CREDIT.ORG

REVERSE MORTGAGE ACADEMY

PARTICIPANT GUIDE

About Credit.org

Credit.org is a Nonprofit Consumer Credit Counseling Agency Formed in 1974

Our mission is simple, yet vital: Improve the financial well-being of individuals and families by providing quality financial education and counseling. We offer personal assistance with money, credit, and debt management through educational programs and confidential counseling.

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Our Services

Financial Education Programs

We offer seminars, workshops, and educational materials on topics such as budgeting and money management, identity theft, and understanding credit.

Debt Management Programs

If you choose this option, we can work with your creditors to reduce costs and repay debt through one monthly payment.

Confidential Debt Counseling

Our certified consumer credit counselors will discuss your financial situation with you, help you understand what may cause financial stress, and help you create a personalized budget, an action plan and give you options to help manage your finances more effectively.

Credit Report Review

Our certified counselors work with you to break down your credit report, answer questions, and give guidance for improving your credit score over time.

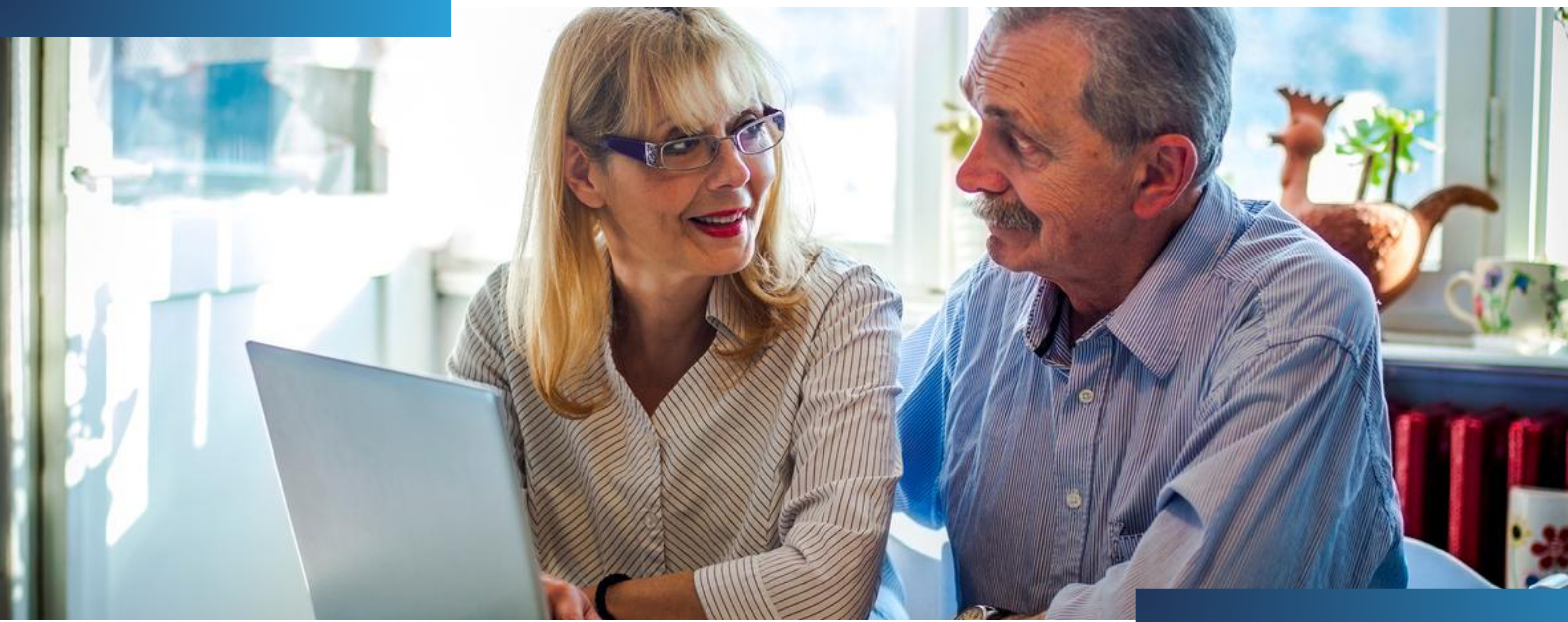
Housing Counseling

We are a HUD-approved housing counseling agency. We provide homebuyer education seminars, mortgage counseling, foreclosure prevention assistance, landlord/ tenant counseling, post-homebuyer education, and reverse mortgage counseling (please call ahead for reverse mortgage appointments).

Bankruptcy Pre-petition Credit Counseling

We provide counseling (and a certificate of completion as mandated by the bankruptcy reform law) for those considering bankruptcy. We also provide financial education (and a certificate of completion as mandated by the bankruptcy reform law) for those completing their bankruptcy discharge.

What is a Reverse Mortgage?



A reverse mortgage is a way for homeowners aged 62 and older to convert their home's equity into cash. In a traditional mortgage, you pay a lender monthly, gradually building up equity until the home is paid off. With a reverse mortgage, the lender pays you. You get the equity you've built up paid back to you without having to sell your home.

While you are receiving these reverse mortgage payments, your mortgage balance goes up—your fees and interest are added to the loan balance month after month. Eventually, the loan is repaid, usually by selling the property.

This guide will cover the benefits and risks of reverse mortgages, financial implications, and more.

Eligibility

First, let's discuss eligibility requirements. To be eligible for a reverse mortgage;

- You must be at least age 62.
- You must own your home outright or have a low remaining balance on your mortgage.
- The home must be your primary residence.
- You must meet financial obligations (i.e., you must be able to pay taxes, insurance and home maintenance costs).
- You cannot have past due federal debts (like taxes or student loans).
- You must get counseling from a HUD-approved agency like Credit.org prior to the reverse mortgage.

Some kinds of homes do not qualify for a reverse mortgage:

- Vacation homes are ineligible.
- Income-producing properties (like farms) are not eligible.
- Homes that are not in good condition will not qualify until repairs are made.

Different kinds of Reverse Mortgages

There are 3 main types of reverse mortgages: Single-Purpose, Proprietary, and Home Equity Conversion Mortgages known as HECM.

- Single-Purpose: This kind of reverse mortgage can only be used for a specific expense, like property taxes or home repairs. They are not available everywhere, and are the least expensive reverse mortgages.

- Proprietary: These reverse mortgages are available through private lenders; they are not as heavily regulated as HECMs, and are not federally insured.

- HECM: A home equity conversion mortgage is federally insured by the Federal Housing Administration (FHA), and offer the most flexible options for accessing your home’s equity.

HECMs are by far the most common type of reverse mortgage, and will be the focus of our Reverse Mortgage Academy.

Loan Structure

The loan amount is calculated based on the age of the youngest borrower, the appraised value of the home, current interest rates, and the current FHA lending limit.

If these terms sound confusing, don't worry. Mortgage professionals will do these calculations for you, and your required HECM counseling session will be able to answer any questions you have. The important thing to understand is that the reverse mortgage is designed to give you the right amount of money—you will get as much equity as possible out of the property while being able to remain in the house for as long as you live.

Payment options:

- Lump Sum: you receive the entire amount all at once.
- Monthly Payments: you receive a steady amount of income every month. This can be for a set period of time or for as long as you remain in the home.
- Line of Credit: You can have access to a pool of funds which accumulates over time, while you use what you need.
- Combination: You can get both monthly payments and a line of credit.

HECMs are flexible in how they disburse the borrowed funds to you. Most retirees use them to guarantee a steady monthly income, but as you can see, the exact payment structure is up to you and the lender.

Repayment

The loan becomes due when the borrower passes away, sells or moves out of the home, or fails to pay their obligations, such as property tax or home insurance.

If the home is not worth the outstanding balance of the loan, FHA insurance covers the difference, so you do not have to pay back more than the home is worth.

Benefits and Risks

There are many obvious benefits to a reverse mortgage:

- Supplemental retirement income: You get a steady stream of income that you can use for any purpose. You no longer have to make monthly payments, and you do not have to sell your home.
- Flexibility: you can get the money paid out to you in various different ways, depending on your situation.
- Reduced housing expenses: you don't have to make a monthly mortgage payment, which is the largest part of a typical family's housing expenses. You are still responsible for taxes, insurance and home maintenance.
- A roof over your head: you maintain your lifestyle while living in your home.
- No-recourse: A HECM is a "non-recourse loan", meaning you don't have to pay back more money if the home's value doesn't cover the cost of the loan. That means it's always possible at the end of a HECM loan to surrender the property itself without having to make a monetary payment to settle the loan.

Disadvantages of a HECM loan include:

- Cost: reverse mortgages can be expensive. There are high upfront fees, including origination fees, mortgage insurance premiums, closing costs… the total can add up to thousands of dollars. You may be able to finance these costs with the loan itself, but that will reduce the amount you receive.

- Lost home equity: as the loan balance grows, you have less equity in your home over time. Paying off a home mortgage means building wealth over time; a reverse mortgage is cashing out that wealth-building, reducing your overall net worth.

- Financial obligations: you must be able to pay the property taxes, maintenance and insurance costs, or the loan could be foreclosed upon.

- Complexity: Reverse mortgages are complicated. That is why it is required to get HUD-approved counseling prior to receiving a HECM. If you don’t do your research and proceed carefully, you could be taken advantage of by a predatory lender.

- Eligibility for benefits: the income you derive from a reverse mortgage could impact your eligibility for things like Medicaid or SSI (supplemental security income). You may need extra guidance from a financial advisor to ensure your benefits are protected.

Impact on Your Family

A reverse mortgage can have an impact on your heirs that should be considered before getting the loan. You'll definitely want to take this into account as you consider a HECM.

While you live in the home, your family won't be impacted. A reverse mortgage doesn't change who can live with you. But when you pass away or move out, the loan will come due.

If you had a co-borrower on the HECM, they may remain in the home even after you are gone. But others who were not on the loan with you might will have to deal with the loan when it comes due.

Generally, the home is sold and that settles the outstanding loan. If the home is worth more than the amount owed, your heirs would get the extra money. If your heirs want to keep the home itself, then they would have to pay off the reverse mortgage with some other source of funds.

Steps in a Reverse Mortgage

1. Research
    a. Learn about reverse mortgages and find a HUD-approved counselor. It's important to start with counseling first, but take time to be sure your counselor is qualified to help you.
2. Obtain HECM counseling **(You Are Here)**
    a. Complete your required counseling with a HUD-approved counselor. S/he will help you understand the risks, options, and the full reverse mortgage process. You'll also learn about alternatives to reverse mortgages so you're sure you're making the right choice.
3. Choose a lender
    a. Only after your counseling session should you choose an FHA-approved lender. Compare different lenders and consider their fees & interest rates along with the lender's reputation before making your final decision.
4. Submit an application
    a. You'll undergo a home appraisal and submit your financial information to determine if your property is eligible and to arrive at a loan amount.
5. Closing
    a. You sign the final loan agreement and arrange for funds to be disbursed according to the payment option you choose.
6. Ongoing obligations
    a. Continue to pay property taxes, insurance and home maintenance as you live in the home.
7. Ending a HECM
    a. When you pass away or move out of the home, the loan is repaid. That often involves selling the home to repay the outstanding amount. Remember, a HECM is a non-recourse loan, so if the home's value doesn't cover the loan, you or your heirs do not have to pay; mortgage insurance will cover the difference.
8. "Six-month rule"
    a. You must remain in the home as your primary residence to get a reverse mortgage. If you reside somewhere else for more than six months in a year, the loan will be due. If you can't reside in the home due to a medical emergency (i.e. you are hospitalized), you may have up to 12 months before the loan is closed.

Avoiding Scams

With any financial transaction that involves your home equity, the stakes are high. Scam operators exist who work to take advantage of senior citizen borrowers.

Common scams:

- House flipping: A scammer may convince you to get a HECM on your current home and take a lump sum disbursement which is used to renovate a second home. This is presented as an investment opportunity, but scammers don’t complete the renovations and make off with the money.
- Foreclosure scams: If you qualify for a reverse mortgage, but are facing foreclosure, scammers may present a HECM as a way to avoid foreclosure. The reverse mortgage incurs high fees and the scammer may steal the proceeds of the reverse mortgage.
- Contractor scams: Phony inspectors try to trick older homeowners into agreeing to expensive, unnecessary repairs. When the homeowner can’t afford the, the contractor suggests a reverse mortgage to pay for the work.
- Equity scams: A team of scammers, maybe involving an appraiser, loan officer, and even attorneys will collude to get a fraudulent appraisal that is higher than the home’s true value. They handle every aspect of the loan and steal the proceeds in the process.
- Veteran scams: There are no current reverse mortgage products designed for veterans or offered by the VA. Some lenders will target veterans by implying they offer a special reverse mortgage for vets. Even if they’re a legitimate lender, they are marketing dishonestly and should be regarded with suspicion.
- Family fraud: Some elderly homeowners are victims of fraud from their own relatives. A family member might encourage a homeowner to get a reverse mortgage or sign power of attorney to let a family member get a HECM in the homeowner’s name.

Warning signs of fraud:

- Anyone says it’s “free money”. Reverse mortgages aren’t free money with no obligations. The loan does have to be repaid, it’s just usually done by selling the home after you pass away. But anyone who isn’t honest about your obligations as a borrower shouldn’t be trusted.

- High-pressure tactics. If a lender insists you make a decision quickly, and tells you that they are the only option, then be skeptical.

- Skipping HUD-approved counseling. A reverse mortgage must start with a HUD-approved counseling session. This should be a counseling agency that is separate from the lender. Any reverse mortgage that doesn’t start with this counseling is likely a scam. The process of getting a HECM should start with counseling; you should not choose a lender until after that step is complete.

Avoiding scams:

- Do your research and make sure your housing counselor is approved by HUD to provide reverse mortgage counseling.
- Verify your lender is reputable; check their reputation through HUD and the Better Business Bureau.
- Don’t rush the process. There is a reason you are legally required to get counseling before you sign any loan agreements.
- If you’re facing foreclosure, talk to a HUD-approved housing counselor about all of your options before settling on a reverse mortgage.
- Don’t respond to unsolicited ads or sales pitches from contractors or lenders. A reverse mortgage should be your idea, and you should consider why you need it and whom you’ll get it from after getting the counseling required by HUD.

Alternatives to Reverse Mortgages

If you are considering a HECM, consider any other alternatives available to you:

- Refinance—refinance your mortgage and cash out some equity. Or get a 2nd mortgage. You will be left with a new loan payment to make every month.
- HELOC (Home Equity Line of Credit)—borrow against your home equity and repay the loan with monthly payments. Is less expensive than a reverse mortgage.
- Sell your home—sell your home to realize all of the equity at once, then move into a less expensive property.
- Rent out space—can you take on a tenant, who will pay rent to you every month? If adult children or grandchildren live with you, can they start contributing financially every month?
- Public assistance—look into government programs for seniors.

Final considerations

Once you've learned the ins and outs of reverse mortgages, you'll need to make your decision about whether a reverse mortgage is right for you.
When a reverse mortgage might be a good idea:

- You have a lot of equity built up in your home and not much savings accumulated.
- You're not concerned about leaving a less behind to your heirs when you pass away.
- You need extra income but do not want to move out of your home.

When a reverse mortgage might not be a good idea:

- You want to leave your home to your heirs with its equity intact.
- You plan to move out of the home soon.
- You cannot afford the ongoing costs of homeownership.
- There are other options that that meet your needs better.

Speak to one of our counselors today to explore your options.

Reverse Mortgage Academy

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