Section B. Client Needs and Circumstances

Overview

Contents

This section contains the following topics:

1. Understanding a Client's Specific Needs and Circumstances

Change Date	March 18, 2011
PROTCL 5.B.1.a Diverse Needs and Circumstances of Clients	Clients receiving reverse mortgage counseling have diverse needs and circumstances, which counselors must consider when conducting the counseling session. Counselors should • be able to discuss all of the topics in this section, with reference to the clients' specific circumstances, and • use software printouts to walk their clients through their preferred loan examples, as well as other relevant examples.

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

Introduction

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

- eligibility, and
- access to equity.

Change Date

March 18, 2011

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

HECMs loans require that

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

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

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

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

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

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

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

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

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

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

3. Effect of Property Value on Available Equity

Change Date

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

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

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

When counseling a client, the counselor must

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

4. Borrower Income and Investment Requirements

Introduction

This topic contains information on

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

Change Date

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

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

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

When contemplating a reverse mortgage, clients must

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

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

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4. Borrower Income and Investment Requirements, Continued

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

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

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

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

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

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

Change Date

March 18, 2011

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

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

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

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

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

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

Introduction

This topic contains information on

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

Change Date

March 18, 2011

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

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

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

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

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

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

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

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

Introduction

This topic contains information on

- the responsibility of the counselor to assist the client in considering recurring and future expenses
- types of recurring and future expenses, and
- the availability of public benefits to the client.

Change Date

March 18, 2011

PROTCL 5.B.7.a Responsibility of the Counselor to Assist the Client in Considering Recurring and Future Expenses

The counselor must help the client consider

- his/her recurring and future expenses, and
- how the client's current income meets existing and future needs.

Note: The client may use the proceeds from a reverse mortgage for these expenses.

PROTCL 5.B.7.b Types of Recurring and Future Expenses

Recurring expenses include

- property taxes
- hazard insurance
- homeowners association fees, and
- home maintenance.

Future expenses may, among other things, include

- home repairs
- ramps
- grab-bars
- in-home health care or assistance, and
- other medical expenses.

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

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

When counseling a client, the counselor must

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

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

Reference: For more information on public benefits, financial alternatives and supplements for seniors, see HECM Protocol 7.B.9.

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

Change Date March 18, 2011

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

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

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

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

References: For more information on
- payment plan options, see HECM Protocol 5.D.3, and
- principal limits on HECMs, see HECM Protocol 5.D.2.

9. Discussing HECMs for Purchase

Introduction

This topic contains information regarding discussions with clients about HECMs for purchase, including

- required counseling topics for clients interested in a HECM for purchase
- additional required information for clients interested in a HECM for purchase
- counselor cautions to the client interested in a HECM for purchase, and
- counselor reporting of suspected fraud to HUD.

Change Date

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PROTCL 5.B.9.a Required Counseling Topics for Clients Interested in a HECM for Purchase

When counseling a client who is interested in a HECM for purchase, the counselor must discuss the

- role of the real estate professional
- importance of legally binding sales contracts
- importance of home inspections in the buying process
- fact that the ability to write an offer is contingent on a satisfactory home inspection
- policy on including repair expenses in the purchase agreement
- role of the appraisal in the buying process
- expenses associated with properties needing significant repairs
- limited right to cancel the transaction at any time prior to closing, and
- HUD-1, *Settlement Statement*.

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

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9. Discussing HECMs for Purchase, Continued

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

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

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

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

Counselors must caution clients regarding the following:

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

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9. Discussing HECMs for Purchase, Continued

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

Counselors must report suspected fraud to the

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

References: For more information on

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

10. Discussing Purchasing an Annuity With a HECM

Change Date

March 18, 2011

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

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

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

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