



National
Legal
Training
Project
(NLTP)

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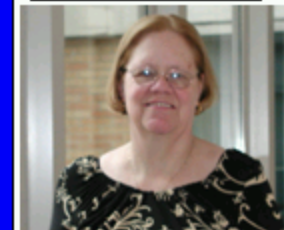
Reverse Mortgage Education Project

Financial Strategies for Low-Income Seniors in
Tough Economic Times



Bronwyn Belling
Presenter

To join the audio portion of this
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Marie L Hubbard
Technical Support



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Slide 1

Before we get started

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- If you are disconnected,
 - Dial in again
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- Questions, seating chart, chat, e-mail Marie
- Technical problems, contact Marie
 - Email: mhubbard@aarp.org
 - Phone: 412-805-8682



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Before we get started

hi

Law Student

Legal Aid Attorney

*legal services developer
attorney*

Carrie wants to say hello to everyone.

Paralegal/Case Investigator

Thanks Zoe

Municipal Agent for the Elderly

*National Program Coordinator
Bronwyn says hi!*

Job title is Service for Aging specialist.

paralegal for seniors

information and assistance specialist

Job title is paralegal (Seniors grant)

hello!

*Hi . I'm Mary and I am a staff attorney
with Legal aid*

Chair of Livable Community for Successful Aging Policy Board

White Board, Profession

<http://www.aarp.org/nltp>

AARP Foundation NLTP

Bronwyn Belling

National Program Coordinator for
Reverse Mortgage Education
Project at AARP Foundation



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Bronwyn Belling

Reverse Mortgages 101



Bronwyn Belling
AARP Foundation Reverse
Mortgage Education Project

National Legal Training Project
June 24, 2008

Reverse Mortgages 101

Disclaimer

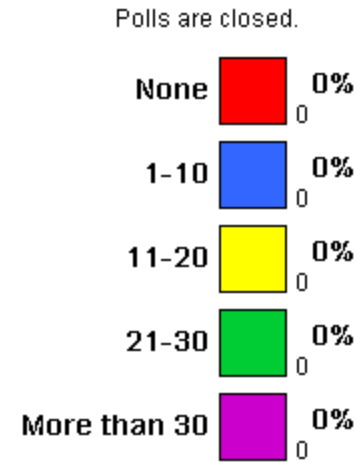
AARP does not endorse any reverse mortgage lender or product but wants consumers to have the information they need to make informed decisions about these loans and other, less costly, alternatives



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Disclaimer

How many of inquiries did you personally receive about reverse mortgages during the past twelve months?



Poll-Inquiries about Reverse Mortgages

Starting in reverse, do you have any questions to ask?

does the mortgage have to be paid off to get a RV? if not, how much

advantages and disad

cost of thr process

Is Pat Boone to be believed?

When is a senior not a good candidate?

will I lose my house?



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Starting in reverse, do you have any questions to ask?

What is a Reverse Mortgage?

- Loan secured by home equity
- Provides cash advances to borrower
- Requires no repayment until the last surviving borrower sells, moves out permanently or dies
- Generally larger advances made to older people in highest valued homes
- Generally non-recourse; that is, borrower cannot owe more than the value of the home
- Title remains with the borrower



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What is a Reverse Mortgage?

Three Types of Reverse Mortgages

- Single Purpose: Home Repairs/Property Taxes
- Federally Insured by HUD = 90%+ of all RMs
HECM: Home Equity Conversion Mortgage
 - Any purpose, any state + DC, VI, PR
 - Largest amounts of cash at lowest relative cost for most borrowers
- Proprietary/Jumbo Plans
 - Higher valued homes can sometimes get more cash but at a higher cost



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Three Types of Reverse Mortgages

Other Forms of Home Equity Conversion

- Property Tax Deferral/Relief
- Deferred Payment Loans for Home Repairs/Improvements
- Sale Leaseback Transactions
- Remainder Interest Plans



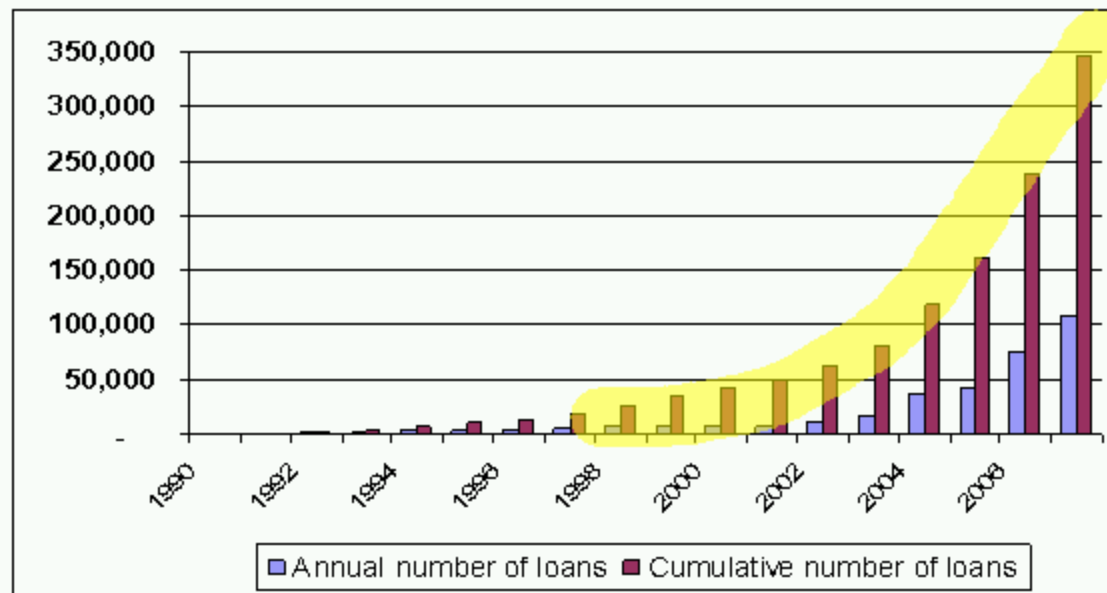
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Other Forms of Home Equity Conversion

Business is Booming

One-third of all loans under the HECM program, 107,000, were made in the most recent year (2007). Two-thirds were made in the most recent three years (2005-07). Nonetheless, only 1% of older households have ever taken out a reverse mortgage.

HECM loans insured by HUD by federal fiscal year from 1990 to 2007



Business is Booming



HECM Eligibility

- **All borrowers 62 years of age or more**
- **Own/occupy 1-4 unit residential property**
- **Most condos and PUDs, no coops**
- **Property must be in good condition***
- **Must pay off any existing mortgages***
- **Can use proceeds for 2 * items above**
- **Independent counseling must be provided by HUD-approved public/nonprofit before application**



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HECM Eligibility

How Much Can a Homeowner Borrow? Based on 3 Factors:

- Age of Youngest Borrower or Joint Life Expectancy of All Borrowers
- Interest Rates (and other Loan Fees)
Rates Fixed or Tied to Index
- Property Value or County Equity Limit
if lower for area (\$200,160 - \$362,790)

Quick Calculator: www.rmaarp.com



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How Much Can a Homeowner Borrow? Based on 3 Factors:

Payment options under the HECM program

- **Term:** Monthly advances for a fixed number of months or years (3%)
- **Tenure:** Monthly advances for as long as the borrower remains in the home (5%)
- **Line of Credit (LOC):** Loan amounts available on demand (78%); Unused balance grows over time
- **Modified Term:** Term + Line of credit (7%)
- **Modified Tenure:** Tenure + Line of credit (7%)



How much can a homeowner get from a reverse mortgage?

| Age of Youngest Borrower | \$ 250,000 Home Tenure | Home LOC | \$ 362,790+ Home Tenure | Home LOC |
|--------------------------|------------------------|------------|-------------------------|------------|
| 65 | \$ 769 | \$ 143,570 | \$ 1,133 | \$ 211,492 |
| 75 | \$ 1,011 | \$ 165,020 | \$ 1,484 | \$ 242,303 |
| 85 | \$ 1,531 | \$ 187,984 | \$ 2,240 | \$ 275,081 |

Assumptions as of 4/2/08: 5.02% Expected Rate, 3.60% Initial Rate, 1.50% margin, + 2% Mtg Ins Premium* + 2% Origination Fee* + \$35 monthly servicing fee; (* x equity limit of \$362,790 or prop. value if less)



How much can a homeowner get from a reverse mortgage?

What does a reverse mortgage cost?

Total non-interest costs on a HECM for a 74-year-old borrower in a \$300,000 home

| Cost Category | Amount |
|--|--------------------|
| Upfront Costs | \$14-15,000 |
| Mortgage insurance premium (MIP) to FHA | \$6,000 |
| Origination fee to lender | \$6,000 |
| Third-party costs (title search, appraisals, etc.) | \$2,000-\$3000 |
| Accumulated monthly costs over the life of the loan | |
| MIP to FHA (0.5% annual rate) | \$10,000 |
| Servicing fee | \$5,000 |
| Total transaction costs over the life of the loan | \$29-30,000 |



What does a reverse mortgage cost?

Characteristics of Reverse Mortgage Borrowers (2007)

- Getting Younger: Age 73.5 (76.5 in 1991)
- More Couples: 37% (28% in 1991)
- Single Females: 45% (57% in 1991)
- Lower Incomes (1/3 less than \$20K and 2/3 less than \$30K)
- Home Values Increasing: Average \$261,900 in 2007 (\$126,400 in 1991)



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Characteristics of Reverse Mortgage Borrowers (2007)

Pending Congressional Legislation

- Increases limits on amounts borrowed.
- Places lower limits on origination fees, especially on high valued homes.
- Repeals incentives to buy LTC insurance.
- Provides a stream of funding for counseling that protects its independence.
- Directs FHA to study lowering mortgage insurance premiums and provide more protections against unfair marketing practices.



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Pending Congressional Legislation

Consumer Protection Concerns

- RMs are very complicated, extremely expensive and difficult to understand
- Using largest asset to borrow some equity = may become a target for financial abuse
- FINRA Advisory re: potential risk of abuse with annuities
- Senate Hearing on Misuse of RM Proceeds -- webcast at <http://aging.senate.gov> (December 2007)
- Subprime meltdown = sales force moving to RM markets?
- Growth of investment seminars and free lunch/dinner marketing program = undue influence/misrepresentation?
- Working more closely with HUD, FTC and other consumer advocates to lodge complaints and request investigations



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Consumer Protection Concerns

Legal Issues

- Public Benefits Jeopardy?
 - SSI and Medicaid Liquid Asset or Resource Limits
- Capacity for counseling done over the telephone?
 - New procedures to help counselors assess reverse mortgage literacy under development at HUD
- Non-recourse loan provisions
- Counseling grants from HUD and new income stream to charge clients for counseling can provide new revenue streams for legal services agencies in a time of diminishing resources.



Importance of Counseling

- Objective and Independent Information
- General Info: Pros, Cons, Approximate Costs
- Learn about alternative less costly programs & services, such as:
 - Home Repair Grants, Property Tax Relief, Weatherization, Medicare Part D, etc.
- Completed before any fees charged by lenders
- No advice or recommendations
- No steering to lenders or products



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Importance of Counseling

5 Questions for Consumers

- **Do you really need a reverse mortgage?** Is anyone trying to sell you anything?
- **Can you afford a reverse mortgage?** These loans are especially expensive if you only plan to live in your home a short time.
- **Can you afford to start using up your home equity now?** If you use your equity early in retirement, will you have resources later on?
- **Do you have less costly options?** Have you considered public benefits? Selling and downsizing?
- **Do you fully understand how these loans work?** Reverse mortgages are expensive loans that result in increasing debt and declining equity over time.





AARP Public Policy Institute Report

Reverse Mortgages: Niche Product or Mainstream Solution

Report on 2006 AARP Survey of Reverse Mortgage Shoppers

www.aarp.org/reversemortgage



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AARP Public Policy Institute Report

Summary Recommendations:

- ***Reverse mortgages (RMs) and LTC:*** RMs should not be used to purchase long-term care insurance. If homeowners need to borrow to pay for such insurance, they aren't good candidates for it. Potential borrowers should explore less expensive alternatives including using other assets, selling the home and moving and public benefit options.
- ***Lowering the Costs:*** Lower origination fee caps; reduce mortgage insurance premiums consistent with actuarial soundness
- ***New reverse mortgage products:*** Reverse Mortgage "Lite" with smaller loan amounts and lower costs, low cost rollover if more funds needed, "reversible" RM with ability to borrow or not as circumstances change during the life span.
- ***Greater Consumer Protections:*** Develop more financial support for counseling and better information sources for consumers.



Consumer Resources

- **Home Made Money, 46-page consumer guide**
Call 1-800-209-8085 for a single free copy;
online 30 web pages at www.aarp.org/revmort
- **Printed Version in English and Spanish**
- **Get independent reverse mortgage counseling**
550 Exam Qualified Counselors in 185
agencies; Online listings and availability at:
www.hecmresources.org/network.cfm
(counseling agencies may now charge clients a
fee for services of up to \$125 based on ability
to pay)



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Consumer Resources

for which seniors are these loans particularly appropriate?

Is it a senior to pay off credit card debts with RM? replacing unsecured debt with secured debt

If you only receive the \$125 if the RM is made it means if you help persons see it not a good deal

➔ What interest, if any, passes to the consumer's heirs/assignees?

ANY QUESTIONS????

*➔ How are consumer debts treated in conjunction with the reverse mortgage - liens?
i.e., liens?*

➔ Since housing values have gone down so much, is this a good time for a RM?

After the RM is repaid, is my home equity reduced by the amount of the loan?

➔ Does the borrower's estate get stuck with repaying the RM?



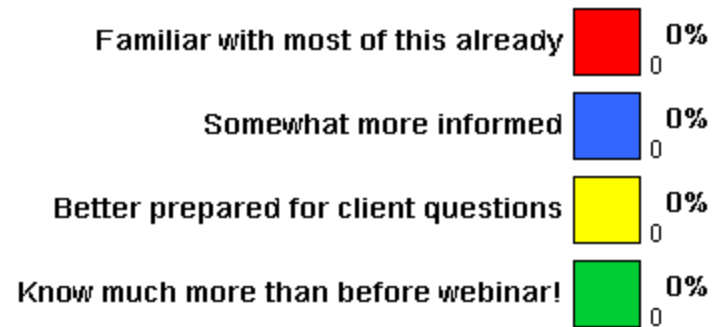
thank you for the information.

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Slide 28

After participating in this presentation, how would you describe your own professional reverse mortgage literacy?

Polls are closed.



[Poll 1]

thank you

A large, 3D, light blue graphic of the words "THANK YOU" in a bold, sans-serif font. The letters are rendered with a slight perspective, giving them a three-dimensional appearance. They are set against a solid black rectangular background.

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Slide 31



Thanks for your time today!
For further information:

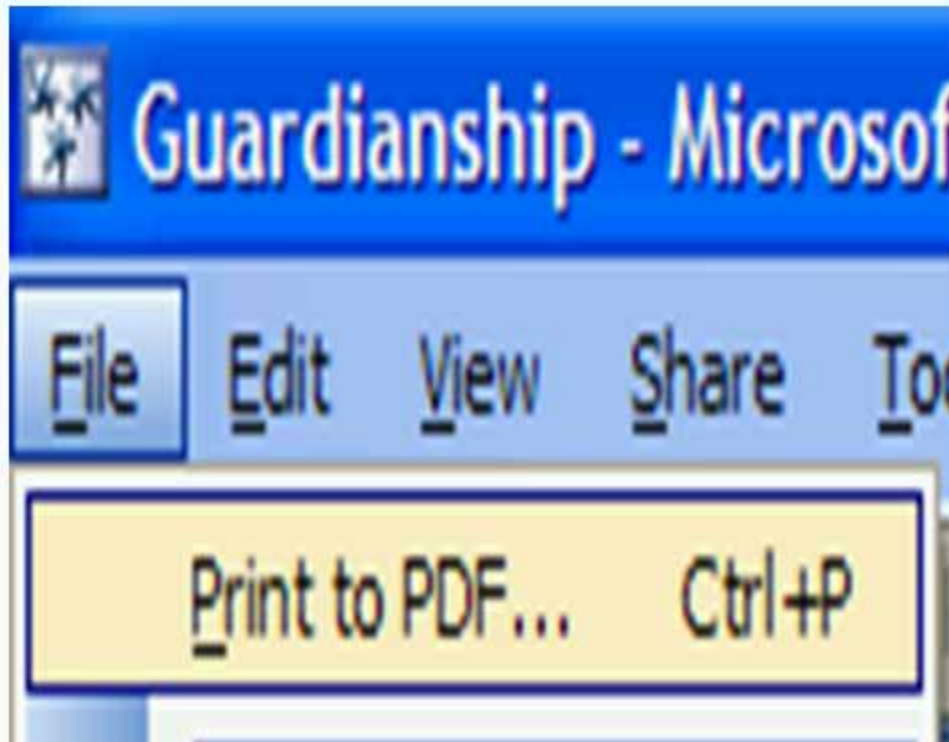
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Email: bbelling@aarp.org**



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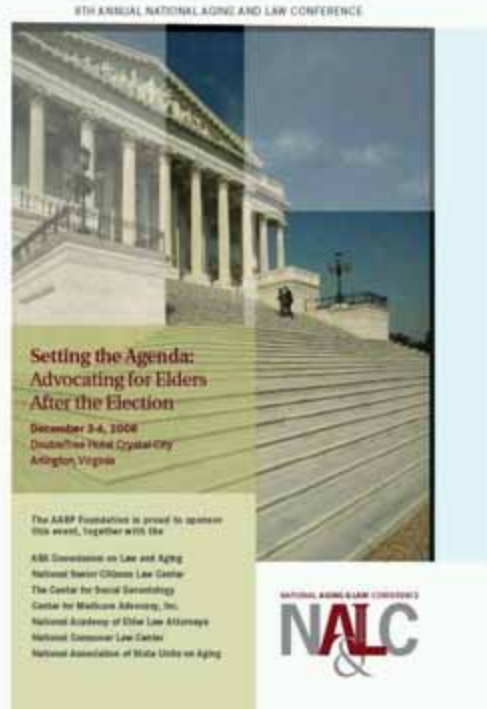


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National Aging and Law Conference (NALC)



- *December 3-6, 2008*
- *DoubleTree Hotel in Arlington, VA*
- www.aarp.org/nltp
- *Registration opens July 1, 2008*



National Aging and Law Conference (NALC)