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# FEDERALLY INSURED REVERSE MORTGAGES

## FACTS-MYTHS-CONSEQUENCES

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## WHAT IS A REVERSE MORTGAGE?

**A loan to homeowners at least 62 years old, whose amount is primarily based on the owner's age and home value.**

**There are no mandatory monthly payments, and the loan will continue for as long as the owner resides there. The loan + accrued interest are repaid when the owner moves or dies.**

## HOW DOES IT WORK?

- A loan on which no monthly payments are required.
- Loan may be repaid in part or fully at any time with no penalty.
- Money drawn + interest are deferred until last owner moves or dies
- Repayment will never exceed home value (i.e., “non-recourse” loan). No personal liability

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## HOW MUCH IS AVAILABLE?

**TYPICALLY, ABOUT 1/2 TO 2/3  
OF HOME VALUE**

*\*more for older homeowners,  
less for younger*

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## ELIGIBILITY

- **Minimum age, youngest owner: 62**
- **Own and occupy home**
- **Primary residence- 1-4 family**
- **One-four family properties, *FHA-approved* condominiums. Cooperatives not currently eligible**
- **Required repairs may occur after closing**
- **Sufficient Equity: Reverse Mortgage must be first lien**

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## CURRENT ELIGIBILITY CRITERIA NOT DEPENDENT UPON:

- **Income**
- **Assets**
- **Credit score**

\* *Loan is based on collateral (home) value. Since no mandatory payments, there is no income qualifier.*

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## MYTH #1

**Owner/borrower must transfer title to the lender.**

***No. It is a loan...just like a “regular mortgage,”***

***And, as with a regular mortgage, the borrower is expected to: pay property taxes, insurance, and keep the home maintained. Nothing more than their current obligations.***

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## MYTH #2

**A reverse mortgage will disrupt any benefits or tax breaks the owner now receives.**

***No. Loan proceeds are not taxable. Nor will proceeds affect property tax exemptions or Social Security. It should not affect other public assistance support benefits, such as: Medicaid, SSI, food stamps, etc.***

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## MYTH #3

**If a spouse dies, the reverse mortgage will stop... or must be repaid.**

**No.**

***The reverse mortgage continues for as long as an owner/borrower lives in the home, no matter how long that may be. The bank will not take the home or “freeze” credit.***

***This protection does not apply to a non-borrowing spouse***

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## MYTH #4

**The debt will become a family financial obligation.**

- **No.** ***No one else will ever receive a bill or be asked for repayment. Even if the debt becomes more than the home value.***

***However, heirs will be entitled to any remaining equity.***

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## MYTH #5

**Reverse mortgages are expensive.**

***Rates and fees (APR) are similar to regular mortgages and home equity loans, and the overall cost is much more favorable than: credit cards, personal loans and finance company loans. Almost all costs can be financed.***

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## REVERSE MORTGAGE: FIRST LIEN

- **Existing first mortgage liens must be discharged. Subordination not applicable.**
- **Subordinate liens may be re-subordinated**
- **Short pays allowed (lien discharged)**
- **Property taxes/ insurance must be paid current by or at closing**

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## JUDGMENTS

- **Judgment liens against the property must be satisfied or subordinated**
- **Money judgments need not be satisfied**
- **Federal debts (e.g. IRS) do not require full satisfaction... provided an approved repayment plan exists and is not in default.**

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## BANKRUPTCY

- **A satisfied bankruptcy (signed order) is eligible**
- **Chapter 7 may be discharged (signed order) at closing**
- **An active Chapter 13 must receive court approval.**

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## DISBURSEMENT OPTIONS

- **Lump Sum**
- **Line of Credit**
- **Regular monthly draw**
- **Any combination**

### Draw Programs:

- **Standard:** Adjustable rate only. Greatest proceeds
- **Saver:** Fixed or ARM. Lesser cost. 20% lower proceeds

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## WHO WOULD NOT BE A CANDIDATE FOR A REVERSE MORTGAGE?

- Those who are moving in a year or two.
- Those who would be unable to meet future tax, insurance and maintenance obligations
- Those who wish to give all their equity to their heirs.
- *In most cases*, those who already have mortgages much greater than what they could get on a reverse mortgage.
- Spouse not yet 62. (Additional guidance on this topic later in this presentation)

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## THE ROLE OF THE PARTNER AGENCY

This partnership is a collaborative effort. It is successful because we work to a common goal.

- Provide HomeChex with all available information/ documentation necessary to securing a reverse mortgage
- Communicate with clients regarding expectations, and assist them in completing the process.
- Negotiate with creditor lenders to reach agreeable payoff amount.

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## SCREENING CASE WITH



- *Financial Objective of Case*
- *AGE/ DOB of owners*
- *Property value estimate and address*
- *Liens & amount to satisfy (mortgages, taxes, judgments, etc)*

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## Example #1

- **Situation**
- **Lender: Citizens Bank**
  - Age 79
  - Delinquent - \$100,000 home, repairs needed  
Mortgage payment 70% of monthly income
- **Resolution**
  - Weatherization grant received from local municipality
  - Borrower completed repairs
  - Legal Aid negotiated moderate short pay
  - Reverse Mortgage eliminated the mortgage and corresponding payments

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## Example #2

- **Situation**
- **Lender: Chase (originated with Ameriquest)**
  - Age 69
  - 46 months behind in mortgage payments
  - Principal Balance (\$59k) plus arrears (\$43k) = total owed to Chase \$104,000
- **Resolution**
  - Empire Justice/HomeChex negotiated a \$ 28,000 “short pay”
  - Reverse Mortgage proceeds paid off the remaining balance.

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## Example #3

- **Situation**
- **Lender: M&T Bank**
  - Aged 64 and 60; Divorce in process
  - \$205,000 home with a balance of \$65,000 remaining on mortgage debt (client had equity)
  - Delinquent Mortgage payments resulting in foreclosure action
- **Resolution (deed transfer)**
  - Deed home to husband, husband applies for RM
  - RM pays off existing mortgage, foreclosure fees, plus 2 additional creditor judgments
  - All joint credit cards also paid in full with proceeds
  - Residual cash to wife, property to husband

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## Example #4

- **Situation**
- **Lender: Chase, B of A**
  - Age 62
  - \$350,000 home value
  - Client inherited home subject to 1<sup>st</sup> and 2<sup>nd</sup> mortgages. Unable to maintain payments.
- **Resolution**
  - Reverse mortgage proceeds combined with NY Times Grant retire both mortgages in full.
  - Legal Aid attorney assists in obtaining NY Times Grant, and resolution of several title issues.
  - Client's son also provided closing cost assistance

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## Closing Costs What to Look For

- Closing costs will vary by provider, and reduce the cash made available to the homeowner. The RESPA mandated GFE itemizing fees must be provided at application
- Any increase or additional fees must meet the RESPA definition of a Valid Change Circumstance (for example a higher appraised value) and must be disclosed
- Providers may charge an origination fee, but no additional points
- Providers May Not charge Shared Equity or Shared Appreciation fees
- Although allowed, clients should seek a reverse mortgage provider which is not assessing servicing fees

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## Prohibitions: Referral Fees Other Financial Products

The FHA specifically prohibits the payment of a *referral fee* to an estate planning firm or any other third party. Clients must attest writing at the time of application to the absence of any such fee.

Estate Planning Firms and Financial Planners may be compensated for the actual services they perform.

A directory of FHA Approved and Licensed Reverse Mortgage Lenders may be accessed at [www.hud.gov/ll/code/llslcrit.cfm](http://www.hud.gov/ll/code/llslcrit.cfm) at no charge

The FHA also prohibits Reverse Mortgage Providers from offering *any other financial products, including annuities*, to the client.

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## Pending Reverse Mortgage Litigation

**Robert Bennett, et al., vs. Shaun Donovan HUD 703F.3d 582;2013 U.S. App. Lexis 213**

The right of a Non-Borrowing Spouse to assume a FHA reverse mortgage closed solely in the name of a now deceased spouse

**Chandler vs. Wells Fargo (U. S. Dist CT ND Cal)**

The right of an heir to purchase the property of a now deceased reverse mortgage recipient for the lesser of the loan balance or current market value.

FHA Mortgagee Letter 2008-38, its subsequent rescission in Mortgage Letter 2011-16. The status of cases in the interim period

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## Contact Information

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