Reverse Mortgages

For Sharon Adult Center September 13, 2018

Homeowner Options for Massachusetts Elders

87 Hale St.

Lowell, MA 01851

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The HOME Program

- 34 year old, private, non-profit charitable organization assisting elders to age in place, if possible
- Educates elders as to programs and benefits that they may be entitled to
- HOME tends to be loan averse, we look at options other than loans first
- HOME has income and asset guidelines – Income of no more than $42,000 if single; $50,000 for a couple; with one property in which the homeowner lives, and assets of no more than $85,000 exclusive of home and vehicles.

Reverse Mortgages types

Federal HECM Program

- Age 62 and over
- Amount of principal available is based on age of younger spouse
- Some condos, mobile homes and manufactured housing ineligible
- PMI at inception of the loan and monthly thereafter

Uninsured – HOME program plan

- Age 60 and over
- Dependent upon lender’s willingness to accept this type of loan and compliance of borrower
- Defined term of loan, and necessity to sell or refinance at end of term
- Can use up to 62% of value at end of term
- Fixed Rate, no more than 10 year term

Reverse Mortgage Types

Federal HECM Program

- Has potential for using all, plus, value of the home
- When funds from the loan run out, can remain in the home, **ONLY IF** taxes and insurance paid current and maintenance addressed
- Options for payouts: Lump Sum, Line of Credit, Tenure, Term Combination

Uninsured – SELOC – HOME program plan

- Can use up to 35% of property value at end of term
- Similar to a traditional HELOC
- MAJOR DIFFERENCES
  - No checkbook
  - Must request draw through HOME, must obtain multiple estimates with licensed, insured contractors

Federal Reverse Mortgage (HECM) options

- Lump Sum – only fixed rate option, severely limits amount available to borrower; no allowance for changing plans
- Line of Credit – adjustable rate, only pay interest on what you draw, most economical way to take funds
- Tenure – a certain amount of money for an indefinite time.
- Term – a certain amount of money for a certain period of time.
- If funds run out from the loan, borrower can remain in the property, **BUT ONLY IF** they can pay taxes, insurance and home maintenance without the Reverse Mortgage funds.

RESTRICTIONS ON HECM PROGRAM

- After the Insurance fund was depleted as a result of the Great Recession, Congress tasked HUD with making changes to the HECM Program
- In 2014, the Reverse Mortgage program became more credit based, and if there were defaults of taxes, insurance, consumer credit and/or mortgage loans within the prior 2 years, then the lender has the right to require an upfront escrow for taxes and insurance for a period of time
- In October, 2017, the principal limit (amount you could borrow) was reduced and the upfront MI was increased to 2% at beginning of loan. MI is at .50% per month after the loan closes
- First Year's draw is restricted to 60% of the Principal Limit or the amount necessary to pay off expenses, plus 10%

IMPACT OF CHANGES

- Less principal limit available for the elder’s use
- Higher up front costs
- Borrowers that could previously have squeezed in under the old regulations are either severely restricted in what they can borrow or eliminated from eligibility all together.
- If a repair escrow and Life Expectancy Set Aside (LESA) is required, loan very well may not be possible
- If amount of debt to be paid off is too large, then loan may not be possible

Be Aware

- Any reverse mortgage is expensive because the interest compounds monthly on the outstanding balance
- With a HECM, there is interest AND Mortgage Insurance accruing monthly
- If a borrower has had recent defaults in payment of taxes and insurance, a good sized sum of money will be escrowed, thereby reducing the amount immediately available to the borrower
- HECM defaults are most prevalent where the borrower has utilized a Lump Sum, and runs out of money for taxes
- If there are home repairs needed as determined by the appraiser, there may be an escrow held up front for those repairs.

Be aware (2)

- Lenders/servicers are not required to work out a payment plan, if the borrower is in arrears of taxes and insurance after the loan funds
- Lenders/servicers will religiously check on the tax payments, so if you are late in payments or have previously worked out an arrangement for partial payments with the tax collector, you will not be able to continue with a delayed payment arrangement
- The closing costs on a HECM loan are $10-15,000 which includes the origination fee, PMI and legal and related title costs.
- A HECM will not allow you to take advantage of tax deferrals or any loan (home repair) program requiring a security in the property because the HECM has the potential to use all of the equity in the property.

General Observations

- A Reverse Mortgage is not the right answer for every person.
- Elders should look into other programs and benefits to determine whether those programs would serve them better than a reverse mortgage – like SNAP, LIHEAP, home modification loans, real estate tax Exemptions & Deferrals, Massachusetts Circuit Breaker Tax Credit, elder utility discounts, weatherization programs. Individually, they may not solve the problem, but in combination they may be effective, without a huge commitment of equity.
- The longer someone has a HECM, the cheaper the closing costs become. It is an expensive loan if you plan on remaining in your home only a couple of years.
- Research and educate yourself about all the options before you decide on a course of action. This is a complicated program and you should not make a hasty decision that may not be best in the long run.

How to Reach the HOME Program

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Thank you for your time and attention!