Principal Limit and the combined Principal Balances on the Security Instrument less accrued interest and the Second Security Instrument.
Article 6 - Miscellaneous

6.1. Forbearance Not a Waiver. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

6.2. Successors and Assigns Bounds; Joint and Several Liability; Co-Signers. The covenants and agreements of this Loan Agreement shall bind and benefit the successors and assigns of Lender. An assignment made in accordance with the regulations of the Secretary shall fully relieve the Lender of its obligations under this Loan Agreement. Borrower may not assign any rights or obligations under this Loan Agreement. Borrower's covenants and agreements shall be joint and several.

Notwithstanding anything to the contrary herein, upon the death of the last surviving Borrower, the Borrower’s successors and assigns will be bound to perform Borrower’s obligations under this Loan Agreement, and Lender shall be entitled to add to the outstanding Principal Balance the amounts that accrue in accordance with Subsections 2.3.2, 2.3.3, 2.12.3, and 2.13.3.

6.3. Borrower Certifications. Borrower shall complete and provide to the Lender on an annual basis a certification, in a form prescribed by the Lender, stating whether the Property remains the Borrower’s Principal Residence and, if applicable, the Principal Residence of his or her Eligible Non-Borrowing Spouse. Where a Borrower has identified an Eligible Non-Borrowing Spouse, the Borrower shall also complete and provide to the Lender on an annual basis an Eligible Non-Borrowing Spouse certification, in a form prescribed by the Lender, certifying that all requirements for the application of a Deferral Period continue to apply and continue to be met. During a Deferral Period, the Borrower’s annual certifications, required by this Paragraph, must continue to be completed and provided to the Lender by the Eligible Non-Borrowing Spouse.

6.4. Notices. Any notice to Borrower provided for in this Loan Agreement shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the property address shown in the Security Instrument or any other address all Borrowers jointly designate. Any notice to an Eligible Non-Borrowing Spouse shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the property address shown in the Security Instrument or any other address all Borrowers and Eligible Non-Borrowing Spouse, if applicable, jointly designate. Any notice to Lender shall be given by first class mail to Lender’s address stated herein or any address Lender designates by notice to Borrower. Any notice to the Secretary shall be given by first class mail to the HUD National Servicing Center or any other place designated by the Secretary. Any notice provided for in this Loan Agreement shall be deemed to have been given to Borrower, Lender or the Secretary when given as provided in this Section.

6.5. Governing Law; Severability. This Loan Agreement shall be governed by Federal law and the law of the jurisdiction in which the Property is located. The Lender in this Loan Agreement must comply with the Fair Housing Act, 42 U.S.C. §§3601 – 3619, which prohibits discrimination on the basis of race, color, religion, sex, handicap familial status, or national origin. In the event that any provision or clause of this Loan Agreement conflicts with applicable law, such conflict shall not affect other provisions of this Loan Agreement which can be given effect without the conflicting provision. To this end the provisions of this Loan Agreement are declared to be severable.

6.6. Copies. Lender, Borrower and the Secretary shall each receive one original executed copy of this Loan Agreement when acknowledged by the Secretary.

6.7. When Agreement Becomes Binding. This Loan Agreement shall bind Lender and Borrower when both Lender and Borrower have signed.
6.8. Third-Party Beneficiary. Except as set forth in Article 5 and Section 4.3 for the Secretary and except as set forth in Section 4.2 only for an Eligible Non-Borrowing Spouse in this Loan Agreement, this Agreement does not and is not intended to confer any rights or remedies upon any person other than the parties. Borrower agrees that it is not a third-party beneficiary to the Contract of Insurance between the Secretary and Lender.

BY SIGNING BELOW the parties accept and agree to the terms contained in this Loan Agreement and the exhibits.
HOW MUCH WILL THEY OWE AND WHAT WILL BE LEFT OVER?
13.1 FACTORS DETERMINING THE LOAN BALANCE

Several different factors go into determining what the borrower’s loan balance will be in the future.

- Loan amount – how much do they borrow?
- Payment plan and pattern of loan advances – how do they borrow it?
- Interest rate and other costs – how fast is it growing?
- Loan term – how long do they keep it?

A. Loan Amount: Obviously, the more borrowers choose to take in loan advances, the larger the balance will become in the future. Borrowers who take the maximum draws will have the largest balances.

B. Payment Plan: Each payment plan has a characteristic pattern of growth in the loan balance.

1. Tenure plans will generally cause the loan to grow most slowly, since the monthly amounts are relatively small.
   a. The increase will be very steady because the monthly payments are the same throughout the life of the loan.
   b. The loan will grow both because of the interest charges and because of the ongoing monthly payments.

2. Term plans will cause the loan to grow steadily during the selected loan term.
   a. The loan balance will grow faster than for a tenure plan, because the loan advances are larger.
   b. When the term is over, the growth will be slower, since there are no additional loan advances being made.

3. Creditline plans will be the least predictable since the borrower has full control over when and how they take loan advances.
   a. Whenever the borrower takes a draw, the balance will jump by that amount, and then will grow steadily based on the compounding rate until the next draw.
   b. When all creditline funds have been used, the loan balance will continue to grow at the compounding rate.

4. Single Disbursement Lump Sum plans are most predictable, since all funds are drawn at the beginning of the loan. After that, the loan grows only because of the compounding interest and mortgage insurance (and service fees, if applicable).
C. **Interest and Other Costs:** The rate of interest determines the slope of the loan growth curve. Higher rates mean that the balance increases more steeply.

1. Adjustable rate loans will have slopes that vary with the changes in the index rate on the loan. When rates are higher, the loan will grow more steeply, and when rates are lower, the rate of increase will be less.

2. Fixed rate loans will have steady growth, which will normally be higher than the adjustable rates that are available at loan origination. The increase is very predictable, since the loan amount is known and the rate is fixed.

3. Can you see why investors would prefer this?

D. **Loan Term:** Clearly, the longer the borrower keeps a reverse mortgage, the higher the nominal balance on the loan will become. Interest continues to accrue on the loan until it is paid off, even after the borrower’s death while heirs are attempting to sell the house.

### 13.2 HOW MUCH WILL HAVE TO BE REPAID

The loan balance is not necessarily the same amount that will actually have to be repaid by the homeowner. The actual repayment amount is determined by all the factors discussed above, plus one more – **home value appreciation** (or lack thereof). Why?

Remember that the borrower can never be asked to repay more than what the home is worth when sold. So once they reach the crossover point, where the loan balance is greater than the home value, their repayment obligation starts to be capped.
A. Because of the FHA mortgage insurance, the lender will get repaid in full, but the borrower (or their estate) is only liable for the value of the home. This feature of the loan is called the “non-recourse” limit.

B. Therefore, as discussed previously in relation to TALC, the amount repaid by the borrower may be significantly less than the loan balance.

1. This becomes more and more likely the longer the loan term extends.

2. It becomes dramatically more likely if the home does not appreciate in value.
### LIBOR HECM (1-mo L + 2.25) Reverse Mortgage

Assuming a 4.460% per year annual interest rate and 2.00% per year future home appreciation.

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<th>Loan Service Fees</th>
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Be sure to review the Amortization Schedule Notes that accompany this page.
REVIEW QUESTIONS

1. Factors which determine the final loan balance include:

   ____________________________________________
   ____________________________________________
   ____________________________________________
   ____________________________________________
   ____________________________________________

2. An additional factor which determines remaining equity may be

   ____________________________________________

3. The point at which the loan balance becomes greater than the home value is known as the ________________ point.

4. When the loan balance exceeds the home value, the borrower’s liability is limited by the ________________ feature of the loan.

5. A tenure payment plan would cause the loan balance to grow ________________ and ________________. On the other hand, a ________________ plan would cause the balance to grow unpredictably.
WHEN AND HOW DOES THE LOAN GET PAID OFF?
14.1 PREPAYING THE LOAN
Let’s suppose that our friends the Hendersons are concerned about depleting the equity in their home too quickly. **They could slow the loss down, or even reverse it, by making payments on the outstanding loan balance.** They could also potentially pay down their HECM loan balance and be able to borrow back these funds should they need to in the future.

A. A HECM borrower may prepay all or part of the outstanding balance at any time without penalty.

B. Repayment in full will terminate the loan agreement.

C. The borrower may choose to make a partial prepayment for a variety of reasons:
   1. to preserve more of the equity in the property, or even work toward paying the loan off,
   2. to increase monthly payments, if a payment plan with monthly payments was selected (adjustable rate loans only), or
   3. to create or increase the line of credit that will be available for use later (adjustable rate loans only).

D. Prepayments lower the debt dollar for dollar

E. Prepayments also increase the line of credit dollar for dollar if the loan is structured as open-end credit (adjustable rate loans).

F. Younger borrowers who are still working may choose to use the reverse mortgage as if it were a conventional home equity line of credit, borrowing as needed and then making payments to restore the available credit.

G. Prepayments on closed-end credit loans (fixed rate loans) will reduce the loan balance but will not add to available credit.

H. Payments are applied first to the part of the debt attributable to mortgage insurance, then to servicing fees, then to accrued interest, and finally to the remaining principal.

14.2 DUE AND PAYABLE EVENTS
Apart from voluntary prepayments, or default events, there are several standard events that would cause the HECM to be due and payable. A HECM loan must be repaid when:

A. The **last surviving** borrower dies
   1. Policy changes made in 2014 and 2015 permit an Eligible Non-Borrowing Spouse to defer repayment of the loan balance until as long as certain conditions are met. (Mortgagee Letters 14-07 and 15-02) See details below in section 14.6.

B. The **last surviving** borrower moves out of the home permanently
   1. If the borrower has been away from home for at least 6 months, they are presumed to have changed their principal residence. (Exceptions may be possible, case-by-case.)
2. A borrower may be absent for as much as 12 months if the absence is due to illness, hospitalization, etc.

C. The last surviving borrower sells the home or conveys title.
   1. Even if the borrower continues to live in the home, the loan would be due and payable if the borrower no longer owned the house (e.g., if they deeded it to their son or daughter).
   2. Borrowers can convey title after closing as long as they retain at least a life estate interest in the property (Mortgagee Letter 97-15)

14.3 REPAYMENT OPTIONS

When a HECM is due and payable, there are basically three options for repayment:

A. Sell the home and repay the loan balance in full.
   1. The home must be sold for at least the loan balance or 95% of appraised value, whichever is less.
      a. If the loan balance is less than the appraised value of the home, the borrower or heirs will repay the full loan balance and retain any remaining equity.
      b. If the loan balance exceeds the appraised value of the home, the borrower or heirs may sell the house for 95% of appraised value.
   2. Net proceeds of the sale are applied to the loan balance.
   3. Any remaining balance is paid by FHA mortgage insurance (up to MCA).

B. Keep the house and repay the loan balance in full using other means, such as another mortgage, insurance proceeds, or other assets.
   1. Again, if the balance exceeds the home value, the heirs can settle the loan by repaying at least 95% of appraised value.
      a. This represents a recent (2011) clarification of HUD policy on repayment. Between 2008 and 2011, heirs were required to pay back the entire loan balance in order to keep the home.

C. Provide the lender with clear and marketable title to the home through a “deed-in-lieu of foreclosure” – signing the home over to the lender.
   1. This option would only make sense if the loan balance exceeds the home value, since deeding the house to the lender would mean the loss of any remaining equity.

14.4 TIMING OF REPAYMENT

When the loan becomes due and payable, the borrower or their heirs are expected to repay the loan in a timely way.

A. The lender must provide at least 30 days for the heirs or the borrower to decide on their repayment process (sale, other repayment, or deed-in-lieu).
B. The lender is then permitted to provide up to 6 months for the heirs or the estate to pay off the loan.
   1. **Two additional 90-day extensions** may be requested from HUD, IF the borrower or estate can demonstrate that they are actively marketing the property. HUD may or may not grant those requests.
   2. Extension requests must be made before the initial 6 month, or previously extended, timeframe has expired.
      a. The request must promptly confirm the intention of the heirs or the estate to either sell the property to a third party or to keep the home and pay the loan balance of the loan in full.
   3. If the borrower or estate takes no action to pay off the loan within the above timeframes, the lender must initiate foreclosure.

14.5 **EFFECT ON BORROWER’S ESTATE AND HEIRS**

Clearly, the reverse mortgage usually has a major impact on the net wealth that borrowers may leave to their heirs.

A. Part of the value of home equity has been spent by the borrower during their lifetime.
B. Part of the value has been consumed by interest charges and mortgage insurance.
C. Instead of building equity and the value of their estate by paying off a mortgage, HECM borrowers are reducing their equity, and thereby reducing the net asset they can leave behind.
D. Borrowers often gloss over this effect by saying, “The kids don’t want the house anyway”, but this misses the point that a major part of whatever wealth the parents might have left (i.e., the value of the house, rather than the house itself), has been used up by the reverse mortgage.
E. Borrowers vary greatly in their attitudes about leaving something to their heirs.
   1. Some are deeply saddened by the loss of their lifetime goal of leaving their children better off than they were themselves.
   2. Others feel that their children have received a great deal already and do not need, or do not deserve, to inherit anything else.
F. Heirs’ attitudes also vary greatly.
   1. Some encourage Mom and Dad to do whatever they need to do with their assets.
   2. Others are strongly opposed to the reverse mortgage which they see as stealing their inheritance.
G. The counselor’s job is not to make judgments or to apply our own values to the situation, but simply to make sure the borrower is aware of the likely consequences of the reverse mortgage for their heirs.
14.6 SPECIAL PROVISIONS FOR NON-BORROWING SPOUSES

As mentioned earlier, when the borrowing spouse dies, Mortgagee Letters 2014-07 and 2015-02 make a provision for an eligible non-borrowing spouse (NBS) to delay repayment of the HECM loan until the NBS moves, sells, or dies.

HUD’s eligibility criteria for this deferment are very specific and all rules must be followed. When counseling couples who plan to omit one spouse from the HECM loan, the following items must be communicated. The NBS must also sign a statement after counseling acknowledging that they understand the implications of not being on the deed to the property, or on the HECM loan.

In order for the NBS to remain in the home and defer repayment of the HECM,

A. The borrower must have died. There are no provisions for deferment if the loan becomes due and payable for any other reason, including placement in a healthcare facility.

B. The NBS must be a spouse. Spouse is defined according to the law of the state in which they live OR the law of the state in which they were married.

   1. Thus, the NBS provisions may apply even if the couple’s marriage is not recognized in the state where the property is located (e.g. same sex marriages, common-law marriages).

C. The NBS and the borrowing spouse must have been married to each other when originating the HECM, as well as throughout the life of the loan.

   1. A new spouse who marries the borrower after loan origination cannot become eligible for deferment.

D. The NBS and the borrowing spouse must have both lived in the property as their principal residence at the time of loan origination and throughout the life of the loan.

   1. An NBS who does NOT live in the property at the time of closing is considered an “Ineligible Non-Borrowing Spouse” and is not eligible for a deferment, even if s/he later returns to the home.

   2. An NBS who takes up a different principal residence during the life of the HECM will then be considered Ineligible, even if s/he later returns to the home.

E. Both the NBS and the borrowing spouse received HECM counseling, with the NBS signing a counseling statement acknowledging the implications of not being on the deed and loan.

F. During closing of the HECM, the borrower and NBS both signed documents acknowledging the requirements for the NBS to remain in the home after the death of the borrower.
G. Annually, throughout the life of the loan, the NBS completed and returned to the lender/servicer a certificate (issued by servicer) to confirm that the NBS was still living in the house and married to the borrower.

H. At the borrower’s death, in order to defer the HECM’s due and payable status and to remain in the property, the NBS must:

1. *Within 30 days*, complete a servicer form confirming legal status as a spouse and testimony of having lived in the home for the duration of the loan.

2. *Within 90 days*, show evidence of property ownership or other legal right to live in the property.
   a. This could be by having been put back onto the title at an earlier time, i.e. after closing. No “seasoning time” must be observed after closing a HECM (beyond the 3-day right of rescission period) before putting the NBS onto the property’s title.
   b. Ownership could also be established through a probated will, a transfer-on-death deed, a life estate granted by other heirs or other legal means.
   c. If the NBS is not the legal owner of the property (e.g., in a trust situation or if the property was inherited by another heir), an executed lease permitting the NBS to live in the property may also be accepted.

3. The NBS must continue to occupy the property as a principal residence and is required to certify this each year.

4. The NBS must fulfill the standard HECM obligations (i.e. pay property taxes, homeowners and flood insurance, HOA dues or other required property charges, maintain the home in good condition, etc.)

5. No HECM loan advances will be available after the borrower’s death.
   a. This includes any funds that were held in a LESA for payment of taxes and insurance.

6. The HECM loan will continue to accrue interest and mortgage insurance charges until the loan is finally paid in full.

7. The HECM will return to due-and-payable status when the NBS moves, sells or dies.
   a. The NBS may be away from the property for up to 12 consecutive months for health reasons and still claim the property as principal residence.
REVIEW QUESTIONS

1. True or False: Any HECM borrower may choose to make prepayments without penalty.
2. Making a $1000 prepayment on an adjustable rate loan would cause the creditline to increase by ____________.
3. Making a payment on fixed rate loan causes the _____________ to decrease, but has no effect on ________________________.
4. The HECM loan must be repaid when the last borrower ____________________
5. If a borrower is out of the home for health reasons, they can be away for up to ____________________ before the loan will be due and payable.
6. When a HECM loan comes due, the three choices for repayment are: ____________________
7. True or False: The HECM borrower’s heirs are guaranteed 12 months in which to pay back the HECM loan.
8. If a borrower’s heirs wish to pay off the loan and keep the property, they must pay back the lesser of the loan balance or _____ % of the current appraised value of the home.
9. A Non-Borrowing Spouse must prove ownership or legal right to live in the home within ____ days of the borrower’s death.
10. True or False: The NBS will still have access to funds set aside for payment of taxes and insurance (i.e., LESA funds).
HECM COUNSELING, PART 1
HOW DOES SOMEONE BECOME A COUNSELOR?
15.1 WHO CAN DO HECM COUNSELING?

In reality, a counselor must do ALL of the following:

A. Work for a HUD-approved Housing Counseling Agency or Intermediary
B. Complete a HUD-approved reverse mortgage-related training at least every two years
   1. There are no specific requirements as to content or number of hours at the present time, although such requirements may be imposed in future.
C. Pass the HUD HECM exam (“THE exam”) every three years
D. Apply for and be accepted on HUD’s HECM Counselor Roster, (“the roster”)
E. Obtain an FHA Connection User ID and password
F. Abide by the HECM Counseling Protocol

15.2 THE HECM EXAM

A. Exam Information Source: The place to go for exam preparation is www.hecmcounselors.org. This site includes:
   1. Exam topics and content specifications
   2. Study materials
   3. Study tips
   4. Practice exams
B. Exam Basics:
   1. The exam is taken on a computer through a “virtual proctoring process.” You can take it on any computer with internet connection and working web camera and microphone in your home or office.
   2. The exam is closed-book. No notes or other materials may be taken into the testing area. This will be verified by the test proctor by looking around your testing area with the webcam.
   3. There are 100 questions in multiple choice and true/false formats.
   4. Examinees are allowed two hours to finish.
   5. Passing score is at least 80 and the score will be provided immediately after completion of the exam.
   6. The exam may be retaken if needed, but the testing fee (currently $100) must be paid for each sitting.
   7. The exam is meant to test the knowledge of an entry-level counselor who is ready to begin counseling.

C. Recommended Study Materials: All questions on the exam are sourced from one of several references, and links to these references are included on the exam website.
   1. The HECM Counseling Protocol (which is Appendix 4 of HUD Housing Counseling Handbook 7610.1.)
   2. HUD HECM Program Handbook 4235.1
   3. HUD Administration of Single Family Mortgages Handbook 4330.1 (chapter 13 deals with HECMs)
   4. HUD Housing Counseling Program Handbook 7610.1 (chapter 4 is specifically about HECM counseling).
   5. HUD HECM Mortgagee Letters. These are program updates and may revise or revoke parts of the other standard sources, so don’t neglect them!
   6. This manual (HO111)

D. Study and Testing Tips:
   1. Do not rely on this class alone! This class is the foundation, not the whole building!
      a. You cannot pass the exam without studying the Protocol **thoroughly**.
      b. If possible, sit in on one or more actual counseling sessions with experienced counselors.
      c. Give yourself time to study and absorb the information.
   2. When taking the test, remind yourself that the correct answer should be consistently right in all situations, unless the question specifically says “usually”, “typically”, etc. or asks you to select the “best” or “most likely” choice.
a. You should not have to strain to create a scenario where the answer could be right. If you find yourself saying, “It could be right if….” then it’s probably not.

b. On a multiple choice test, the “wrong” answers are called “distractors”. Can you guess why?
   i. Distractors are often partly right, or occasionally but not always right.
   ii. Distractors are meant to sound plausible to someone who doesn’t really know the right answer, but not to be confusing for someone who really does.

3. Read the whole question and each option carefully before choosing your answer.
   a. Pay attention to every word – chances are they are in there for a reason.
   b. Especially watch out for qualifiers like “not”, “never”, “always”, etc. It’s easy to miss these words, and they are usually important.

4. Then read through the question and the possible answers again.

5. Ask yourself with each option:
   a. What is the question getting at?
   b. Is this answer true all of the time?
   c. Is there a part of the answer that is definitely NOT right?

6. If you’re not sure, mark the question and come back to it later. Successive questions may prompt you, jog your memory or give you a clue. (Then don’t forget to go back to your marked questions!)

7. If you still aren’t sure, eliminate the obvious wrong answer(s) and guess! An unanswered question is always wrong, but a guess has a chance of being right.

E. If you pass, be proud of yourself!

F. If you don’t pass, after the test write down, immediately, every topic you can remember that you had trouble with.

G. Then go study those topics! Use the exam as a learning experience, not a reason to beat yourself up.
15.3 GETTING ON THE ROSTER

You studied hard and you passed the exam. You’ve been congratulated and celebrated and you’re ready for the next hurdle: applying for and getting accepted to the HECM Counselor Roster.

A. Here’s what you need to start:
   1. A computer with internet access
   2. A scanner that can make PDF files
   3. Your agency’s 5-digit HCS number (usually starts with 8)
   4. A certificate from any HUD-approved reverse-mortgage-related training such as this one
   5. You will not need proof of passing the exam, because that verification will be done by HUD.

B. Register for the HECM Counselor Roster by following these steps:
   1. Wait a few days after passing the exam! The exam results can take a little while to get to HUD.
   2. Go to: http://www.hud.gov/offices/hsg/sfh/hcc/hecm
   3. On the main page, click on Roster Application
   4. Fill out the application page
   5. Click "submit" to create a printable form.
   6. Leave your browser open!
   7. Print, sign and then scan the signed application
   8. Scan up to three training certificates
   9. Save the scanned files to your desktop or to a file location you can locate again!
   10. Return to your roster application page in your browser. Look for the “Browse” button next to the information about each training event.
   11. Locate the application and the training certificate(s) and submit
   12. If all goes well, you will get a Success message and will have cause for your second round of celebration.
15.4 GETTING SET UP WITH FHA CONNECTION

FHA Connection (FHAC) is the online system used by lenders to process FHA loans and by counselors to create HECM counseling certificates.

A. HECM certificates must be created only in FHAC.

B. Every counselor must obtain a unique User ID and password to use FHAC.

C. If your agency is new to HECM counseling, another staff member must first register as an Application Coordinator (AC).
   1. The role of the AC is to verify or “validate” your employment with the agency (and to remove you if you ever leave your job).
   2. The AC is typically a supervisor or someone else in management.
   3. The AC can also register as a counselor.
   4. If the AC is also a counselor, there needs to be another AC to validate the AC/counselor.
   5. HUD recommends that each agency have at least two ACs.

D. The Application Coordinator and/or Counselor follow these steps:
   2. On the right side of the page click on “Registering a New User”
   3. Scroll to the bottom of the page and click on “FHA HECM Housing Counseling”
   4. AC checks the second box if registering as a Coordinator only and both boxes if he/she is also a roster-qualified counselor.
   5. Counselor checks first box only, to register as a member of the Roster
   6. Complete the application
   7. Write down the password exactly as typed and remember where you store it!
   8. Success message means you’ll get a verification email from SFadmin@hud.gov.
   9. FHAC User ID will be mailed to the agency address, as listed in HUD’s Housing Counseling System (HCS). (Be patient, it may take a couple of weeks!)
   10. Each individual counselor applies for an FHAC User ID in the same way
   11. The AC signs on to FHAC to validate each counselor
      a. Click on Single Family FHA
      b. Click on Single Family Origination
      c. Click on HECM Counseling Functions
      d. Click on HECM Counselor Roster
      e. Fill in counselor’s last name and Validated by Agency: No, then click Send
      f. Click on counselor name
g. At the bottom of next screen click box under “Counselor Validation”
h. Get a Success message (can take 48 hours to be official)

To verify that your agency is listed as a HUD approved Housing Counseling Agency and you are listed as an HECM Roster-qualified counselor go to:  

REVIEW QUESTIONS

1. In order to get on the Roster and become a HECM counselor, a person must:

________________________________,
________________________________ and
________________________________.

2. A list of topics that prospective counselors should be familiar with can be found ________________________________.

3. After getting on the Roster, a prospective counselor must also register with ______________________________ in order to be able to issue counseling certificates.

4. HECM counselors must pass the HECM exam every _________ years.

5. HECM counselors must document continuing education every _________ years.

6. Each HECM counselor must be validated by the ____________________ at the agency.
HECM COUNSELING, PART 2
WHAT DOES A COUNSELOR DO?
16.1 COUNSELING PRINCIPLES

Just as there are responsibilities associated with homeowners, there are requirements that counseling agencies and counselors must adhere to.

A. The key to a sound counseling process is understanding the client's overall situation and needs.
   1. What problem is the client trying to solve? What desire do they want to fulfill?
   2. What has led the client to explore HECMs as a possible solution?

B. Counselors should avoid:
   1. Making ANY direct, specific recommendations or any referrals to any specific lenders or products
   2. Giving ANY "advice" that might be interpreted as influencing the homeowner's decisions.
   3. Applying their own value system or preferences to the homeowner's situation or needs.
   4. Providing any opinion about the suitability of any loan for the client.
      a. The counselor may certainly help the borrower evaluate the appropriateness of a HECM for their particular needs, but should not render a judgment or attempt to influence a decision.

C. Counselors should stress that:
   1. The decision to apply for a loan is the client's decision
   2. The decision about the client's eligibility for a HECM is the lender's, based on HUD's guidelines.
   3. The issuance of a HECM counseling certificate certifies that the client has received counseling and has a basic understanding about the loan and other options.
   4. It does NOT mean that the counselor is recommending a reverse mortgage.
   5. It does NOT mean that the counselor believes the client fully understands all details about the reverse mortgage.
   6. It does NOT mean that the client must apply for a reverse mortgage.

D. Counselors should always protect the confidentiality of the homeowner.
   1. Unless they have explicitly received permission, counselors should NOT share personal information about competent clients with anyone, including family members and lenders.
   2. If possible, get a written release before speaking to any third parties. This protects you from possible misunderstandings and miscommunications.
16.2 COUNSELING PRACTICES: HUD HECM COUNSELING PROTOCOL

The HECM Counseling Protocol, which was published by HUD in July 2010, and became effective on September 11, 2010, is a mandatory set of requirements for all reverse mortgage counseling offered by HUD housing counseling agencies.

The Protocol is part of HUD’s Housing Counseling Program Handbook, 7610.1, rev. 5. Chapter 4 of 7610 also contains information about HECM counseling procedures, some of which is not in the protocol itself.

All counselors should read the protocol carefully, with special attention to Chapter 3 on the HECM Counseling Session.

16.3 ACCEPTABLE FORMS OF COUNSELING

A. Must be one-on-one
   1. HECM counseling is to be tailored to the client’s unique financial situation and needs.
   2. Group education sessions can be useful for delivering general information, but they are NOT sufficient to issue a certificate.

B. Face to face counseling is preferred and encouraged by HUD.
   1. All agencies must have the capacity to provide face-to-face counseling to borrowers who request it.
   2. Telephone counseling is acceptable if the client prefers it and if the agency has included phone counseling in their HUD Housing Counseling Plan.
      a. In general, local housing counseling agencies are expected to serve a local area, which is defined in their plan. Telephone counseling may be provided to clients within that local area without special permission.
      b. Agencies may provide nationwide telephone counseling only if this is specified in the Housing Counseling Plan and approved by HUD.
   3. Web-based modalities such as Skype calls or webinars may be acceptable as long as the session is interactive and individualized.
      a. The geographic scope of this type of counseling would presumably be similar to phone counseling.

16.4 COUNSELING FEES:

Agencies are permitted to charge a counseling fee for HECM counseling, as long as the service is not also being paid for by HUD funding.

A. Fees may be handled in several ways:
   1. The client may pay the fee upfront.
a. HUD says that clients below 200% of the Federal Poverty Level “should not” be charged a fee upfront.

2. The fee may be paid for at closing using loan funds (i.e., financed with other loan costs) for any client, regardless of income.

3. The fee “should be” waived if the client provides evidence of financial hardship.
   a. Clients must not be turned away for inability to pay.
   b. Certificates may not be withheld for nonpayment.

B. The amount of the fee is at the discretion of the counseling agency.
   1. The fee should be set to cover, but not exceed, the agency’s cost to provide the counseling.
   2. The agency must be prepared to document the costs that underlie the fees they charge.

C. Counseling fees may not be paid by the lender, either directly or indirectly.

16.5 COUNSELING PROCESS OVERVIEW

All counselors must follow the guidelines established by the protocol including:
A. Following procedures for intake. (Protocol 3.1.a)
   1. Collect demographics and client objectives.
   2. Disclose fees and provide an overview of the counseling process to come.
   3. Discuss special needs.
   4. Invite participation by family members or other support people.
B. Providing pre-counseling materials to all clients before counseling (with rare exceptions for emergencies) (Protocol 4.1.h)
   1. Preparing for Your Counseling Session (Attachment A-1)
   2. NCOA’s booklet Use Your Home to Stay at Home
   3. Printouts of loan estimates, amortization schedule and TALC
   4. Agency Disclosure
   5. Fee Policy Disclosure
C. Using mandatory web-based tools (Financial Interview Tool and BenefitsCheckUp) to assess the client’s financial circumstances and screen for possible public benefit eligibility. (Protocol 7.B.12)
D. Covering a comprehensive list of topics in every counseling session. (Protocol 3.1.b)
E. Assessing whether the client has grasped the fundamental facts about the reverse mortgage. (Protocol B.10)
F. Completing follow-up steps. (Protocol 6.2.a-e)
G. Fulfilling documentation and file requirements (Protocol 7.A.3)

Counseling Process

Stage I - Intake
- Provide overview, gather client information and objectives, disclose fee information, discuss special needs/participants
- Set appointment
- Provide packet

Stage II - Counseling Session
- Confirm data, needs and goals, features, borrower obligations, costs, financial/tax implications, alternatives, fraud and abuse
- Provide additional handouts
- Issue certificate

Stage III - Follow-up
- Complete file (See Attachment A-3)
- Verbal follow-up, written follow-up
16.6 STAGE 1 - CLIENT INTAKE AND PREPARATION

Stage 1 in the counseling process is the initial client screening and gathering of basic client information. Intake may be completed by a trained assistant or the counselor, and must include the following topics:

A. Client Information
   1. Client name(s), address, date(s) of birth
   2. Names of other owners if any
   3. Estimated home value, location, type
   4. Existing debt on home
   5. Any unpaid federal debt

B. Client Objectives
   1. Determine the client’s main reason(s) for investigating reverse mortgages
   2. Discuss the client’s personal and financial goals

C. Disclosures
   1. Counselors/agencies must disclose the fee structure for the counseling session at intake. (Protocol 7.A.2).
   2. Counselors must determine if paying the HECM fees will cause the client financial hardship.
   3. Agencies must disclose any financial or other relationships with lenders, and must inform clients that they are not required to receive any other services from the agency as a condition of receiving HECM counseling.

D. Client Needs and Preferences: Counselor and client (or legal representative) discuss:
   1. Hearing, mobility or language problems
   2. Legal capacity
      a. Will the client be represented by a legal representative with power of attorney or guardianship?
   3. Preference for telephone or face-to-face counseling. (Note that some states, such as North Carolina, Vermont, and Massachusetts, require face-to-face counseling with limited exceptions.)
   4. Others who need to be included in counseling (e.g., a non-owner spouse or non-resident owner who plans to quit-claim.)
E. Family/Advocate Participation
   1. The counselor must encourage participation by family and/or professional advisors (see “Participants in Reverse Mortgage Counseling Sessions” in Protocol 7.A.4).

F. Pre-Counseling Materials
   1. Counselor mails, faxes or emails required handouts and disclosures noted above.
   2. Counselor prepares individualized loan estimates using IBIS Reverse Mortgage Analyst software or equivalent.
      a. Loan printouts should be customized to the client’s situation and needs
      b. Use of a standard set of sample comparisons is NOT sufficient.
      c. Required printouts include:
         i. Loan estimates comparing different loan options
         ii. Amortization schedule showing the long-term consequences of one or more payment plans that are relevant to the borrower’s individual needs
         iii. Total Annual Loan Cost (TALC) disclosure
      d. Copies of the provided printouts must be retained either in electronic or paper form in the client’s file.
      e. If the counselor can verify that the client has received precounseling information, and if the counselor is able to obtain copies of the lender’s estimates prior to counseling, the counselor MAY but is not required to proceed with counseling without sending the pre-counseling materials.

Many lenders are now providing copies of the HUD “Preparing for your Counseling Session” document, and most provide loan estimates prior to counseling.
16.7 **WHO MUST BE INCLUDED IN THE COUNSELING SESSION?**

A counseling session may consist of you and one or two other people or up to as many as 10 or 15, if the client wants to include extended family! It is up to the client if they want to include extra people, but some people HAVE TO be there.

A. **Must be** included

1. **All owners listed on the property deed,** even an owner who is not eligible for the loan and will be removed from title.

2. Non-owner spouses.
   a. Any spouse **must receive counseling regardless of whether they will be on the HECM mortgage.**
   b. Until 2011, non-owner spouses were strongly encouraged to attend counseling but not strictly required. ML 2011-31 changed this rule.

3. Trust beneficiaries who are to be borrowers.

4. The client’s legal representative if the client is not legally competent. This could be a person holding Power-of-Attorney or a guardian or conservator.

5. A borrower may not waive counseling for any reason, even if that borrower is highly knowledgeable (or thinks they are).

6. The one exception to this rule is in the case of some borrowers who are refinancing an existing HECM.

B. **Should be included:** FHA recommends it and the lender may require it

1. Owners of remainder interest, as in the case of life estate. They will have to sign mortgage documents, so should know what they are signing.

C. **May be included:**

1. Client’s children, other family members or friends
2. Person who holds Power of Attorney for client with legal capacity
3. Client’s financial advisor (if he/she has no financial interest in the transaction)
4. Client’s attorney
5. Contingent beneficiaries of a trust

D. **NEVER included:** The loan officer or broker

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**PROTOCOL**

Counselors should encourage the client to include trusted family members or other advisors in the counseling session.
What is Power of Attorney?

Suppose you were concerned that you might become unable to handle your own affairs due to an illness or accident. **You must be able to understand what you are doing in order to grant a valid power of attorney,** so while you still can, you could set up a General Power of Attorney and appoint someone else to act on your behalf. You’d be called the “grantor” and the person you appoint would be called your “Attorney-in-Fact” (AIF) or your “agent”. A Power of Attorney can give your AIF the right to handle a wide range of financial decisions for you, such as paying bills, selling property, borrowing money, etc. A POA can be written to end at a specified time, or to continue until you rescind it, or until you die.

**Your AIF is legally responsible to act in your best interest and cannot overrule your wishes unless you are no longer competent.** You can still revoke the POA as long as you are legally competent.

A General POA document that is not affected by subsequent incapacity is called a Durable General Power of Attorney. This kind of POA can be used to execute a reverse mortgage. Lenders also often require proof of competency at the time the POA was set up and proof of present incapacity if the homeowner is not participating in counseling. **HUD requires counseling agencies to receive POA documents prior to counseling and to keep a copy on file.**

What is a Guardian or Conservator?

Suppose you never get around to granting that POA to someone and one day you are hit by a truck and become incapacitated. How will your financial affairs be managed and by whom? Since you no longer are capable of either handling your own affairs or appointing someone to do so, a legal proceeding must take place to assign a guardian or conservator for you.

You may or may not agree, or even realize the extent of your incapacity, so you may contest the action and you may choose or be assigned legal counsel to represent your interests. If the court rules that you are in need of a guardian, you may be assigned one guardian for your personal affairs such as health care and housing decisions (“guardian of the person”) and one for your financial affairs (“guardian of the estate”). The guardian may overrule your wishes if he or she believes it is in your best interest.

If you, as a counselor, find yourself in a counseling situation where your client seems completely unable to grasp the fundamentals of a reverse mortgage, and this person has not granted POA rights to another, you may not be able to issue a counseling certificate. In that case, it may be necessary for a guardianship to be established before the loan process could proceed.
16.8 STAGE 2 – ASSESSING THE CLIENT’S FINANCIAL NEEDS AND GOALS

It is important for the counselor to have a good grasp of the financial situation that brings the borrower to considering a reverse mortgage. An overview of income, assets, debts, and expenses can orient the counselor to the client’s priorities and can help the counselor to think about possible alternatives to a reverse mortgage.

Some agencies address these issues through a detailed monthly budget, and this is permissible but is not a HUD requirement.

HUD has provided a web-based tool called the Financial Interview Tool (FIT) to facilitate a discussion with the client about their present and potential future financial needs as well as, more broadly, factors that may influence the borrower’s ability to continue to live in the home and keep up their responsibilities.

This structured interview process is a requirement for all clients, without exception.

PROTOCOL
Counselors should help the client understand how a reverse mortgage may affect his/her financial situation, including income, assets, liabilities and debts, and current or potential expenditures.
16.9 STAGE 2 – ELEMENTS OF THE COUNSELING SESSION: SAMPLE CHECKLIST

An efficient way to cover all the topics required by the HECM Counseling Protocol is to use a checklist or a PowerPoint that guides you through and reminds you what to cover. What follows is a sample checklist with the required assessment questions embedded. Use this checklist or make your own. Topics do not have to be covered in any particular order, but you will want to come up with an order that makes sense to you and that clients can easily understand. This checklist is worded as you might speak to the client.

Goals and alternatives (FIT= Financial Interview Tool, BCU= BenefitsCheckUp)

☐ Your goals or reasons for getting a reverse mortgage (FIT)
☐ Your financial circumstances (FIT)
☐ Alternatives to a reverse mortgage (BCU, other discussion) including selling your current house and using the proceeds and a HECM to purchase another
☐ Any other kinds of help you might get even if you do get the reverse mortgage (BCU)
☐ Referrals to any other agencies (BCU)
☐ What you might do if you don’t get the reverse mortgage

HECM basics

☐ HECM is a loan
☐ You still own the house (title retention)
☐ No monthly payment requirement
☐ Residence requirement
☐ Traditionally no credit or income requirements (will be revised in early 2014)
☐ Question: If you get the reverse mortgage, will you have to make a monthly payment to the lender?
☐ Property eligibility
☐ Possible required repairs to be eligible
☐ Growth of loan balance
☐ Loss of equity over time
☐ Open-ended term (can stay as long as you want, no time limit on loan)

Loan calculation, costs and set-asides

☐ How the loan amount is calculated (as a percentage of home value)
☐ Effect of age
☐ Effect of interest rate
What Does a Counselor Do?

- Effect of lending limit (for client with high value home)
- Estimated loan costs
  - Mortgage insurance premium
    - How related to initial draw amount
  - Origination fee
  - 3rd party costs
- Service fee set-aside
- Repair set-aside
- Possible required set-aside for taxes and insurance (LESA)
- Estate planning services are NOT a required cost

Payment plans
- Tenure (definition, pros and cons)
- Term (definition, pros and cons)
- Line of Credit (definition, pros and cons)
  - Creditline growth
- Single Disbursement Lump Sum (definition, pros and cons)
- Combination plans (definition, pros and cons)
- Changing plans
- How you get the money, including warning about signing over money to others
- Interest rate options, fixed vs. adjustable and effect on choice of payment plan
- What happens when the money is gone
- Question: Which payment plan do you think would best meet your needs? What other choices do you have (if any)?
- Question: What if you use up all the money? Will you have to move out?
- Refinancing a HECM
- Using the HECM to purchase an annuity or invest (if relevant)
- Warning about being pressured by lenders or others to purchase investment products
**Borrower obligations**

- **Question:** If you get the reverse mortgage, who will own the house?
- Can sell at any time
- Must pay
  - Taxes
  - Homeowner's insurance and flood insurance if required
  - Maintenance of the property
  - Homeowner dues or condo fees if applicable
- Consequences of default (possible foreclosure)
- **Question:** What homeowner responsibilities will you still have if you get the reverse mortgage? What could happen if you don’t keep those up?

**Consequences**

- Effect on means-tested public benefits (SSI, Medicaid, SNAP) if relevant
- No effect on non-means-tested benefits (Soc. Sec., Medicare)
- Tax consequences
- Effect on heirs
- Effect on your future financial needs if you use all the money now

**Loan repayment**

- **Question:** Does the money you get from a reverse mortgage ever have to be paid back?
- Freedom to prepay without penalty
  - Open-end vs. closed-end credit, effect of prepayments
- When does HECM have to be repaid (die, sell, move)
  - Non-borrower spouse deferral, if relevant
- How long you can be away from the home
  - 12 month exception for health reasons
- **Question:** When does the reverse mortgage have to be paid back?
- Requirement to repay in one payment when due and payable – no repayment plans allowed
- Others cannot assume the loan or make partial payments after the loan comes due
- Whose responsibility it is to sell the house/pay off the loan
- Repayment options: Sell, use other funds to repay, deed property to lender.
- What if a family member wants to keep the house
- Timeframe for repayment
Remaining equity stays with borrower/heirs

**Question:** How does a reverse mortgage change the amount of money you would have left to leave to your heirs? (Does it increase or decrease their inheritance?)

**Question:** How does a reverse mortgage change the amount of money you would have left to take with you if you move somewhere else?

What happens if loan exceeds home value (non-recourse)

**Question:** What if the amount you owe under a reverse mortgage gets to be greater than your home is worth at that time?

### Next Steps

- Choosing a lender
- Warnings about predatory lending practices and mortgage fraud
- Reminders about borrower responsibilities after closing
- Instructions about certificate
- Loan process, what to expect
- Loan timelines
- Follow-up from counselor
  - Contents of follow-up packet (certificate, FIT/BCU report, other info) for phone counseling
16.10 ASSESSING CLIENT COMPREHENSION

Potential reverse mortgage borrowers vary widely in their pre-counseling knowledge, and in their ability to grasp both the basic concepts of a reverse mortgage and the way the loan will affect their lives. Some are very sophisticated consumers who have done their research and know exactly what they want. Others may be less knowledgeable and know nothing more than what they have heard a celebrity spokesman say on TV. Furthermore, clients vary in their ability to take in the information that counselors present to them. Being over 62 does not automatically make you senile, but neither does it necessarily make you wise.

Until release of HUD’s HECM Counseling Protocol in September 2010, counselors had no clear directive about what should be done if a client didn’t seem to grasp the basic facts about reverse mortgages.

- Should the counselor issue a certificate to a client who showed clear signs of inattention or memory loss, just because all the required topics had been covered?
- Was a counselor even permitted to withhold a certificate if he or she was uncomfortable with the client’s apparent level of comprehension?
- Should the counselor refrain from finishing the session in order to have an excuse for not issuing a certificate?

A. To address these concerns about client understanding, HUD included in the HECM Counseling Protocol a set of 10 review questions that are required to be asked in every counseling session.

1. The client(s) must answer 5 out of 10 questions correctly in order to receive a certificate.
   a. The counselor must disclose to the client that questions will be asked during the counseling session
   b. These questions are to be asked “conversationally”, in the spirit of a review, throughout the session.
      i. The counselor should modify the tone and delivery of the questions to suit the specific needs and financial sophistication of the client.
   c. The counselor is not supposed to wait until the end of the session and then present all of the questions at once.
   d. The questions should not be presented as a test that the client must pass.

2. When counseling a couple, one homeowner will often tend to dominate, especially if one has done more of the research or has had more experience handling money.

3. The counselor should try to include both homeowners, alternating questions or specifically directing some questions to the less-involved client.
4. If the client has a family member or other support person present, the counselor may need to specifically advise the support person to allow the homeowner to answer for him/herself.
   a. At times it may be necessary to ask the support person to leave the room in order to assess the homeowner’s own comprehension.

B. Where do I find the 10 questions?
   1. The official list of questions appears in 7.B.10 of the HECM Counseling Protocol. The list is also reproduced at the end of this TAB.
   2. You must use the official questions. Other questions that you may want to ask are fine, but cannot be substituted for the official ones in determining whether to issue a certificate.
   3. The questions are also embedded in the Counseling Checklist above. Using a checklist or PowerPoint with the questions embedded is a great way to make sure you remember to ask them at a logical time.
   4. Note that there are some specialized questions for clients who are refinancing from one HECM to another, and for clients who are using a HECM for Purchase. You should use the questions that are most relevant to your client’s situation.

C. What if the client doesn’t get 5 out of 10 correct?
   1. When the client gives partially correct or incorrect answers, the counselor may give prompts, or review and rephrase, and then ask the question again.
   2. What happens if you’ve reviewed, nudged, illustrated, prompted and offered fill-in-the-blank questions, and the client still is not able answer enough questions adequately?
      a. Your job now is to make detailed notes about the struggle the client had in answering the questions, to support your decision to withhold or delay the issue of the certificate.
      b. Next, you must offer alternatives to the client, which might include:
         i. Scheduling an additional session after the client has had more time to review the materials provided
         ii. Setting the second appointment at a different time of day or during more favorable circumstances, if for instance the client is more alert in the morning.
         iii. Offering a face-to-face meeting with the same or a different counselor if it seems that the client did not hear or attend well on the telephone.
         iv. Suggesting the client bring another person who might be able to assist
   3. If the client still does not answer 5/10 questions adequately, another session may be offered.
   4. The client may not receive a certificate until he/she has successfully answered 5/10 questions.
5. If it is clear that the client will not be able to succeed despite repeated attempts, it may be necessary for a family member or other support person to obtain power of attorney or guardianship.

D. Other possible reasons to withhold a certificate, at least temporarily

1. The client may be a victim of fraud or exploitation at the hands of a family member, the client’s Attorney-in-Fact, the loan officer, or someone else.

2. In these difficult circumstances, the counselor must use his or her best judgment in deciding if the certificate should be delayed or withheld pending more information, or if some other course of action should be pursued.
   a. FHA Connection provides a box to check if you feel the client is under undue pressure from others, as well as one to indicate that you are temporarily withholding the certificate until the client has a better understanding.
   b. Serious concerns about financial or any other type of fraud or abuse should be reported to Adult Protective Services in the county where your client resides. This agency, usually part of the Department of Social Services or equivalent, is tasked with protecting disabled adults from abuse, neglect, and exploitation.
   c. Counselors may also report serious concerns about lender fraud to the regional HUD Homeownership Center or the HUD Office of the Inspector General. To find out more about reporting, go to https://www.hudoig.gov/report-fraud.

16.11 ISSUING THE COUNSELING CERTIFICATE

Assuming the client is able to answer the comprehension questions, and there are no concerns about fraud or exploitation, the counselor will complete the session by issuing a counseling certificate.

A. Certificates may only be issued through FHA Connection (FHAC)

1. Each counselor must have a User ID and password for FHAC. The certificates you create for your clients must be created under your profile. Counselors may not share log-in information.

2. Each certificate is numbered and there may be only one certificate per client/counseling episode.
   a. If there are errors on the certificate, the counselor may correct them without creating a new certificate.
   b. If two owners have counseling on different days and/or from different counselors, each will be issued a separate certificate.

3. The counselor signs the certificate to verify that he or she has covered all the required topics. This does not certify that the client understands every detail about the loan, nor does it mean that the client will be eligible for the loan.
4. All homeowners, as well as non-owner spouses or any other party required to be counseled, will sign the certificate.
   a. In 2011, the certificate was updated to include a space for the Attorney-in-Fact (AIF) or other legal representative to sign as well. In 2014, the certificate was again modified, this time to include space for a non-borrowing spouse.
   b. The borrower, non-borrowing spouse, and AIF signatures certify that they have received counseling and they understand the basic facts about the loan including:
      i. Financial implications of reverse mortgages
      ii. Alternatives to the reverse mortgage
      iii. Advantages and disadvantages of the HECM and each type of payment plan
      iv. Costs of the HECM
      v. When the HECM will become due and payable

5. Signing the certificate does NOT obligate the client to get the loan! Some clients need to be reassured of this before they will feel comfortable signing.

6. The certificate belongs to the client, and it is up to them what they do with it.
   a. The client should be advised that they can and should keep the certificate until and unless they definitely decide to proceed.
      i. If the client wants to negotiate terms, or compare lenders, this can be most effective if they keep the certificate in their possession until they have completed negotiations.
      ii. Lenders are sometimes aggressive about trying to get the client to mail or fax the certificate to them immediately after counseling. Counselors can help by reminding clients that the lender is looking out for the lender’s best interests in this regard, and that they need not give in to this pressure if they are not comfortable proceeding at this time.
      iii. Encourage clients to take as much time as they need to decide about whether to proceed as the certificate is valid for any application completed within 180 days.
      iv. If the certificate expires before the client applies for the loan, counseling must be repeated and a new certificate issued. It is not allowable for the counselor to simply issue a new certificate with a new date.

7. Faxing the Certificate: Frequently, clients will begin the counseling session with a statement something like this: “Mr. Smallweed of Chancery Street Lending told me to have you fax (or email) a certificate to him right away.”
   a. HUD has provided guidance about how to handle these requests.
      i. The Protocol states that faxing the certificate is allowed only when the request is made after the counseling. This puts off the decision until the
client has had the opportunity to think further about what he/she wants, rather than simply acceding to the wishes of the loan originator.

ii. Your response as a counselor should be to tell your clients that you will spend all the time needed to cover the topics required to help the client make an informed decision and will discuss certificate issues at the end of the session.

iii. You will find that, at the conclusion of the counseling session, some clients decide to hold off on having you fax the certificate, while some will still want you to go ahead and do it right after the session.

b. If, after counseling, the client does request, either verbally or in writing, that you send the certificate, you should comply with this request.

i. Only the client or his/her legal representative may request that the certificate be faxed to a lender.

ii. If a lender calls and asks you to fax the certificate, you should advise him/her to have the client make the request.

iii. Counselors should document the request and the date, time and the number to which the certificate was faxed.

c. Phone counseling and faxing certificates

i. The lender must have a certificate with both the counselor and client signature before proceeding with the loan process.

ii. If you provide telephone counseling and the client asks you to fax a certificate, you must comply, although the certificate will have only your signature.

iii. The certificate is not considered “complete” until it is merged with one signed by the borrower(s).

iv. The lender may ask the borrower(s) to sign the certificate the counselor faxed or may wait to receive an original from the client. In any case, an original must eventually become part of the loan application package to be eligible for HUD endorsement.

8. Electronic signatures

a. Electronic signatures are permitted on the HECM counseling certificate for either the counselor or the client, or both. See Mortgagee Letter 2014-03.
16.12 STAGE 3 – FOLLOW-UP

Once counseling is complete you must attend to the client file.
A. HUD allows either electronic or paper files
B. There must be a separate file for each client.
C. Files must be kept confidential, and must be stored securely, accessible only to those so authorized.
D. There are 20 items HUD lists in Protocol 7.A.3 as required in the file.
E. Next, you must follow-up with the client within 60 days and document your activity. This follow-up is to be done by a counselor, and may not be contracted out by the counseling agency.

1. If you make verbal contact:
   a. Review salient information
   b. Remind clients who closed on the loan about their homeowner obligations.
   c. Request information about whether they obtained the loan or not or if they have more questions.
   d. Emphasize in every contact or attempted contact that the client may call you or the agency at any time with questions or concerns.

### Paperwork
- File number
- Agency disclosure form
- List of participants
- Copy of POA if applicable
- Copy of any other relevant client documents.
- Copy of loan estimates
- Copy of FIT and/or BCU reports
- Notations of all other handouts provided

### What did you do?
- Activity Log listing all contacts with or on behalf of client
- List of alternatives you identified and referrals you made
- Record of how client did on assessment of comprehension
- Statement of whether the client is likely to be able to use a HECM
- Copy of counseling certificate

### Afterward
- Fees charged
- HUD grant activity if applicable
- Timing and results of follow-up
- Outcome: Did the client get the loan?
- Date and reason that counseling was terminated
2. If you’ve made no verbal contact after several attempts:
   a. Send a follow-up letter.
   b. Your agency may choose to include a survey and an SASE.
   c. A survey alone does not fulfill follow-up requirements.
   d. If the client responds to the follow-up letter, record results and close the file.

3. If you still get no response:
   a. Send an Outcome Letter 3 – 6 months after the session.
   b. The letter should remind client to keep up with homeowner obligations
   c. Also remind borrower to be cautious of anyone trying to sell them annuities or any other product not in the client’s best interest.

4. Record your results and close the file, documenting when the case was terminated and why.
REVIEW QUESTIONS

1. True or False: HECM counseling can be provided in a group setting.

2. HUD recommends that no upfront counseling fees be charged for clients whose income is less than _______% of the Federal Poverty Level.

3. True or False: Highly knowledgeable borrowers may elect to waive counseling.

4. The required pre-counseling packet must include:
   ___________________________________________________
   ___________________________________________________
   ___________________________________________________

5. A client states that his ex-wife is still on the title to the home, but will be removed at closing so that the HECM will be in his name only. Does she need to participate in counseling? ___________

6. In order to receive a certificate, the client must be able to answer _____ out of ______ standard questions about basic HECM concepts.

7. The counseling certificate is good for ________ days before it expires.

8. Three items that must be included in the HECM counseling file are:
   ___________________________________________________
   ___________________________________________________
   ___________________________________________________
### Assessment Questions
*(Note client answers if incorrect)*

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>When you have a reverse mortgage on your home, who owns the house</td>
<td>(whose name is on the title/deed)?</td>
</tr>
<tr>
<td>What responsibilities do you continue to have as a homeowner after you</td>
<td>Prompt: Remember, you still have to pay your ...</td>
</tr>
<tr>
<td>get a reverse mortgage?</td>
<td></td>
</tr>
<tr>
<td>Which payment plan would best meet your needs? What is another payment</td>
<td></td>
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<tr>
<td>plan that you could choose (if any)?</td>
<td></td>
</tr>
<tr>
<td>How much do you have to pay to the bank every month if you get a</td>
<td></td>
</tr>
<tr>
<td>reverse mortgage?</td>
<td></td>
</tr>
<tr>
<td>Does the money you get from a reverse mortgage ever have to be paid back?</td>
<td></td>
</tr>
<tr>
<td>When does it have to be paid back?</td>
<td></td>
</tr>
<tr>
<td>If the client says, “When I die” – ask follow-up</td>
<td></td>
</tr>
<tr>
<td>What happens if you use up all the money you get from the reverse</td>
<td></td>
</tr>
<tr>
<td>mortgage? Can you get any more? Do you have to move?</td>
<td></td>
</tr>
<tr>
<td>What happens if the amount you owe gets to be more than your home value?</td>
<td></td>
</tr>
<tr>
<td>How does getting a reverse mortgage change what you will be able to</td>
<td></td>
</tr>
<tr>
<td>leave to your children or other heirs?</td>
<td></td>
</tr>
<tr>
<td>How does it change what you would have left if you had to sell your</td>
<td></td>
</tr>
<tr>
<td>house and go live somewhere else?</td>
<td></td>
</tr>
</tbody>
</table>
WHAT ELSE COULD THEY DO?
OTHER OPTIONS AND ALTERNATIVES
17.1 OTHER HOME EQUITY CONVERSION OPTIONS

Prospective borrowers should consider the full range of home equity conversion options available to them. This section briefly reviews the basic types of home equity conversion plans.

In theory, there are two basic forms of home equity conversion:

A. Sale Plans
   1. Sale leaseback – Sell your home and rent it back from the buyer. It has always been difficult to find buyers for sale leasebacks, and federal tax law changes have made it much more difficult.
   2. Remainder interest – sell the right to ownership of your home upon your death, while keeping the right to live there until then (life estate). Sales of remainder interests generally involve some element of charitable donation, which is of little benefit to most persons who need these plans the most.

B. Loan Plans: Consumers have strongly preferred loan plans to sale plans.
   1. In practice HECMs are clearly the dominant, and nearly the exclusive, form of home equity conversion in the United States.
   2. There are other types of reverse mortgages besides HECMs
      a. Single-Purpose Reverse Mortgages: These are specialized loans that are offered for a particular purpose
         i. Most common purpose is home repair or property tax deferral.
         ii. They are typically offered by governmental sponsors such as city or county programs
         iii. They are typically much less expensive, but also much less flexible than the HECM reverse mortgage.
      b. Proprietary Reverse Mortgages: These private loans are not federally insured or guaranteed, and they do not follow exactly the same rules as HECMs. Instead, they are designed and marketed by particular financial institutions such as banks, mortgage companies, and credit unions.
         i. In the past, these loans have been primarily designed to appeal to owners of higher-value homes; thus they are sometimes referred to as “jumbo” reverse mortgages.
         ii. Though there was a proliferation of proprietary loans in 2007-2008, they largely disappeared by early 2009 as higher HUD lending limits reduced the demand for these products, and credit markets dried up due to economic conditions.
         iii. As of Fall 2013, there is only one proprietary product available nationwide, aimed at very high value homes (in excess of $2 million).
iv. Credit unions are beginning to explore creating their own reverse mortgage products. One example is the North Carolina State Employees Credit Union, which initiated a proprietary reverse mortgage product in August 2008. These products are available only to people who are eligible to be members of the credit union.

17.2 DEFERRED PAYMENT LOANS (DPLs)

These single-purpose reverse mortgages are usually offered for the specific purpose of home repair and rehabilitation.

A. Frequently, they are funded with federal community development grants, but may have other sources as well.

B. City and county housing or community development departments may administer such programs, as may nonprofit community development organizations.

C. The state Housing Finance Agency may also be a source of information about the availability of such programs in a given area. Counselors should be prepared to help borrowers locate such programs in their local area.

D. Rules for these loans may vary depending on the funding source, but the following are some common features:

1. Typically, these programs are designed to assist low-income homeowners to make health- and safety-related repairs, or bring homes up to minimum standards.

2. Other specific DPLs may be designed for home weatherization or accessibility modifications such as ramps and wheelchair-accessible bathrooms.

3. Programs almost always have income criteria, and some also have age criteria (i.e., some target older homeowners).

4. Since these are loans, homeowners usually must have some equity in the home in order to qualify.

5. Upfront costs are very low, interest rates are also low, and interest accumulation may be deferred until a later date.

6. Sometimes the loans are fully or partially forgivable if the home is owner-occupied for a certain period of time.

7. In some cases, the borrower’s heirs may assume the loan and continue deferring payment as long as a family member is living in the home.

E. For low-income borrowers who need only home repairs, and who meet eligibility criteria, these programs can be a much less expensive alternative than a HECM.

F. In some cases, DPLs can be combined with a HECM, if the rules allow the DPL lending agency to subordinate its lien. If the agency will not subordinate, the DPL has to be repaid if the client later gets a HECM.
17.3 PROPERTY TAX DEFERRAL (PTD)

This type of program is designed to help low-income homeowners who are having difficulty paying property taxes

A. These programs vary from state to state and sometimes from one locality to another within a state.

B. Each area’s program may have a different name, but property tax relief programs in general are sometimes known as “Circuit Breaker” or “Homestead Exemption” programs. Programs may have eligibility rules related to age, disability, income, or a combination of these factors.

C. Some jurisdictions offer property tax exemptions to qualified homeowners
   1. Exemption programs permanently reduce property taxes by not assessing tax on the full value of the home, rather than deferring tax payment to a later date.
   2. In other states, property tax relief is offered by means of a tax credit or tax rebate.

D. Property tax relief programs can also be structured as a deferred loan, essentially a single-purpose reverse mortgage.
   1. In this case, all or part of the property tax is deferred until a later date, or until the homeowner dies, sells, or permanently moves from the home.
   2. Interest may begin accruing immediately, or may be deferred until a later point.
   3. Generally, PTD loans may NOT be combined with a HECM loan, because they cannot be subordinated to the HECM liens.

17.4 OTHER SPECIALIZED REVERSE MORTGAGES

Other loans may be offered by state housing finance agencies, such as those in Connecticut and Montana, or by nonprofit agencies (one such program exists in Arizona).

A. These loans typically have much lower costs than HECM, because they are not federally-insured. However, they are also much less flexible and may be available only for certain purposes or to limited groups of homeowners.

B. For example, some of these loans are strictly for payment of long-term care expenses.

Where Homeowners Can Find Information

- Local tax authority
- Area Agency on Aging
17.5 OTHER HOUSING OPTIONS

HECM borrowers are seeking to meet some need using the money from the reverse mortgage. HECM counselors need to understand what that need or problem is and help the borrower discover possible alternative solutions. In some cases, the need may be better served by seeking a different housing situation, rather than keeping the home and getting a HECM.

A. Selling and Moving

1. HECM counseling clients should be encouraged to at least consider selling their homes and moving.

2. The process of exploring other living arrangements can help clients determine how much they value remaining in their present homes.

3. In some cases, a move is a less expensive and/or more suitable way for a homeowner to access home equity.

4. Considering the financial and other aspects of specific alternatives can also help them evaluate the cost of a reverse mortgage. Clients may not be aware of the range of other housing options that are available.

5. Apart from the obvious choices of buying a less expensive home or moving in with family, some options may include:
   a. Subsidized or “affordable” senior apartments:
      i. These are restricted to people who are over a certain age (usually 55 or 62) and below a certain income level.
      ii. They offer rents that may be based on a percentage of the client’s income, or may be fixed but lower than market rates.
      iii. Sometimes additional services, such as “service coordination”, transportation, on-site meals, or recreational programming are provided.
   b. Retirement communities:
      i. These private communities, often aimed at higher-income retirees who want a lot of amenities, are typically quite expensive.
      ii. On the other hand, they offer services such as meals; housekeeping services; transportation to medical appointments and shopping; social activities; and facilities such as exercise rooms, craft studios, tennis, golf, and other sports facilities, etc.
      iii. They can allow individuals to keep their independence while being freed from responsibilities that are becoming burdensome.
      iv. Some communities, known as “continuing care” or “life care” communities, may offer several types of housing with different levels of assistance, all the way up to nursing home care. These communities usually require a substantial monetary investment upon entry as well as a significant monthly fee.
c. Home-sharing arrangements:
   i. 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.

17.6 OTHER SOCIAL SERVICE OPTIONS:

As discussed previously in TAB 9, there are a variety of means-tested benefits that clients may be eligible for and may want to explore, possibly as an alternative to a reverse mortgage or, more likely, as a supplement.

A. To facilitate the process of identifying the resources that are applicable for a particular client, HUD has mandated the use of BenefitsCheckUp (BCU), an online benefit screening tool developed by the National Council on Aging (NCOA).

B. BCU will provide contact information based on the client’s specific location, basic program descriptions and eligibility guidelines, and a list of documentation the client may need at the time of application.

17.6 WHO'S WHO IN THE AGING NETWORK?

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 the quality of life for older Americans.

A. The Administration on Community Living (ACL) is located within the U. S. Department of Health and Human Services. It includes the former Administration on Aging as well as agencies dedicated to serving disabled people. It serves as a:
   1. clearinghouse for information
   2. source for technical assistance, and
   3. a catalyst for more effective use of resources for older and disabled adults.

B. State Units on Aging (SUAs) are the designated state agencies serving older adults. They coordinate related state activities and administer federal funds at the state level.

C. Area Agencies on Aging: Each state has established planning and service areas known as "area agencies on aging," "AAAs," or "Triple A's." AAAs coordinate the delivery of a variety of services, including: information and referral, outreach, transportation, in-home care, legal and protective services, counseling, socialization, recreation and education -- to meet the needs of the older population.
Federal funds support the provision of services in local communities via the aging network as follows:

A. Federal funds from the Older Americans Act are transmitted to State Units on Aging (SUAs), which channel them to the Area Agencies on Aging (AAAs).

B. Most AAAs are not in the direct service business. They contract this work out to local agencies that provide such services to the older population.
   1. The local agency may be a county Department of Aging, or a nonprofit Council on Aging, and Aging and Disability Resource Center (ADRC) or may have other names.
   2. In some rural areas, the services are provided directly by the AAA.

C. Four areas benefit most broadly from federal funding:
   1. Information and Referral (I&R, also called Information and Assistance or I&A): These programs exist to help older adults and their caregivers find specific information on the programs that are available to older adults.
      a. Many I&R programs also publish a directory of resources or maintain a website with information about community resources for older adults. 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.
      b. Recent federal initiatives are moving toward providing information and referral services through an Aging and Disability Resource Center (ADRC). These agencies are supposed to provide a “one-stop shop” where both seniors and disabled citizens may receive not only information but assistance with access to a variety of services. ADRCs sometimes overlap with the traditional AAA and local aging agencies, and sometimes don’t. Some localities may have both.
   2. Senior Centers: These sites are the focal points for many federally-funded community-based services for older adults. Senior centers may offer programs such as:
      a. exercise programs
      b. health screenings and health education
      c. social activities
      d. recreational opportunities such as craft classes, dance classes, computer education, trips, etc.
      e. counseling services
      f. hot meals
      g. other activities
3. Nutrition Services: A significant portion of Older Americans Act funding is targeted to provide hot noontime meals in senior centers, churches and other convenient locations. Home-delivered meals (“Meals on Wheels”) may also be available.

4. Family Caregiver Support: In recent years, funding has been provided specifically to support family members who are caring for older adults. Benefits that may be available under this program include:
   a. Enhanced information and referral and assistance with accessing benefit programs
   b. Caregiver support, counseling, and training
   c. Caregiver respite services – providing an aide or volunteer to take care of the older adult so the caregiver can rest or get some time away.
   d. Other miscellaneous services designed to make the caregiver’s job easier.

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

1. Home repair and adaptation services: These programs provide subsidized minor home repairs, build wheelchair ramps, and help make homes safe for older adults.

2. 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.

3. 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.

4. Transportation assistance: Cities and counties where public transit is available may offer special transportation options for seniors and disabled adults under their ADA programs. Volunteer groups also often provide transportation services.

5. 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. Some communities have nonprofit agencies that specialize in matching volunteers with those who need assistance. In addition, churches and civic groups may assist their members or those in their immediate neighborhood.
17.7 MEETING WITH AREA AGENCIES ON AGING

HECM counselors who are not already familiar with the aging network are strongly encouraged to meet and become familiar with the local organizations that serve this population.

This is particularly important if a counselor is new to the world of aging services, or is utilizing this training manual without the benefit of formal training or relevant work experience.

HECM counselors need to be able to refer a homeowner to the appropriate agency or agencies to serve what might be a variety of needs.

REVIEW QUESTIONS

1. A proprietary reverse mortgage differs from a HECM in that it is not ____________________________

2. True or False: Property tax deferral loans can usually be combined with HECMs.

3. A Deferred Payment Loan (DPL) for home repairs can be combined with a HECM only if the lending agency for the DPL agrees to ______________ its lien.

4. In the world of aging services, AAA stands for ____________________________

5. Two services for older adults that may be supported by federal funding are: ____________________________ and ____________________________

6. The ______________ program of a local aging agency or AAA may be able to provide a resource directory or other guidance about available services for older adults.

7. ADRC stands for ____________________________
TAB 18

WHAT CAN GO WRONG?
COUNSELORS AND CONSUMER PROTECTION
While most clients enter into a reverse mortgage with high hopes of the financial security, freedom from worry, and more comfortable living advertised by celebrity reverse mortgage spokespeople, there is also a dark side.

It is unfortunate but quite predictable that the availability of large sums of money opens up potentials for fraud, abuse, and exploitation. Although serious cases of fraud and exploitation are (hopefully) rare, the more mundane cases of deceptive advertising and aggressive sales tactics without regard to consequences for the borrower are extremely common.

Quite apart from actions taken by lenders and others, reverse mortgage borrowers are also at risk of loss due to their own poor decision-making and failure to plan for the long term. The nature of the product means that assets of consumers, their families, and their communities are being liquidated, with results that will only become clear years or even decades later.

As counselors, part of our responsibility to try to call all these risks to the potential borrower’s attention, however briefly, so that they can be considered in the decision-making process. Clients will still make their own decisions, some of which we may not agree with, but at least we will have raised the questions in their minds.

### 18.1 DANGER ZONES

In your role as a counselor, you might be the first line of defense for your clients against shady or illegal practices. What kind of activities should you watch out for on behalf of your clients?

A. Deceptive advertising
B. Loan officer or broker pressure tactics
C. Loan officer or broker fraud
D. Illegal cross-selling of financial or insurance products.
E. Financial abuse or exploitation by family members or friends.

### 18.2 LENDER PRACTICES

Many loan officers are honest and dedicated people, who have a true interest in working with older adults. Inevitably, however, the reverse mortgage business is about money, and not all practitioners are equally concerned about the consequences of their actions for their clients.

A. Aggressive Marketing/Sales Tactics: Frequently, marketing and sales practices may take advantage of the vulnerabilities of potential borrowers, especially low-income and less-educated homeowners. Some of the more common practices are:

1. Cold calling, unsolicited mail
2. Marketing messages implying that the HECM is a government benefit and that the solicitation is from a HUD employee or organization

3. Persistent, harassing, pushy follow-up calls after an initial contact has been made

4. Telling the homeowner that there is a deadline to apply (this tactic is often used when a HUD policy change -- e.g., lowering benefits or increasing costs -- is expected)

5. Telling the homeowner to stop paying their mortgage so they can pay for an appraisal

6. Telling the homeowner that they must draw the maximum loan proceeds at closing when this is not the case

7. Pushing the homeowner into a large loan advance without regard to the consequences for the borrower’s means-tested benefits.

B. Fraud: There are other practices, less commonly seen, that are clearly illegal.

1. Persuading the borrower to sign over their loan proceeds to the loan officer who promises to disburse the funds as requested

2. Conspiring with appraisers to falsify their report

3. Conspiring with fraudulent home repair companies to get borrowers to sign over their proceeds for work that is never completed

4. Inducing the borrower to pay a “foreclosure rescue” company in order to get a reverse mortgage

C. Cross-Selling

1. Reverse mortgage proceeds may be used for any purpose the homeowner chooses. The borrower is free to invest the loan funds in an annuity or some other investment vehicle or to buy long-term care insurance, among other things.

2. While none of these activities is prohibited, lenders are prohibited from requiring the purchase of such products as a condition of loan eligibility.

3. Starting in 2008, lenders and brokers are also specifically prohibited from personally participating in the sale of such products in connection with loan origination.

4. During use of the Financial Interview Tool (FIT), you will have an opportunity to ask the client if anyone is attempting to persuade them to use the loan proceeds for investing or buying insurance products. This is a good time to discuss cross-selling, potential fraud and unethical practices.

   a. If your client states that he is considering the purchase of an annuity or other investment, you are required to tell him that only he can determine the best use of the proceeds and encourage him to resist pressure from others, including insurance agents and financial advisors.
b. You are also required to provide the client a printout of “Using a Reverse Mortgage to Buy an Annuity” found in Attachment 7.C.9 of the protocol.

c. If the client informs you that a reverse mortgage loan officer agent is trying to cross-sell any product as a condition of getting the HECM, you are required to provide the client with the HUD Office of the Inspector General’s Hotline Number (800-347-3735) to report the violation.

18.3 ABUSE OR EXPLOITATION BY OTHERS:

Besides the possibility of unlawful or unethical lender or broker activity, there is also the potential for abuse, financial and otherwise, from family members and acquaintances. Some possible types of abuses:

A. Using a Power of Attorney to obtain a reverse mortgage without the homeowner’s knowledge

B. Using an eligible homeowner’s reverse mortgage for someone else’s benefit. For example, Mary Jones talks her mother into getting a reverse mortgage and using the money to pay off Mary’s delinquent mortgage or her credit cards or other debts.

1. This is not strictly illegal, but can verge on exploitation, depending on the circumstances.

2. Ask questions that help you determine whether the client is feeling coerced or pressured.

3. If the person who will benefit from the funds is present for counseling, you may need to ask this person to leave the room or step away from the phone for a while, as you question the homeowner.

4. In some cases it may be advisable to schedule another call or meeting when the other person is not present so that the homeowner may speak freely.

5. A variation on this theme is when Mary Jones quit-claims her home to her mother, so that her mother can get a reverse mortgage and pay off Mary’s debt on the home.

   a. Lenders may try to prevent this by examining recent changes of title.

   b. Underwriters may also impose a “seasoning” requirement, under which the older adult must have owned the home for a minimum period such as 6 months or a year, before the HECM can be obtained.

C. Theft or misuse of loan proceeds by family members or others

1. This can range from mild abuse such as family members pressuring the homeowner for loans, to outright theft where the family member impersonates the homeowner when requesting a creditline draw or steals the homeowner’s funds in other ways.

2. As previously mentioned, if you suspect that family members or others are abusing or exploiting the homeowner, you may choose to withhold the certificate temporarily so that you can collect more information.
3. You must report serious suspicions of abuse or exploitation to Adult Protective Services (APS) in the area where your client resides.
   a. APS is typically housed in the Department of Social Services
   b. The mandate of APS is to protect disabled and vulnerable individuals from abuse, neglect, and exploitation by caregivers or others.
   c. Reports may usually be made anonymously.
   d. APS must accept reports and at least attempt to determine if abuse is taking place.
   e. Unfortunately, APS programs are frequently underfunded and understaffed, so they may be reluctant to substantiate a case unless there is very obvious evidence that the older adult is disabled and that harm to the older adult has already occurred. They may not be willing or able to act to prevent harm that appears about to happen.

18.4 NON-OWNER SPOUSE ISSUES

It is not unusual for agencies to receive counseling requests for co-owners (most often spouses) where one owner has decided to file a quitclaim deed, thus giving up their ownership in the home and their right to any loan proceeds from the HECM.

A. Owners agree to give up their interest in the property for various reasons, the most common being that the owner is too young to qualify for the loan.
   1. In the past, younger spouses might quitclaim in order to take advantage of the higher loan amount offered to the older owner. This option has been removed through the Non-Borrowing Spouse provisions of Mortgagee Letters 2014-07 and 2015-02.
   2. There are also cases where a spouse or partner has never been on title and won’t be added to the title, such as a case where the property was owned by a spouse before a second marriage and will pass to the owner’s children rather than the second wife/husband.

B. Though these choices are not illegal, you can easily see what hardship might ensue if you put yourself in the place of the non-borrowing spouse. What if:
   1. Your spouse dies before you do
   2. Your spouse permanently leaves the home due to illness (e.g., nursing home placement)
   3. Your spouse permanently leaves the home for other reasons (e.g., marriage break-up).

C. These situations place the non-borrowing spouse in a very difficult position.
   1. If the borrowing spouse dies, the new Non-Borrowing Spouse (NBS) rules can allow the non-borrowing spouse to remain in the home and defer repayment of the loan. However, they will have no access to loan funds during the deferment.
2. If the borrowing spouse has not died but has stopped living in the home for health or other reasons, the non-borrowing spouse has no ownership rights to the home and cannot refinance or sell the home. The NBS rules do not apply to this situation.

3. As a counselor, your job is not to stop these situations, but to make sure your clients are fully aware of the consequences of coming off (or staying off) the deed.

4. Sometimes a client will tell you that a lender informed them there is no problem because the younger spouse can be added back to the deed when they reach the age of 62.
   a. While it may be true that the NBS may be added to the deed at a later point, it is not necessarily true that this solves the problem.
   b. Adding the NBS to the deed does not make them a borrower. The repayment rules would still apply if the borrowing spouse leaves the home permanently for reasons other than death.
      i. The only way to ensure that the now-eligible owner can stay in the home indefinitely, and have access to loan funds, is for the loan to be refinanced in both names.
      ii. As mentioned previously, there is no guarantee that a refinance would generate enough cash to pay off the existing reverse mortgage.
      iii. Borrowers who plan to do this must be very careful not to borrow too much money.

18.5 PROPERTY CHARGE DEFAULT

It is very easy for client and counselor alike to focus on the immediate benefits to the borrower who obtains a reverse mortgage: foreclosure prevention, lower monthly expenses or an income supplement, stress relief, more leisure and so on. Many borrowers believe that once the initial stress is gone, they will have no problem keeping up the commitments required by the HECM.

Unfortunately, for about 8-10% of HECM borrowers, that has not proved to be the case. There may be as many as 50,000-60,000 HECM borrowers who are currently in “technical default” because they have not paid required property charges such as taxes, insurance, HOA fees, condo fees, etc. Taxes and insurance are by far the greatest problems. About a third of borrowers in default are having trouble with taxes only, a third with insurance only, and a third with both.

A. Reasons for default:
   1. HECM funds did not completely cover a deficit in the client’s monthly budget.
   2. Income decreased due to loss of partner, unemployment, disability, or other economic woes.
   3. Expenses increased due to inflation, health needs, or other crisis.
4. HECM funds were exhausted to help a family member.
5. Funds were quickly used to do extensive home improvement or to pay for other discretionary purchases.
6. Homeowner didn’t understand obligations or thought the lender would pay the taxes.
7. Homeowner was living above their means before the reverse mortgage and continued to do so after the loan was in place.

B. Default management:
1. As discussed earlier, if a borrower misses a tax payment or insurance payment, lenders will advance the money to cover these costs and then contact the borrower for repayment.
2. HUD has stipulated in ML 11-01 that servicers must work with borrowers by attempting to establish a repayment plan with them and by referring them for housing counseling assistance.
3. If your agency is contacted by a HECM borrower in default, and you have not been trained to conduct Property Charge Loss Mitigation (PCLM) counseling, refer the client to one of the HUD-approved national intermediaries:
   a. National Council on Aging (855) 899-3778
   b. ClearPoint (888) 395-2664
   c. Money Management International (866) 765-3328
   d. National Foundation for Credit Counseling (866) 363-2227
   e. NeighborWorks America (888) 990-4326
   f. Greenpath (888) 860-4167

18.6 LOSS OF WEALTH

At the best of times, a reverse mortgage is a loan that eats home equity. In almost every case, the borrower exits a reverse mortgage with less net worth than when they started, even if home values rise at a normal pace. When home values plummet and stay low for years, even if interest rates are as low as they are today, the likelihood that home equity will be completely consumed by a HECM loan by the time of maturity is very high.

For decades in America, owning a home has been the dream of many and paying off the mortgage has been a long-anticipated goal and a matter of great pride. Especially in low-wealth communities, homes have been the chief source of wealth passed to succeeding generations. Some advocates in these communities feel that reverse mortgages are a form of exploitation, designed to take advantage of low-income and perhaps less financially-sophisticated homeowners, and resulting in stripping wealth.
from communities which are already disadvantaged by social and economic forces. Reverse mortgages have been referred to as the “next subprime loans”.

As a counselor, it is not your job to make a decision for any given client or group of clients about whether a reverse mortgage is a good choice for their family or community, but it is worth keeping in mind that the losses sustained as a result of poorly-considered borrowing may extend beyond the immediate victims.
CASE STUDIES

Name: Mrs. Bates
Zip code: 83524
Home value: $225,000
Debt on home: $109,000
Date of Birth: 1/3/1944

Mrs. Bates hopes to use the reverse mortgage money to allow her to quit her job, which she no longer enjoys. If she didn’t have a mortgage payment, she is pretty sure she could make it without her $1200/month paycheck. However, she has no retirement plan and no savings. She will have to rely on her Social Security check ($1585) to pay all of her monthly expenses. She has no debt other than the mortgage ($1300 including $400 escrow for taxes/insurance). She thinks she will need a new car in a couple of years.

The condition of the home is questionable. Although she doesn’t know of any repairs that are urgently needed, she admits it is becoming difficult for her to keep up with the maintenance. The roof was last replaced 25 years ago before her husband died, but it’s not leaking yet. Her kids both live close to her and have promised to help her out.

Principal Limit:
Net Available Funds:
Likely payment plan(s):
Possible problems or issues:

Alternatives

Counseling considerations
Name: Mrs. O’Sullivan  
Zip code: 29684  
Home value: $150,000 (tax value) vs. $110,000 (Zillow). No recent appraisal.  
Debt on home: $72,000  
Date of Birth: 2/4/1936

Mrs. O’Sullivan hopes to use the reverse mortgage get rid of her $400 mortgage payment (principal/interest only). Her income is $1000/month, but she is spending about $700 more than that each month. She has custody of her 14 year old great grandson and he is "eating her out of house and home". He also needs braces, and his wardrobe needs replacing as he has outgrown everything in the last few months. His mother is in prison and his father is absent. Up until recently, she has been paying his expenses out of her IRA, but those funds are gone, and she has been using credit cards for the last few months.

The condition of the home is good with no significant repair needs. She has applied for a fixed rate loan and she intends to save any available cash from the loan for future needs.

Principal Limit:  
Net Available Funds:  
Likely payment plan(s):  
Possible problems or issues:

Alternatives

Counseling considerations
Name: Mr & Mrs Althaus  
Zip code: 07652  
Home value: $500,000  
Debt on home: $135,000  
Date of Birth: 3/5/1949, 5/6/1950

Mr. & Mrs. Althaus live in a large historic home (built in 1908) which they have lovingly restored and furnished with antiques and collectibles. They want to use a HECM to pay off the mortgage and HELOC and get rid of the $2000/month PITI payment. Mr. Althaus has made a good income in his sales-based job, but his commissions have been greatly reduced since the recession, and they have depleted their savings. Mrs. Althaus is not employed but draws $550/month in Social Security. Mr. Althaus has been trying to put off starting Social Security, but feels he will need to apply soon; he believes that his benefit will be $1500/month. He has no pension and neither of them have life insurance. Taxes and insurance on the house run about $9000 per year.

Principal Limit:
Net Available Funds:
Likely payment plan(s):
Possible problems or issues:

Alternatives

Counseling considerations
Name: Mr. Griffith
Zip code: 27954
Home value: $300,000
Debt on home: $0
Date of Birth: 06/08/1925

Mr. Griffith’s daughter requests counseling on behalf of her father, for whom she has power of attorney. Mr. Griffith is in rapidly failing health, and now requires 24 hour care, which costs about $8000/month. He has always been adamant that he wants to stay in his home until his death and his daughter is trying to fulfill this wish, though she is not sure if it will be possible. She wants to use the HECM to pay for home care expenses. He has no other assets left besides the house and his income is about $1400 per month. The home is in good condition. The reverse mortgage lender has suggested a fixed rate loan.

Principal Limit:
Net Available Funds:
Likely payment plan(s):
Possible problems or issues:

Alternatives

Counseling considerations
Name: Mrs. Pettigrew  
Zip code: 27288  
Home value: $150,000  
Debt on home: $20,000  
Date of Birth: 8/9/1942

Mrs. Pettigrew inherited her home from her mother only a year ago, though she has lived there for her whole life. She wants to use the reverse mortgage to pay off $50,000 in medical bills that were incurred during her mother’s final illness. She took out a $20,000 HELOC on the home to pay for funeral expenses, but the bank wouldn’t lend her enough to pay off all the medical expenses too. Right now she is just paying interest on the HELOC, at about $150/month. Her six children disagree about whether the reverse mortgage is a good idea, partly because the house and the 50-acre farm it sits on have been in the family for 5 generations. Her oldest daughter, in particular, is attached to the home, where she has lived for the last 10 years, helping to care for her grandmother.

Principal Limit:  
Net Available Funds:  
Likely payment plan(s):  
Possible problems or issues:

Alternatives

Counseling considerations
Name: Mr. Robinson  
Zip code: 37601  
Home value: $250,000  
Debt on home: 0  
Date of Birth: 9/15/1930

Mrs. Robinson calls to request counseling, saying that Mr. Robinson is hard of hearing on the phone. She and Mr. Robinson were married only a year ago and she is 18 years younger than he is. Both of them were married previously and have grown children. According to the terms of their prenuptial agreement, she has not been placed on the deed to the home, which is owned by a trust and will eventually go to his children and grandchildren from his first marriage. However, she says he wants to use the HECM so that they can take a trip to Europe while he still can enjoy it. She thinks they will need about $20,000 for this. They have no specific plans for the rest of the HECM funds as yet, and their income is adequate to meet their normal expenses. His children are against the idea of the HECM, however.

Principal Limit:

Net Available Funds:

Likely payment plan(s):

Possible problems or issues:

Alternatives

Counseling considerations
Mr. Jaffrey lost his job two years ago after being injured in an accident and has been living on unemployment. At this point, the unemployment payments are running out and he is ready to give up looking for work. He applied for and was awarded Social Security Disability. He has a pension of $200/month and will get $700/month in disability payments. He used his 401k to pay off his mortgage after he had been out of work for a year, but didn’t have enough taxes withheld and now has a $10,000 federal tax debt that he has been unable to pay. He has no assets left besides the house, which is 50 years old but had been well-maintained until Mr. Jaffrey lost his job. His property taxes are $3600/year and insurance is $1200. He is thinking that he will use the HECM to supplement his income and pay for future expenses.

Principal Limit:
Net Available Funds:
Likely payment plan(s):
Possible problems or issues:

Alternatives

Counseling considerations
TAB 20

DIRECTIONS FOR
IBIS AND OTHER ACTIVITIES
TAB 4 Exercise: Intro to Ibis, basic loan calculation and effect of age

1. Click New Client
2. Use your own zip code, click Find It
3. Property value = 200,000
   Current Debt = 0
4. Enter your own name for later use
5. Enter Date of Birth: 1/1/1950
6. At bottom of page click Save Client
7. From HECM 1 column, scroll down to Loan Principal Limit.
   Record here. ______________
8. Return to top of page and click Client Info
9. Change Date of Birth to 1/1/1930
10. Save Client
11. From HECM 1 column, scroll down to Loan Principal Limit.
    Record here. ______________

TAB 6 Exercise: Ibis Calculation of Payment Plans

1. Go to the computer with your assigned case study client info.
2. Create a New Client record for your case study client.
3. Save Client (bottom)
4. Determine the following amounts:
   a. HECM 3: Less Upfront Cash (cash available) ____________
   b. HECM 1: Available Funds in Year 1 ______________
   c. HECM 1: Tenure Advance (monthly tenure amount) __________
   d. HECM 1: Term Payment Amount for 10 years (see instructions below)
      Scroll to top and find Select Type. Click arrow to get HECM Term Plan
      Scroll down HECM 1 to Monthly Term in Years. Enter 10.
      Scroll slightly higher to Desired Monthly Advance and click on calculator icon.
      Record amount from this block as the monthly payment for 10 years. __________
   e. Reset HECM 1 to Tenure: Select Type (top) to Creditline/Tenure
TAB 8 Exercise: Modifying Interest Rates and Loan Costs

1. Select Get Client and locate your case study client
2. Go to HECM Settings page
3. Click Current Rates
4. Under HECM 1 change the lender’s margin to 2.0
5. Under HECM 2 change the lender’s margin to 2.75 and make it an Annually-Adjusting rate
6. Under HECM 3 remove the Maximum Loan Fee (origination fee)
7. Click Save & Continue
8. Write down the Net Principal Limit for each loan product (HECM 1, 2, 3)
   HECM 1__________   HECM 2__________   HECM 3__________

TAB 9 Exercise: Creating TALC disclosures

1. Get Client (choose your case study client)
2. If the HECM Settings box pops up, click Save & Continue
3. Under HECM 1, under Less Upfront Cash enter the amount from Available Funds Year 1.
4. Click Navigator (top), then click TALC (bottom right)
5. Find TALC rates for HECM 1: from the 4% row, write down 2 year rate _______ and longest term rate _______.
6. Return by clicking on Estimates (top)
7. Zero out the earlier draw by entering 0
8. Find Tenure payment amount at bottom of column. Enter this same amount into Desired Monthly Advance.
9. Click Save & Continue
10. Click on Navigator (top), then click on TALC (bottom right)
11. Find TALC rate for HECM 1: From the 4% row, write down 2 year rate _______ and longest term rate _______.
TAB 10 Exercise: FIT/BCU practice

1. Go to a computer. From Ibis get into FIT/BCU
2. Enter your case study client
3. Make the client low income (less than $900/month) and low assets (less than $2000) (Even if this does not match the case study)
4. Complete FIT and then BCU. **Do not print**, but jot down notes about what you find.
5. If time permits, go back and adjust the client info based on what your case study actually tells you about the client. Take notes on what you find. This will be useful when you report on your case study on Friday.

TAB 13 Exercise: Generating and adjusting amortization schedules

1. Get Client (choose your case study client)
2. Go to Estimates page
3. Use *Select Loan* key to choose HECM 1 if it’s not already selected.
4. Under HECM 1, in *Less Upfront Cash* box, enter the amount from *Available Funds Year 1*. Click to calculate
5. Write down the amount that now appears under *Selected Creditline*
6. Save & Continue.
7. Click the circle next to “Up to 5 Draws”, then on the first line, fill in Year 1 and enter the number you wrote down above, from *Selected Creditline*.
8. Click *Schedule*
9. Make sure *home’s future appreciation rate* is 4%
10. **Write down the Loan Balance in Year 10.**
11. **Write down the Net Equity in Year 10.**
12. Change *home’s future appreciation rate* to 0% (click anywhere on page to re-calculate)
13. **Write down the Net Equity in Year 10.**
14. Change interest to *Expected Rate*
15. **Write down the Loan Balance in Year 10.**
16. **Write down the Net Equity in Year 10.**
TAB 16 Exercise: Comprehension questions

1. Find a partner
2. Take the sheet of questions from the end of TAB 16 in your manual.
3. Sit with your partner and ask the 10 questions. (Partner should get some wrong or only partially right, just for realism.)
4. Practice re-wording, prompting, etc.
5. Assume the client did not get 5/10 correct. Practice breaking the news.
6. Switch roles and start again. Again, assume the client did not get 5/10.
7. Discuss how it felt to be told you could not get a certificate yet.
8. What wording would you use? What would you offer to assist the client further?

TAB 17 Exercise: Other Alternatives

1. At your table, generate as many different alternatives and programs as possible, relating to your topic
2. What do you know in your local area?
3. What can you find online?
4. What can you learn from our experts in the room?
5. Summarize on flipchart

TAB 19: Case Study exercise – make sure you cover the following points

1. Does a HECM appear to meet the client’s needs or goals?
2. Generate Ibis calculations to look at payment options and amounts.
3. What issues or concerns do you see for this client? (FIT)
4. What other options can you think of?
5. What referrals might you make? (BCU)
6. What other issues may come up in counseling?
7. Create a way for your group to report to the whole class. You can do a report, tell a story, do a role-play, skit, interpretive dance, song, whatever.
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 that 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(s) 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 to provide education so that you can make your own informed decision (not to direct you to 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 a quality counseling service 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 your counseling session,
- Follow established protocols when conducting the counseling session, and
- Follow up with you after the session has concluded.
What You Can Expect During the 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. The Counselor will contact you and send you information, including this handout. The agency sends you a packet of information so that you can prepare for your session. If the agency you have chosen charges a fee, you will have discussed the charge and the payment procedure before getting this packet; 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 and 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 (FIT), 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 (BCU) 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 counselor 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 home owners 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, your age at the time you get the loan, the interest rate on your loan, and which product you choose.
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 the appraised value.
## The Reverse Mortgage Analyst

**Jim and Patsy Henderson**

### Loan Program

<table>
<thead>
<tr>
<th>Interest Rate Index</th>
<th>LIBOR HECM 1</th>
<th>LIBOR HECM 2</th>
<th>FIXED HECM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusting Period</td>
<td>Monthly</td>
<td>Monthly</td>
<td>--</td>
</tr>
<tr>
<td>Current Index Value</td>
<td>0.173%</td>
<td>0.173%</td>
<td>--</td>
</tr>
<tr>
<td>Plus Lender's Margin</td>
<td>2.500%</td>
<td>2.750%</td>
<td>--</td>
</tr>
<tr>
<td>Initial Loan Interest Rate</td>
<td>2.673%</td>
<td>2.923%</td>
<td>5.060%</td>
</tr>
<tr>
<td>Plus Mortgage Insurance</td>
<td>1.25%</td>
<td>1.25%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Initial Total Loan Rate</td>
<td>3.923%</td>
<td>4.173%</td>
<td>6.310%</td>
</tr>
<tr>
<td>Initial Creditline Growth Rate</td>
<td>3.923%</td>
<td>4.173%</td>
<td>6.310%</td>
</tr>
<tr>
<td>Lifetime Cap on Loan Rate</td>
<td>12.673%</td>
<td>12.923%</td>
<td>5.060%</td>
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<tr>
<td>HECM Expected Rate</td>
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<td>5.06%</td>
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<td>Monthly Service Fee</td>
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<td>$0.00</td>
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<td><strong>Home Value</strong></td>
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<td><strong>Home Value Limit</strong></td>
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<td>$625,500</td>
<td>$625,500</td>
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<tr>
<td>Lesser of limit or home value</td>
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<td>$100,000</td>
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<tr>
<td><strong>Loan Principal Limit</strong></td>
<td>$54,600</td>
<td>$52,400</td>
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<td>Less Service Fee Set-Aside</td>
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<td>$0</td>
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<td><strong>Available Principal limit</strong></td>
<td>$54,600</td>
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<td><strong>Less Fees and Costs</strong></td>
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<td>$2,500</td>
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<tr>
<td>Loan Origination Fee</td>
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<td>Mortgage Insurance</td>
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<td>$500</td>
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<td><strong>MIP Percent</strong></td>
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<td>0.50%</td>
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<td>Other Closing Costs</td>
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<td>$2,631</td>
<td>$2,631</td>
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<tr>
<td><strong>Net Principal Limit</strong></td>
<td>$48,969</td>
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<tr>
<td>Less Current Debt Payoff</td>
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<td>$20,000</td>
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<tr>
<td>Less Home Repairs</td>
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<td>$0</td>
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<tr>
<td>Less Expenses in Year 1</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Less Upfront Cash</td>
<td>$0</td>
<td>$0</td>
<td>$8,869</td>
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<tr>
<td><strong>Available Funds in Year 1</strong></td>
<td>$7,129.00</td>
<td>$5,609.00</td>
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<tr>
<td>Less Selected Creditline</td>
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<td>$0</td>
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<tr>
<td><strong>Available in Year 1</strong></td>
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<td>$5,609.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Left for Monthly Advance</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>Desired Monthly Advance</strong></td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Possible After Year 1</td>
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<td>Total Upfront Costs</td>
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<tr>
<td>Maximum Tenure Advance</td>
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<td>$177</td>
<td>$145</td>
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## Glossary

### The Reverse Mortgage Analyst

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>LIBOR HECM 1</th>
<th>LIBOR HECM 2</th>
<th>FIXED HECM 3</th>
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<td>$625,500</td>
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<td>Maximum Claim Amount</td>
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<td>$100,000</td>
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<td><strong>Mandatory Obligations</strong></td>
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<td>Loan Origination Fee</td>
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<td>Initial Mortgage Insurance</td>
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<td>$26,131</td>
<td>$26,131</td>
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<tr>
<td>60% of PL less Obligation</td>
<td>$7,129</td>
<td>$5,809</td>
<td>$8,869</td>
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<td><strong>Cash Available in Year 1</strong></td>
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<td><strong>$5,809.00</strong></td>
<td><strong>$8,869.00</strong></td>
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<tr>
<td><strong>2.50% MIP Option</strong></td>
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<tr>
<td>Initial Mortgage Insurance</td>
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<td><strong>Cash Available in Year 1</strong></td>
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### Loan Recap

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<td>MIP Option Chosen</td>
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<td>Extra Cash w/ 2.50% in Year 1</td>
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<td>Extra MIP Expense w/ 2.50%</td>
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<td>APR on Extra Cash in Year 1</td>
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<td>Upfront Cash</td>
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<td>Left for Monthly Advances</td>
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<td><strong>Advance if No Restriction</strong></td>
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<td>Monthly Term</td>
<td>Home Tenure</td>
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</table>

### First-Year Monthly Advances

- Possible after Year 1
- Final Total Mandatory Obligation
- Principal Limit after Year 1
- Less Loan Balance
- Less Service Set-Aside
- Est. Avail. after Year 1

---

 NeighborWorks®America, 2015  
 Page 225
## Loan Amortization Schedule

**LIBOR HECM 1 (1-mo L + 2.5) Reverse Mortgage**

Assuming a 5.280% per year annual interest rate and 4.00% per year future home appreciation.

<table>
<thead>
<tr>
<th>End of Year Age</th>
<th>Unused Available Creditline Draws</th>
<th>Loan Advances</th>
<th>Service Fees</th>
<th>Accrued Interest</th>
<th>Total Accrued MIP</th>
<th>Loan Balance</th>
<th>Home Value</th>
<th>Net Home Equity</th>
<th>Net Equity</th>
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<td>7,129</td>
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<td>--</td>
<td>--</td>
<td>500</td>
<td>25,631</td>
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<td>403,111</td>
<td>299,870</td>
<td>278,879</td>
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</tbody>
</table>

Be sure to review the Amortization Schedule Notes that accompany this page.
The amortization schedule projects a single loan into the future based on the payment plan and any line-of-credit draws that you have selected. The key assumptions in making the projections are the rate at which your home value would grow (its future appreciation rate), and the interest rate that would be charged on your loan.

- **Year 0** is the “closing” date, when you sign the loan documents to begin the loan.
- **Loan Advances** equals the total of all scheduled monthly payments to you each year if you selected a tenure or term payment plan.
- **Service Fees** are the annual total of all monthly servicing fees each year.
- **Accrued Interest** equals the amount of interest added to your loan balance each year.
- **Accrued MIP** equals the amount of monthly Mortgage Insurance Premium added to your loan balance each year. Initial Upfront MIP is shown in the Year 0 row.
- **Loan Balance** includes cash to you plus all loan costs to date.
- **Home Value** equals the future value of your home if it appreciates at 4.00% per year.
- **Net Home Value** is your projected future home value less 7% in estimated selling costs.
- **Net Equity** equals Net Home Value minus Loan Balance, or the amount of equity that you would retain if the home were sold to repay the loan at this time.

**Note:** The approximate amount you would owe upon sale of the home is the Loan Balance or Net Home Value, whichever is less. If your Unused Available creditline is greater than your Net Equity, draw it all before selling your home.
### The Reverse Mortgage Analyst

#### Jim and Patsy Henderson

### Total Annual Loan Cost

**Loan Terms:**
- Age of youngest borrower: 72
- Appraised property value: $100,000
- Initial interest rate: 2.673%
- Initial draw: $20,000.00
- Initial line of credit: $28,969.00

**Initial Loan Charges:**
- Closing costs: $5,131.00
- Mortgage insurance premium: $500.00
- Annuity cost: None
- Monthly Loan Charges:
  - Servicing fee: $0.00
  - Mortgage insurance: 1.25% annually

**Other Charges:**
- None

**Repayment Limits:**
Net proceeds estimated at 93% of projected home sale.

### Total Annual Loan Cost Rate

<table>
<thead>
<tr>
<th>Assumed Annual Appreciation</th>
<th>2-year loan term</th>
<th>7-year loan term</th>
<th>13-year loan term</th>
<th>18-year loan term</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
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<td>6.05%</td>
<td>4.12%</td>
<td>1.87%</td>
</tr>
<tr>
<td>4%</td>
<td>12.29%</td>
<td>6.05%</td>
<td>4.88%</td>
<td>4.65%</td>
</tr>
<tr>
<td>8%</td>
<td>12.29%</td>
<td>6.05%</td>
<td>4.98%</td>
<td>4.65%</td>
</tr>
</tbody>
</table>

The cost of any reverse mortgage loan depends on how long you keep the loan and how much your home appreciates in value. Generally, the longer you keep a reverse mortgage, the lower the Total Annual Loan Cost Rate will be.

This table shows the estimated cost of your reverse mortgage loan, expressed as an annual rate. It illustrates the cost for four loan terms: 2 years, half of life expectancy for someone your age, that life expectancy, and 1.4 times that life expectancy. The table also shows the cost of the loan assuming the value of your home appreciates at three different rates: 0%, 4%, and 8%.

The Total Annual Loan Cost Rates in this table are based on the total charges associated with this loan. These charges typically include principal, interest, closing costs, annuity costs, mortgage insurance premiums, and servicing costs (but not disposition costs - costs when you sell the home).

The rates in this table are estimates. Your actual cost may differ if, for example, the amount of your loan advances varies or the interest rate on your mortgage loan changes. You may receive projections of loan balances from counselors or lenders that are based on an expected average mortgage rate that differs from the initial interest rate.

**Signing an Application or Receiving These Disclosures Does Not Require You to Complete This Loan**
SELLING & MOVING

Selling and moving may be the last thing on your mind. But looking into this possibility - and seriously thinking about it - can help you decide how much you value staying in your present home. If you sold your home, you could invest the sale proceeds and use some of the money each month to pay for housing, for example, to pay rent. Do you know how much cash that would give you to spend on rent each month? Here is an example that is personalized for you.

If your home sold for $100,000, you would end up with about $73,000 if you paid 7% in selling costs, including a real estate commission, and paid off your home liens of $20,000. If you invested this money at 2.64% interest, that would give you $456 each month for 13.5 years, which is the average life expectancy for a couple of your ages, or $327 each month for 19.9 years, which is 40% longer than this life expectancy. Remember -- roughly half of us will outlive our life expectancy.

If you take future increases in housing costs into account, you would have to start out spending less per month if you wanted it to last for your life expectancy or beyond. For example, assume your rent would rise at 3.0% each year. In this case, you could start taking out $372 each month, increase it by 3.0% each year, and the invested sale proceeds would last until your life expectancy. If you wanted the proceeds to last 40% beyond your life expectancy, you would have to start paying no more than $245 for rent.

MOVING WHERE?

For information on housing choices in your area, contact your nearest Area Agency on Aging by calling 1-800-677-1116 or going to www.eldercare.gov on the internet. For general information on housing options, go to www.aarp.org/families/housing_choices. If you are interested in buying a less costly home, general information on purchasing a home can be found at this AARP URL: www.aarp.org/moneywise_consumer/financinghomes/.
TAB 22
APPENDIX 2
GLOSSARY OF TERMINOLOGY
GLOSSARY

Adjustable-rate mortgage (ARM)

A mortgage in which the interest rate changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indexes.

Amortization schedule

For a forward mortgage, a table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. An amortization schedule for a HECM loan will show no payments but will show the accrual of finance charges such as interest and fees.

Annual Percentage Rate (APR)

This is not the note rate on your loan. It is intended to reflect the true annual cost of borrowing, expressed as a percentage. In addition to interest, it includes other costs such as mortgage insurance and origination fees. If the lender could only charge a single rate, without upfront costs, this rate would be what he would have to charge to result in the total cost of the loan over the loan term.

Appreciation

An increase or rise in the value of property, goods, etc.

Closing

This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents are recorded at the local property records office (e.g., Register of Deeds). In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

Closing costs

Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items that are paid just once as a result of buying the property or obtaining a loan. "Pre-paids" are items that recur over time, such as property taxes and homeowners insurance. An installment of those charges (typically first-year charges) is paid at closing.

Collateral

Security pledged for the payment of a loan. In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.
Creditline Growth Rate

The rate at which the available HECM creditline grows larger, which is the current interest rate plus the annual mortgage insurance rate.

Deficiency judgment

A legal/financial obligation to pay back an additional amount if the home does not sell for enough to satisfy the mortgage.

Equity

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

Expected Interest Rate

For a HECM loan, the rate used to calculate the principal limit. For an adjustable rate HECM, this represents a prediction of the average rate that will be charged.

FHA mortgage

A mortgage that is insured by the Federal Housing Administration (FHA), a division of the U.S. Department of Housing and Urban Development (HUD).

Financial Assessment

A review of a borrower’s income, assets, and expenses, completed by the HECM underwriter, for the primary purpose of determining whether the borrower shows both willingness and ability to pay property taxes and homeowner’s insurance. Required after April 27, 2015.

Home Equity Conversion Mortgage (HECM)

A type of reverse mortgage that is insured by the federal government. What makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to the borrower. It enables older homeowners to convert the equity they have in their homes into a line of credit, monthly payments, or a lump sum of cash.

Home Equity Line of Credit (HELOC)

A mortgage loan, often in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.
**HUD-1 Settlement Statement**

A document that provides an itemized listing of the funds that were paid at closing.

**Index**

A number that represents the price or value of money referenced to a period in time, for example, the “10-year CMT rate”. Another familiar index is the “Prime rate”. The indices approved for use by HUD in the HECM program are the Constant Maturity Treasury (CMT) and the London Interbank Offered Rate (LIBOR).

**Initial Interest Rate**

The interest rate that is charged at the beginning of the loan.

**Interest Rate Cap**

A limit placed on the amount that an adjustable rate can change over a specified period (periodic cap) or the life of the loan (lifetime cap).

**Lien**

A legal claim against a property that must be paid off when the property is sold. A mortgage or deed of trust is considered a lien.

**Loan Servicing**

After you obtain a loan, the company you make the payments to (or in reverse mortgage terms, receive loan advances from) is "servicing" your loan. They process payments, send statements, manage escrow or set-asides, provide collection efforts on delinquent loans, ensure that insurance and property taxes are paid on the property, handle pay-offs, and provide a variety of other services. HECM servicers also verify residency and handle payment plan changes.

**Loan-to-Value (LTV)**

The percentage relationship between the amount of the loan, and the appraised value or sales price (whichever is lower).

**Mandatory Obligations**

Costs or loan advances which are required in order to originate a HECM. These can include payoff of prior liens, payoff of delinquent Federal income tax debt, origination fee, mortgage insurance premium, third-party closing costs, repair set-asides, amounts paid, or to be paid for property taxes and insurance for the first
year of the loan, [in a HECM for Purchase] the amount to be used in purchasing the home, etc.

**Margin**

The lender's mark-up or profit added to the index on an adjustable rate mortgage. If the index represents the cost of money to the lender, the margin represents the profit that they earn by lending it. The margin remains the same over the life of the loan.

**Maximum Claim Amount (MCA)**

The maximum amount for which a HECM loan is insured by FHA. At closing this is the home value or the FHA home value limit, whichever is less.

**Modified Payment Plans**

In the HECM world, a “modified” plan is one where a monthly payment is combined with a line of credit, providing some of the advantages of both options.

**Mortgage**

A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use “Deeds of Trust” or “First Trust Deeds”.

**Mortgagee**

The lender in a mortgage agreement.

**Mortgage Insurance (MI)**

Insurance that covers the lender against some of the losses that could be incurred on a home loan.

**Mortgage Insurance Premium (MIP)**

The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.

**Mortgagor**

The borrower in a mortgage agreement
Net Principal Limit

For a HECM, the net principal limit at closing is the principal limit minus financed closing costs and set-asides. The net principal limit at later points is the principal limit minus the loan balance minus any remaining set-asides.

Non-Borrowing (or Non-Borrower) Spouse (NBS)

A spouse who is legally married to the borrower, but who is not included on the HECM loan because s/he is too young to be an eligible HECM borrower, or because s/he is for some reason not an owner of the house. An Eligible NBS is one who lives with the borrower at the time of closing and throughout the life of the loan, as well as meeting other requirements. An Ineligible NBS is one who does not live with the borrower at closing, or does not continue to live in the home until the borrower’s death. An Eligible NBS may have the right to defer repayment of the HECM after the borrower’s death.

Non-recourse

A loan feature in which the borrower's liability is limited to the value of the collateral. If the collateral is not enough to satisfy the loan, the borrower is not responsible for any deficiency, and no deficiency judgment can be placed against them. The lender may not attempt to seize or collect repayment from other assets of the borrower or the borrower’s heirs. Most forward mortgages are NOT non-recourse.

The non-recourse feature of the HECM means that the borrower may never be asked to pay back more than what they can get by selling the house, even though the loan balance may have grown to exceed the home value.

Origination Fee

This one-time fee is charged to cover the cost of originating and processing a loan.

Principal Limit

For a HECM loan, the maximum loan balance at any point during the life of the loan. At the beginning of the loan, the principal limit is the total loan amount for which the borrower is eligible.

Proprietary loan

A mortgage product offered by a particular lender using their own guidelines, rules, etc. Not federally-insured by FHA, USDA, VA, etc.
Servicing Fee

A fee charged to compensate a loan servicer for their responsibilities, such as sending out statements and monitoring compliance with loan agreements.

Subordination

When a lender agrees to take a position of lesser priority for repayment. If a loan is subordinated to a HECM, the subordinating lender is agreeing that the two HECM liens will get paid first, and the subordinating lender will be paid from what remains. Because of the growing HECM loan balance, other lenders are typically not willing to subordinate.

Tenure Payment

In the HECM context, “tenure” refers to the borrower’s residence in the home. A tenure payment is a monthly payment that will continue indefinitely as long as the borrower lives in the home.

Term Payment

For a HECM, a monthly payment that continues for a predetermined period of time, selected by the borrower.

Truth-in-Lending (TIL)

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.
APPENDIX 3

TOTAL ANNUAL LOAN COST (TALC)

TUTORIAL
TOTAL ANNUAL LOAN COST (TALC) TUTORIAL*

Table 1: Which Loan Costs the Least?

<table>
<thead>
<tr>
<th>LOAN</th>
<th>Fees</th>
<th>Interest</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Origination = 2% MIP = 2% + 0.5% on loan balance Servicing = $35/mo</td>
<td>1-yr Treasury + 1.5% adjusted monthly Lifetime cap = 1-yr Treasury + 11.5%</td>
<td>Usual and customary 3rd-party closing costs</td>
</tr>
<tr>
<td>#2</td>
<td>Origination = 2% Servicing $30/mo</td>
<td>1-mo CD + 3.4%</td>
<td>Usual and customary 3rd-party closing costs</td>
</tr>
<tr>
<td>#3</td>
<td>Origination = 2% Servicing = $30/mo</td>
<td>6-mo LIBOR + 5% lifetime cap = 6-mo LIBOR + 11%</td>
<td>Usual and customary 3rd-party closing costs</td>
</tr>
<tr>
<td>#4</td>
<td>No origination fee Servicing = $30/mo</td>
<td>6-mo LIBOR + 5% Lifetime cap = 6-mo LIBOR + 11%</td>
<td>3rd-party closing costs capped at $3,500; must take 75% initial advance</td>
</tr>
<tr>
<td>#5</td>
<td>No origination fee Servicing = $30/mo</td>
<td>6-mo LIBOR + 5% Lifetime cap = 6-mo LIBOR + 11%</td>
<td>No 3rd-party closing costs; must take 100% initial advance</td>
</tr>
</tbody>
</table>
Each of the five reverse mortgage loans described in Table 1 has been offered in the United States. But even though this table tells you all about the costs of these loans, you cannot tell which one costs the least. The categories of cost are different from one loan to another, which makes them almost impossible to compare.

Moreover, you don’t know how much money a borrower could get from one loan versus another. In "forward" mortgages, the dollar amount of major cost items is directly related to the amount of the proceeds a borrower gets from the loan. In a reverse mortgage this is not always true.

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So now let’s simplify the matter by comparing one HECM loan to another. That way the cost categories would be the same, and that should make the loans much easier to compare.

**Table 2: Which HECM Costs Less?**

<table>
<thead>
<tr>
<th></th>
<th>LOAN A</th>
<th>LOAN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Status</td>
<td>single</td>
<td>single</td>
</tr>
<tr>
<td>Home Value</td>
<td>$150K</td>
<td>$150K</td>
</tr>
<tr>
<td>MCA</td>
<td>$150K</td>
<td>$150K</td>
</tr>
<tr>
<td>Interest</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>MIP</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Closing</td>
<td>$3,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Servicing</td>
<td>$30</td>
<td>$30</td>
</tr>
</tbody>
</table>

So which costs less: the Loan A or Loan B? The categories of cost are the same, and both loans are HECMs. In fact, all of the itemized costs are exactly the same. But there is virtually no likelihood that these two loans will cost the same.
In the left hand column you can see that three boxes are blank. This means that three cost factors are missing. Can you guess what they are? Let's take a closer look at these "identical" loans.

**Table 3: Two HECMs at Closing**

<table>
<thead>
<tr>
<th>Payment Plan</th>
<th>Loan A</th>
<th>Loan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Plan</td>
<td>LUMP SUM</td>
<td>MONTHLY TENURE</td>
</tr>
<tr>
<td>Net Cash to Borrower</td>
<td>$70,298</td>
<td>$562</td>
</tr>
<tr>
<td>Total Financed Costs</td>
<td>$6,500</td>
<td>$6,500</td>
</tr>
<tr>
<td>Loan Balance</td>
<td>$76,798</td>
<td>$7,062</td>
</tr>
</tbody>
</table>

Here we are outside the bank when Borrower A and Borrower B emerge from their HECM closings with their "identical" loans. The first thing we learn is that Borrower A took the entire loan as an immediate lump sum of cash at closing, and Borrower B took it as a monthly advance only.

Borrower A has come away from the deal with $70,298, and when we ask how much it cost her to get it, she tells us $6500, which is the total of all the upfront costs back on Table 2. Now we ask Borrower B how much she paid for her loan, and she tells us the same thing: $6500. But when we ask how much money she got out of the deal, she tells us $562 - so far.

So who would you say has gotten the better deal - so far? Both have paid $6500 for the loan, but A now has $70,298 and B has $562. So far, you would have to say that Borrower A has gotten more for the same amount of money - a lot more. But let's not jump to conclusions. Let's wait a while, and see how things develop. What will these "identical" loans look like two years later?
Table 4: Two HECMs After Two Years

<table>
<thead>
<tr>
<th></th>
<th>Loan A</th>
<th>Loan B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment Plan</strong></td>
<td>LUMPSUM</td>
<td>MONTHLY TENURE</td>
</tr>
<tr>
<td><strong>Net Cash to Borrower</strong></td>
<td>$70,298</td>
<td>$562/mo. ($13,488)</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$21,464</td>
<td>$9,751</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>$91,762</td>
<td>$23,239</td>
</tr>
</tbody>
</table>

Two years later, Borrower A still has gotten only the lump sum she started out with. But now her loans costs total $21,464 - this includes the upfront costs, the monthly servicing fees, and the interest that has been charged on her large lump sum and on her other costs and fees. But the total amount of cash she has gotten is still more than three times greater than her total loan costs.

By contrast, Borrower B has now gotten $13,488 ($562 per month for 24 months). But that isn't even anywhere close to two times as much as her total loan costs. So Borrower A has still gotten more bang for her buck. For every dollar in costs she has gotten $3.28 in benefits, while for every dollar in costs Borrower B has gotten only $1.38 in benefits.

Borrower B may be starting the long process of catching up to the deal that Borrower A got, but she has a long way to go. Borrower A - so far - has still gotten more for her money. But how would you express that numerically? Take a look at the next table.
Table 5: TALC after Two Years

<table>
<thead>
<tr>
<th></th>
<th>Loan A</th>
<th>Loan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Plan</td>
<td>LUMP SUM</td>
<td>MONTHLY TENURE</td>
</tr>
<tr>
<td>Net Cash to Borrower</td>
<td>$70,298 (PV)</td>
<td>$562/mo (PMT)</td>
</tr>
<tr>
<td>Balance (FV)</td>
<td>$91,762</td>
<td>$23,239</td>
</tr>
<tr>
<td>TALC Rate</td>
<td>13.43%</td>
<td>49.5%</td>
</tr>
</tbody>
</table>

Do you have a simple financial calculator? If you do, you can try this at home.

- For Borrower A, punch in $70,298 as the "present value" (how much she got at closing).
- Then punch in $91,762 as the "future value" (how much she owes after two years).
- Then punch in 24 months (two years).
- Now punch the "interest" button to find out what single rate of interest it would take to make $70,298 grow to become $91,762 after two years.
- The answer (after you've multiplied by 12 to change the monthly rate to an annual one) is 13.4% per year.

In other words, if the lender could not charge loan costs in different ways (interest, origination, insurance, closing costs, servicing fees, etc.) but had to roll all of the costs into the interest rate, what would that rate have to be to generate the same future amount owed as you would get by charging the separate costs? That's the Total Annual Loan Cost (TALC) rate. Put another way, if you were charged 13.4% interest on $70,298 for two years, you would owe $91,762.
Now let’s try it for Borrower B to find out how much more her loan advances have cost her - so far.

- Punch in $562 as the "payment
- Punch in $23,239 as the "future value
- Punch in 24 months (making sure to set the calculator for "beginning of the month" which is when the loan advances are made)
- Then punch the interest button.
- Now multiply by 12.
- The TALC rate in this case is a whopping 49.5% - confirming our suspicion that Borrower B has paid a lot more for what she’s gotten - so far.

Why is Borrower B's rate so high? Because her total costs so far ($9,751) are still a very large part of what she owes ($23,239). In fact, these costs are over 40% of her total debt. By contrast, Borrower A’s total costs are less than 25% of what she owes - and she had all of her money since the very first day of the loan. It’s taken Borrower B two full years to get her money.

So far, we have seen that the real cost of these loans depends on the type of loan advances you select, that is, how much money you get, and when you get it. Now let's take a look at another factor you are probably starting see: time.

### TALC Rates Over Time

<table>
<thead>
<tr>
<th>TALC Rate after</th>
<th>Loan A</th>
<th>Loan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 years</td>
<td>13.4%</td>
<td>49.5%</td>
</tr>
<tr>
<td>12 years</td>
<td>10.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>17 years</td>
<td>8.3%</td>
<td>9.0%</td>
</tr>
<tr>
<td>22 years</td>
<td>7.3%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payment Plan</th>
<th>Loan A</th>
<th>Loan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUMP SUM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MONTHLY TENURE</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The TALC rate comes down over time for two reasons:

First, as the upfront loan costs get spread out over more and more years, they become a smaller part of the total amount owed.

Second, as the loan balance rises over time, the likelihood increases that it will catch up to - and then be limited by - the home's value.

Remember, reverse mortgages are non-recourse loans - so you can never owe more than the future value of the home. When a rising loan balance catches up to that value, the borrower cannot owe more than that value.

For example, Borrower B has taken monthly advances for as long as she lives in her home ("tenure" advances). Assume that her home value never increases after closing. When her rising loan balance catches up to that non-rising home value, her debt is then capped by the home's value.

If that value remains fixed, she will continue getting monthly advances every month, but her loan balance will not increase. And that will drive the TALC rate down at a faster rate. The non-recourse limit accelerates the decrease in the TALC rate.

Even when a home's value grows, the loan balance may still catch up to it and when it does, be limited by its future value. Especially since future value will most likely grow at a slower rate than the loan balance otherwise would have (without the non-recourse limit).

If a home's value decreases, on the other hand, a borrower could have a declining debt despite continuing to receive loan advances every month.

So changes in a home's value are a key factor in determining the loan's total annual average cost. The following table shows the effect of home appreciation on the TALC rate.

The smaller the appreciation rate, the lower the rate will tend to be over time - because the rising loan balance will catch up to - and then be limited by - the home's value sooner.

The larger the appreciation rate, the greater the TALC rate will tend to be over time - because the rising loan balance will not catch up to the home's value as soon - if ever. And if it does, a higher appreciation rate will place less of a cap on the growing loan balance than a smaller rate would.
TALCs on 3 HECMs

<table>
<thead>
<tr>
<th>Home Appreciation Rate =</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LUMP SUM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>@ 2 years</td>
<td>13.4</td>
<td>13.4</td>
</tr>
<tr>
<td>@ 12 years</td>
<td>5.9</td>
<td>10.0</td>
</tr>
<tr>
<td>@ 17 years</td>
<td>4.1</td>
<td>8.3</td>
</tr>
<tr>
<td>CREDITLINE (50% at closing)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>@ 2 years</td>
<td>19.4</td>
<td>19.4</td>
</tr>
<tr>
<td>@ 12 years</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td>@ 17 years</td>
<td>8.5</td>
<td>10.4</td>
</tr>
<tr>
<td>TENURE (monthly)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>@ 2 years</td>
<td>49.5</td>
<td>49.5</td>
</tr>
<tr>
<td>@ 12 years</td>
<td>8.4</td>
<td>10.8</td>
</tr>
<tr>
<td>@ 17 years</td>
<td>2.2</td>
<td>9.0</td>
</tr>
</tbody>
</table>

The table also shows the impact of loan advances on the TALC rate.

- TALC rates on lump sum loans don't vary as much as they do on monthly advance loans
- Creditline loans generally fall somewhere in between, depending on how the borrower uses the creditline.
  - If it's used more like a lump sum, the actual TALC rates will be more like lump sum TALCs.
  - If it's used more like a monthly advance, the actual TALCs will be more like monthly advance TALCs.

In the official TALC disclosure, however, lenders are instructed to assume that the borrower will withdraw 50% of the available creditline at closing, and none thereafter. This is the assumption used to project the TALC rates in table above.

So now we return to our original question. Can you name the three non-cost factors that affect the total annual average cost of a reverse mortgage? As we’ve seen, they are...
• the pattern of loan advances ("Payments"),
• how long the borrower lives in the home ("Term"), and
• what happens to the home's value during that time ("Appreciation").

Curiously, these key cost factors are not controlled by the lender. To the extent that anyone can know at closing how these factors will play out over time, the borrower may have a better sense of each than the lender. But then, the lender who originates the loan generally is not affected financially by its total annual average annual cost rate. The lender's earnings on the loan typically equal the origination fee and some portion of the servicing fee. So lenders generally get paid the same no matter what the loan ends up costing the borrower.
POWERS OF ATTORNEY, LIFE ESTATES, AND TRUSTS
INTRODUCTION TO POWERS OF ATTORNEY,
TRUSTS AND LIFE ESTATES

POWERS OF ATTORNEY AND REVERSE MORTGAGES

INTRODUCTION

A power of attorney is a legal document that an individual voluntarily prepares, stating that he/she grants to a second person the right to carry out certain actions on the individual’s behalf and confers authority to perform certain specified acts or kinds of acts on behalf of an individual.

A. A power of attorney can ONLY be granted when the individual is mentally competent and able to understand what he/she is doing.

B. The person who is granted the power of attorney is called an “agent” or “attorney-in-fact.”

C. A power of attorney is “power to” not “power over”—the agent or attorney in fact must act at the direction of the individual granting the power of attorney and in the individual’s best interest, to the best of their ability.

D. The power of attorney can be revoked by an individual at any time.

E. The authority of the agent or the attorney in fact automatically ends when the person granting the power of attorney dies.

TYPES OF POWERS OF ATTORNEY

A power of attorney can be granted for general or limited purposes:

A. **General**: Example - Husband grants his wife a power of attorney giving her the right to act for him whenever necessary, because he is out of town a lot. In the event some financial decision came up that required both spouses’ signatures, one spouse could carry it out on behalf of the other. It is general in the sense that it explicitly includes the right to do a wide variety of things, including buying and selling real estate, disposing of assets, etc.

B. **Special or limited**: Example - An individual needs to move to a new location and does not have the ability to remain and complete the sales transaction of his home. Instead, he gives his sister a power of attorney to attend the closing and sign all the papers on his behalf as the seller. It is special or limited in that it only grants permission to do this one thing, and it expires as soon as that event has been completed. Another type of limited power of
attorney is the ability to act on someone’s behalf only with respect to health-related decisions.

C. **Durable** power of attorney: Example: An individual is concerned about who will take care of her affairs, pay her bills, etc., if she has a stroke and is unable to do these things for herself. She grants her daughter a durable power of attorney, just in case. The word “durable” means that the power survives even if the individual becomes incompetent. It can either be written so it goes into effect immediately, or it can be written as a “springing” power of attorney, so that it only becomes effective if the individual is judged incompetent. Usually, the document states how incompetency is to be determined (e.g., two doctors agree that the individual is unable to manage his/her affairs.)

*This is the only kind of power of attorney that gives the agent the right to overrule the person who granted it.* This “power over” only becomes effective if the person who granted the power of attorney is no longer competent. Even then, the agent has a “fiduciary responsibility” to always act in the individual’s best interests.

**POWER OF ATTORNEY vs. GUARDIANSHIP/CONSERVATORSHIP**

A power of attorney is different than guardianship or conservatorship in several ways.

A. Unlike a guardianship or conservatorship, a power of attorney does not require any court action or judicial involvement. It is simply an agreement prepared between individuals (typically, but not always, notarized). It can be revoked by the grantor at any time.

B. A guardianship or conservatorship is granted by a court after a hearing, and it can only be revoked by another court action.

C. As noted above, a power of attorney must be voluntarily granted by an individual, when that individual is mentally competent. A guardianship or conservatorship granted because a person is found legally incompetent to act on his/her own behalf and needs someone to manage his/her affairs.

D. A guardianship or conservatorship puts someone else in charge of an individual’s affairs. The guardian or conservator may overrule the individual’s wishes. On the other hand, a power of attorney only gives an agent or attorney-in-fact the ability to act on behalf of an individual. It does not prevent an individual from continuing to make his or her own independent decisions (unless the individual has been found mentally incompetent – see Durable Power of Attorney description above). This is one reason why many reverse mortgage lenders may prefer the actual borrower to receive counseling even if they have granted power of attorney to an agent.
HOW A POWER OF ATTORNEY RELATES TO HECMS

Fairly frequently, the person who initially contacts the counselor is not the homeowner; instead it is a son or daughter who says, “I have a power of attorney for my mother, and I want to get her a reverse mortgage”. This raises a variety of legal/ethical issues.

A. If the borrower is legally competent and the loan application is being executed by an agent or attorney-in-fact, then the reverse mortgage counseling may be conducted with the agent. However, every effort should be made to include the borrower in the counseling session. Not only does the borrower need to understand what is being done in their name, but the lender may very well require counseling even if HUD does not.

B. If a borrower lacks legal competency and the loan application is being executed by a person holding a durable power of attorney, the reverse mortgage counseling must be conducted with the agent/attorney-in-fact.

HECMs FOR PROPERTIES HELD IN TRUST

A trust is a legal entity created by a grantor for the benefit of designated beneficiaries.

A. A trust is created when the owner of a property conveys the property into a trust for his/her own benefit or for the benefit of third parties (the beneficiaries). The property is then owned by the trust, rather than by the individual.

B. The trustee, which may be a person or an entity such as a bank, controls the trust and holds a fiduciary responsibility to manage the assets in the trust for the economic benefit of all the beneficiaries.

C. In some cases, the grantor, the trustee, and the beneficiary may all be the same person(s).

1. "Contingent" beneficiaries are those who receive no benefit from and have no control over the trust until some event, such as the death of the grantor, takes place.

2. Property held in the name of a living trust is eligible for a HECM. A living trust is created during the lifetime of a person (as opposed to a testamentary trust which is created upon a person’s death).

D. Conditions for origination in the name of a trust

1. All beneficiaries of the trust must be eligible HECM borrowers (over age 62 and meet occupancy requirements) at the time of origination of the loan and until the loan is paid off. Contingent beneficiaries DO NOT have to be eligible HECM borrowers.

All beneficiaries of the trust (other than contingent beneficiaries) must attend HECM counseling prior to loan origination.
2. The trustee (usually, but not necessarily, a bank) and each borrower/beneficiary must sign the mortgage to create a valid HECM. The borrower/beneficiary must sign the Note and Loan Agreement. The lender may also require the signature of the trustee on the Loan Agreement. The trustee is not required to attend counseling.

The lender must be satisfied that the trust is valid and enforceable, and that it provides the lender with a mechanism to be notified of any change in occupancy or change in beneficiaries.

E. Transfer of the property into and from a trust
1. A borrower with a HECM may transfer a home into a trust without causing the HECM to become due and payable so long as the lender is notified and the lender determines that the trust meets all of the requirements that would have applied if the trust was in place at the time of the HECM closing.

2. If the trust is terminated during the duration of the HECM or the property is transferred out of the trust at some point, the loan will not become due and payable so long as one or more of the original borrowers/former beneficiaries who signed the Note and Loan Agreement continue to live in the property as their principal residence and remain on title.

LIFE ESTATES

A life estate is the right to use or occupy real property for one's life.

A. For instance, Mrs. Jones has put her home in her daughter’s name, but retains a life estate. This means that she can live in and use the home as long as she wants to. When she dies, the life estate disappears, and her daughter will automatically have full ownership of the property. Her daughter’s future interest in the property is called a “reversionary” or “remainder” interest.

Life estates may be used as an estate planning tool, to ensure that the property passes to a certain person without going through probate.

Another example might be in the case of a second marriage, to guarantee the new spouse the lifetime use of the property, while making sure it reverts to the children of the first marriage. For instance, Mr. Smith, who has three children, marries again after the death of his first wife. He wants to be sure that his second wife does not become homeless after his death, but he wants his three children to inherit the home eventually. He does this by granting his new wife a life estate in the property and leaving the remainder or reversionary interest to his kids. This allows her to live there as long as she...
wants, while his kids will get the house after she dies.

B. A HECM can be done on a property in which the borrower only holds a life estate (see Mortgagee Letter 97-15). The person or persons who have the future interest in the property will also have to execute the mortgage (but not the note or loan agreement). This means that the person who has the future interest can veto the reverse mortgage.

In the example above, after Mr. Smith’s death, if his children choose not to cooperate, his second wife will be unable to get a HECM.

C. LIFE ESTATE AFTER A HECM HAS BEEN EXECUTED

A borrower who had a fee simple title to the property when the HECM was executed can later convey his/her interest in the property (transfer the property into someone else’s name), as long as he/she retains a life estate (see ML 97-15).
TAB 25

APPENDIX 5

POWER POINT PRESENTATION