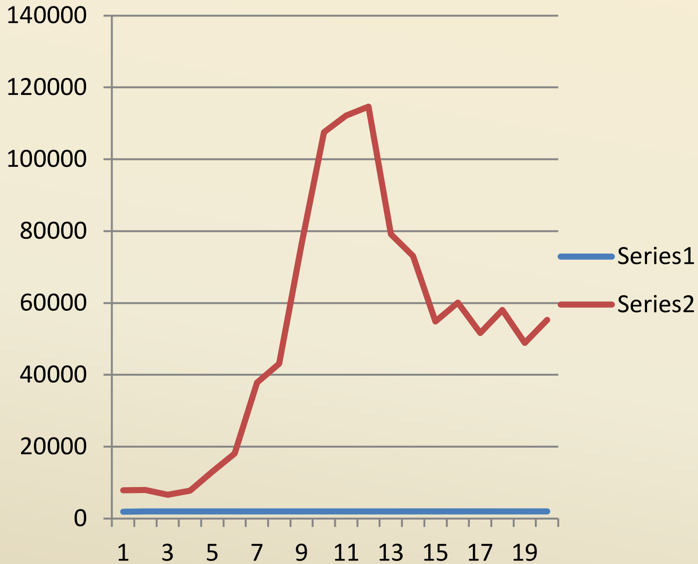
Session Synopsis & Objectives

"Reverse mortgages allow homeowners to borrow money against the equity they've accumulated in their home. While these mortgages may allow seniors some choices in retirement, what happens when the loan exceeds the value of the home or the senior can no longer afford to pay for taxes, insurance and upkeep?"

- Objective 1: meet the expectations set by the marketing
- Objective 2: meet your expectations
  - So what are they?

1,039,229 HECMs Endorsed by FHA through 2017

- Peaked in 2007-9 at 111,500
- Averaged 54,800 in last five years



Year	HECMs
1998	7,896
1999	7,982
2000	6,640
2001	7,781
2002	13,049
2003	18,097
2004	37,829
2005	43,131
2006	76,351
2007	107,558
2008	112,154
2009	114,692
2010	79,106
2011	73,131
2012	54,822
2013	60,091
2014	51,642
2015	58,043
2016	48,902
2017	55,332

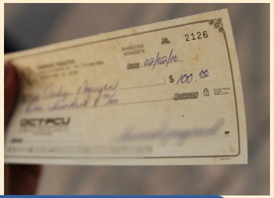
Majority of loans were through Wells Fargo and Bank of America

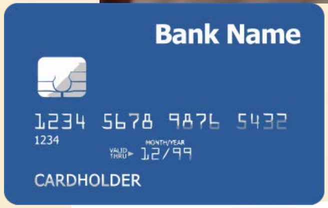
Both have backed out of the market

The Basic HECM Mortgage

- Nearly all HECMs are FHA-insured products
  - Literature references a few private lenders, NPs and some states as having non-FHA products (per the NRMLA)
- Features
  - Homeowner maintains title to the property
    - However, a mortgage (lien) is placed against the property
  - Homeowner is responsible for
    - Paying property taxes
    - Maintaining property insurance
    - Maintaining the property
  - A borrower must reside in the property as the principle residence
  - Loan becomes due when last surviving borrower has not resided in the home for twelve consecutive months (see future slide)
  - No maturity date (cannot become due during borrower's life) (see future slide)
  - Non-recourse:
    - total amount repaid can never exceed the appraised value as long as home is sold by the borrower or their heirs to pay back the loaned amount
    - Heirs receive any funds in excess of amount needed to repay the loan

What You Get and How





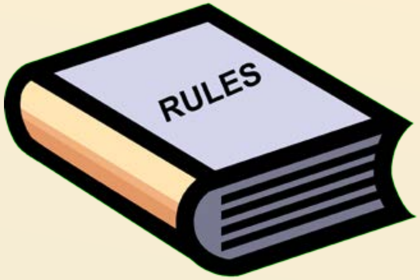
- Monthly payout: Complex calculation based on
    - Appraised value of home
    - Existing equity
    - Life expectancy of youngest borrower
    - Existing mortgages (must be willing to subordinate)
    - Upfront costs
    - Interest (variable rate)
  - – The more equity and the older the borrower, the higher the amount available to the client
- Line of Credit (can combine with monthly payout)
  - – You only pay interest on the money you use. Amount of money available grows over time.
- Single disbursement (fixed interest possible)
  - – A portion (or all) of your equity. Pay interest on all of it.

Types of Reverse Mortgages from AAG

- Standard HECM
- HECM for Purchase
  - Generally for downsizing
  - Combines purchase and LOC or Payout
  - One set of closing costs
- Reverse Mortgage Refinance
  - Adding spouse who didn't qualify earlier
  - Lower rate or refigure payout on appreciated value
- Single-Purpose Reverse Mortgages
  - Non-FHA mortgage for repairs or taxes
  - Through state or NP
- Proprietary Reverse Mortgage
  - Jumbo reverse mortgages – exceeds $679,650
  - Private lender – not backed by FHA

Set-Asides

- Recurring costs may be “set-aside” so that proceeds are available to pay them
- Borrower can request set-asides for taxes, insurance and even maintenance
- Set-aside may be required based on financial history (since 2015)
- Set-asides reduce the amount of equity available to borrow



10% Default Rate Triggers New Rules

- Lump sum in the first year of the loan restricted to no more than 60 percent of the initial principal limit (2013)
- Lenders now required to underwrite HECMs based on applicant's financial and credit risk profile (2015)
- Applicants who fail to meet the new criteria can
  - be denied a loan; or
  - be required to set aside a portion of their available principal in an escrow account – known as a Life Expectancy Set Aside – managed by the lender to cover future property tax and insurance payments

HECM Counseling Required

- Counseling is required by FHA because they insure the loan
  - Counselor must be on the HECM roster (on HUD website)
  - Must be with a HUD-approved housing counseling agency
- HECM counselor must review clearly specified things
  - Detailed in HUD Housing Counseling Program Handbook
  - As summarized on NARML they include
    - Options available to the homeowner
    - Other available home equity conversion options
    - The financial implications of the reverse mortgage
    - Tax consequences, impact on estate, eligibility issues
      - HUD notes that HECM counselors should make referrals to CFPs and CPAs

- Counselor/educators not on the roster asked about HECM
  - You may discuss the things the lender is allowed to discuss
  - Refer them to the counselor roster – no steering allowed!
  - They need a Certificate of HECM Counseling (HUD Form 92902)

Who Gets on the HECM Roster?

https://entp.hud.gov/idapp/html/hecm_agency_search.cfm

- Pass the HUD National HECM Counseling Exam
- Successfully complete at least one training course related to HECM within the past two years
- Not be on:
  - Excluded Parties List System (EPLS)
  - Limited Denial of Participation List (LDP)
  - Credit Alert Interactive Voice Response System (CAIVRS)
- Be employed by a HUD-approved counseling agency
- Four agencies listed in Oklahoma
  - ~~Consumer Credit Counseling Service of Central Oklahoma~~
  - Little Dixie Community Action Agency, Hugo
  - QuickCert, Tulsa
  - Transformance, Ardmore

What a Lender Can Discuss

- Allowable activities prior to counseling
  - Explaining HECM program
  - Discussing eligibility
  - Providing info on costs
  - Describing potential financial implications
  - Providing copies of the loan documentation
- Activities Prohibited prior to Counseling
  - Processing loan application
  - Ordering an appraisal
  - Initiating title search
  - Originating loan
  - Assigning FHA case number
  - No fees can be charged

The **NRMLA** Recommends Asking

- How do you intend to use your reverse mortgage loan proceeds?
- Do you fully understand your obligations as a borrower under a reverse mortgage?
- If you are married, will your spouse be a co-borrower on your loan?
- How will your reverse mortgage loan be repaid?
- Do you receive assistance under any government programs that are based on your current income?
- How long do you, and your spouse, plan to remain in the home?
- Have you considered other strategies to supplement your retirement income?

Other Considerations

- Have you analyzed your cash flow needs (on paper)?
- Will your HECM accomplish long-run goals or is it only addressing currently existing needs?
- Do you have other resources if something else requires funding (roof, foundation repair, termite damage, flood, etc.)?
- How will you meet taxes, insurance, and maintenance costs?
- Would selling and down-sizing reduce taxes, insurance, etc.?
- How will you meet future costs for health care, home health assistants, deductibles, or other health-related expenses?
- Is this your home or your asset?
- Will you house accommodate aging-in-place?
- Do you want your heirs to have the property? Do they?
- Do you and your heirs understand what happens at maturity?

Maturity Events

- You can pay off your HECM in full at any time.
- Alternatively, the debt becomes due when one of the following events happens:
  - Death of last remaining co-borrower, or eligible non-borrowing spouse (62 and on the title with borrower when the loan originated)
  - Last remaining co-borrower resides outside the principal residence for over 12 months
  - Home is sold
  - Title to the home is conveyed to someone else
  - Property taxes, insurance premiums, condo fees or other “mandatory obligations” are not paid
  - Home is not maintained and falls into disrepair
- Payment is due immediately.
  - You have 6 months to pay (usually by selling house)
    - Proceeds in excess of the debt will go to heirs
    - HUD may approve a 90-day extension if actively marketed house has not sold
    - Interest, MIP, interest and other fees continue to accrue until loan is settled
  - Heirs can purchase property for 95% of *current* appraised value

At Maturity: Thinking through the Consequences of HECM loans

- You or your heirs must contact the servicer
  - Delaying contact will not buy time
  - Deadlines are determined by the date of the event
- Consider your intent prior to calling:
  - Option 1: Retain the property
    - Advise servicer how you intend to pay back the loan
    - Get pay-off information
  - Option 2: Do not retain the property
    - See next slide

If Property is Not Retained

- Option 1: Executor or heirs list property for short sale
  - Requires approval of servicer <u>in advance</u>
  - Foreclosure commences 6 mos./180 days after maturity
  - Can request 90-day extension if working with servicer
    - Must be approved by HUD
    - Must demonstrate honest attempt to market property (not FSBO)
  - Servicer may accept the lesser of the total debt or 95% of the current market value as a full payoff
  - Heirs receive any proceeds in excess of total debt
- Option 2: Deed in lieu
  - Extinguishes debt and further obligations
  - Must provide marketable title, no liens or encumbrances
  - Must be in “broom-swept” condition, remove all personal property

Advantages of HECM NCOA

- Continue to own your home; cannot be forced to leave
- No monthly payments – improves cash flow
- Can pay off existing mortgage which improves cash flow
- Provides funds for paying taxes, insurance, and repairs
- No time limit on how long you keep the loan
- Credit requirements less strict than on conventional loans
- Interest rates are not based on credit scores
- Never have to repay more than the value of the home

Disadvantages of HECM NCOA

- HECM is a loan and must be paid back when borrower no longer lives in the home
- The amount you owe grows over time
- HECM reduces, and eventually eliminates, equity in home
  - Affects what you leave heirs
  - Affects ability to borrow for future needs
- Closing costs and interest paid reduce your equity compared to outright sale of property
- You must pay off existing mortgage
  - Reduces the amount you can obtain from HECM
  - May even disqualify you from HECM
- You must be at least 62 years old

Questions & Answers

Q: What happens when the loan exceeds the value of the home?

A: HECM is a non-recourse loan.

- Never have to pay back more than the *current* appraised value of the home

Q: What happens if the senior can no longer afford to pay for taxes, insurance and upkeep?

A: The loan becomes due and payable.

- You have the same process as at maturity
- Sell it or provide a Deed in Lieu

Q: See flip chart

Information Sources

- National Reverse Mortgage Lenders Association
- Federal Housing Authority, U.S. Department of HUD
- HUD Office of Housing Counseling
- National Council on Aging
- American Advisors Group
- Consumer Financial Protection Bureau