

# **Reverse Mortgage Basics For Real Estate Agents**

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## Reverse Mortgages For Realtors

Why should Real Estate Agents be interested in Reverse Mortgages?

As Trusted Advisors and experts on real estate matters, the public relies on real estate agents for advice. The greater the knowledge base, the more proficient the agent. Professional agents get more referrals as acknowledged experts.

The population is aging; successful agents will have to deal with greater numbers of Seniors and elder issues.

Reverse Mortgages are the most regulated mortgage and the most misunderstood loan product in the country.

### Reverse Mortgage Basics

A Reverse Mortgage is a special loan designed for Seniors, aged 62 and older, that allows eligible homeowners to borrow money without having to make any payments until they sell or pass the home onto their estate. With a Reverse Mortgage, the Bank pays the Borrowers versus the Borrowers paying the Bank.

With a traditional forward mortgage, all the money is borrowed at closing and there is little to no equity in the property. The Borrower makes monthly payments and with standard mortgages, they pay down their balance over time.

With a Reverse Mortgage, the money is borrowed over time. The Borrowers start with a great deal of equity, which generally decreases over time. The Borrowers make no payments at all until they vacate the property or pass it on to their estate.

### Qualifying for a Reverse Mortgage

Unlike traditional mortgages, one does not need good credit or income to qualify for a Reverse Mortgage.

To be eligible for a Reverse Mortgage borrowers must meet the following qualifications:

- Everyone on the title of the home must be 62 years old or older.
- There is little to no mortgage on the property.
- The home is the primary residence.
- The home is in good condition.
- The home is a single family; two to four family; condo; or townhouse. Some manufactured homes also qualify.

# Reverse Mortgage Loan Program Choices

There are three main Reverse Mortgage Programs:

## **Home Equity Conversation Mortgage (HECM) Reverse Mortgage**

The Home Equity Conversation Mortgage or HECM, is the most popular Reverse Mortgage program, accounting for over 95% of Reverse Mortgages. Available since 1989, it is the only government insured program through the Federal Housing Administration (FHA), a part of the U.S. Department of Housing and Urban Development (HUD).

How much can be borrowed is determined by their age, the property's value, and location of the property. The HECM generally provides larger loan amounts than the Home Keeper.

As part of the closing costs, the HECM includes a 2% up-front mortgage insurance premium plus a monthly premium thereafter paid to HUD. The insurance premium guarantees that if the loan servicer goes out of business, etc., the U.S. government will make the payments.

The Cons of the HECM are: higher closing costs due to the government insurance and loan limits.

The Pros of the HECM are: higher loan amounts, 2 to 4 family property eligibility, government guaranties through mortgage insurance, lower rates.

## **Fannie Mae Home Keeper Reverse Mortgage**

The Home Keeper Reverse Mortgage is a government sponsored program but is not government insured. The Home Keeper can have higher loan amounts than the HECM for homeowners with high property values. The Home Keeper also allows for purchases of new homes.

The Cons of the Home Keeper are: higher rates than the HECM, single family and condominium properties only, generally lower loan amounts than the HECM, and no government insurance.

The Pros of the Home Keeper are: lower closing costs than the HECM due to a lack of mortgage insurance, higher loan limits that can have higher loan amounts for some high value properties, and purchases can be made on single and condominium properties.

## **Financial Freedom Cash Account Plan**

The Cash Account Reverse Mortgage has virtually no loan limit and is used by homeowners that have substantial home equity.

The Cons of the Cash Account are: only two payment plans - credit line and lump sum and higher rates than the HECM and Home Keeper.

The Pros of the Cash Account are: low to no closing costs and very high loan amounts for very expensive homes.

## Reverse Mortgage Payment Choices

The payment choices are options on how Borrowers can receive their money, not payments they have to make to the Bank. Borrowers do not make any payment to the Bank until they permanently leave their home.

The payment choices vary between Reverse Mortgage programs, but basically they are:

### **Lump Sum Payment**

Lump sum is the money they receive at closing. They can receive part or their entire loan amount at closing. The questions in deciding what they wish to receive at closing include:

- Do they need a large sum of money for home improvements?
- Do they need a large sum of money to pay off debts?
- Do they need a large sum of money to buy a second home?
- Do they need a large sum of money to give as a gift?

### **Tenure Payment Plan**

The Tenure payment plan is a monthly payment for as long as they live in their home. The questions in deciding what they wish as a tenure payment include:

- Do they want or need extra monthly income for as long as they remain in their home?
- Do they hope to remain in their home for life?
- Are regular, long-term monthly payments more important to them than the highest possible monthly payment they can receive?

### **Term Payment Plan**

The Term payment plan is monthly payments for a time period the Borrowers choose. By limiting the time period they are receiving their payments, the Borrowers can increase the amount of the payments versus the tenure payment plan, which is for life. They make no payment to the Bank after the term expires until they leave their home. The questions to ask if a term payment plan is for them include:

- Do they need extra monthly income for a fixed period of time?
- Do they plan to sell their home and move to other housing at a future time?
- Do they wish to receive the highest possible monthly loan payment?

### **Line of Credit**

A Line of Credit plan is similar to a traditional equity line. The Borrowers pull money from the line when they need it. The difference is that with a traditional equity line, they need to make payments to the Bank every month. Most traditional equity lines also have credit and income qualifications the Borrowers need to meet to be eligible. With a Reverse Mortgage Line of Credit the Borrowers make no payment to the Bank until they permanently leave their home.

A Line of Credit is perfect for an emergency fund in case they need a new roof or medical care. The Borrowers can also convert their line of credit into a monthly payment plan, should they need regular monthly income in the future.

The questions in deciding about a line of credit include:

- Would they prefer to request a loan advance when they need money rather than receive monthly payments?
- Does their income vary significantly from month to month?
- Do they need extra money from time to time for property taxes or vacations?
- Do they worry about their ability to pay for emergency and unexpected expenses such as health care or home repairs?

## Combination of Payment Plans

The Home Equity Conversation Mortgage (HECM) and Home Keeper Mortgage programs allow the Borrowers to combine these plans.

Thus, the Borrowers can take some money at closing, have a monthly payment, and have a credit line for emergencies.

Borrowers can also modify their plan after closing for \$20.

## Reverse Mortgage Myths

Most of what the public knows about Reverse Mortgages is false. These are the most common Reverse Mortgage Myths so you can correct the misunderstandings:

**Myth #1 – The Bank Owns Your Home.** This is the most common misconception. The Borrowers own their home and keep title as long as they own their home, just as they did or are still doing with their traditional mortgage. Once they permanently move out of their home or pass it on to their estate, the loan must be repaid. A Reverse Mortgage needs to be paid when a property is sold. The Borrowers keep the net proceeds from the sale of the property just as they normally would with any real estate sale. The Bank never wants to own their home.

**Myth #2 – You Must Own Your Home “Free and Clear” to Qualify For a Reverse Mortgage.** The Borrowers need to have equity in their home as it is the equity they are borrowing against. One of the benefits of a Reverse Mortgage is that it can be used to payoff their current mortgage so they can live payment free. Borrowers can even use a Reverse Mortgage to purchase a home with a large down payment and live mortgage free.

**Myth #3 – You Won’t Qualify Because of Poor Credit.** A Reverse Mortgage works differently than a traditional mortgage. As the Borrowers do not make any payments as long as they live in their home, their credit history is not important. Borrowers can even use a Reverse Mortgage to pay off a bankruptcy or get out of foreclosure and save their home. More Seniors find themselves in desperate finances than you may think; as fixed income has not been increasing nearly as fast as the cost of health care, electricity, property taxes, home insurance, car insurance, etc., has been rising.

**Myth #4 – Only Desperate People Get Reverse Mortgages Who Are “House Rich and Cash Poor”.** Years ago, before the Federal Government developed and regulated Reverse Mortgages, this may have been true. Today’s Reverse Mortgage programs are an excellent financial planning tool that is used by Seniors from all walks of life to enhance their lives. While some Borrowers need cash, others have no immediate needs and use Reverse Mortgages to plan for their future with home improvements; second home purchases; long-term care planning; and as a financial cushion for the unplanned events. No more worrying about money.

**Myth #5 – You Don't Have The Income To Qualify for a Reverse Mortgage.** Reverse Mortgages work the opposite of traditional mortgages and give Seniors income versus using their income to make mortgage payments. Traditional mortgages require that Borrowers have the income to qualify for the loan, as they must make monthly mortgage payments to the Bank to pay the loan back. As Borrowers do not make any mortgage payments with a Reverse Mortgage until they leave their home, they do not need income to qualify. With a Reverse Mortgage, the Bank pays them versus the Borrowers paying the Bank.

**Myth #6 – A Reverse Mortgage Is Only Good If You Are Going To Move Out In a Few Years.** If the Seniors do not plan on staying in their home for several years, they should think about selling their home now versus getting a Reverse Mortgage. The longer they stay in their home, the more beneficial a Reverse Mortgage is for them and the cheaper its costs. A Reverse Mortgage is not a good solution to a short-term financial problem.

**Myth #7 – You Will Not Have An Estate Left For Your Heirs After The Reverse Mortgage Is Paid Off.** This situation is almost impossible. The formula used to calculate the Reverse Mortgage loan amount the Borrowers qualify for was developed by and with the Federal Government, and is very conservative to insure that this doesn't happen. Many Borrowers that first worry about a Reverse Mortgage taking all the equity in their home, later wish they could get more money once they understand the conservative figures. However, these formulas are as a protection for the Seniors and the Bank. As Reverse Mortgages are non-recourse loans, they can never owe more than the value of the property.

**Myth #8 – If You Owe More Than Your House Is Worth, Your Children Have To Pay It Off For You.** Reverse Mortgages are non-recourse loans as a protection measure for both Borrowers and their heirs. Unlike traditional mortgages, where the balance is owed regardless of the value of the home, Borrowers and their heirs are never responsible for more than the value of the home no matter how much they owe. The chance that the balance of a Reverse Mortgage will exceed their home value is very unlikely. There would need to be a drastic reduction in property values for this to occur.

**Myth #9 – Once You Use Up Your Equity, They Cut Your Payments Off.** It is unlikely that their loan balance will be more than the value of the property. Even if the loan balance is more than the value of the home, the Bank must continue to make payments to them with the government insured Reverse Mortgage programs. If the Borrowers live to be 150 years old, or the property became worthless, the Bank is still required to keep making payments to them as long as they live in their home.

**Myth #10 – The Bank Makes Money By Taking The Appreciation In The Value of The Home.** The loan balance is what the Borrowers or their heirs owe and nothing more. Years ago, before Reverse Mortgages were heavily regulated, many private equity lenders deceitfully had appreciation clauses, in which the lender also took a percentage of the appreciation of the home in addition to the balance owed. These lenders were really a silent partner in the home. Some of these dishonest lenders even took title to Seniors' homes and gave them Life Estates. This is not the case with the safeguards of today's government regulated Reverse Mortgage programs. These bad situations of the past are the cause of many misunderstandings about Reverse Mortgages.

# The Process of Getting a Reverse Mortgage

Like any mortgage, a Reverse Mortgage involves a number of steps. A Reverse Mortgage takes longer to complete than a traditional mortgage due to the regulations designed to protect Seniors.

We suggest the Borrowers meet with a Reverse Mortgage Specialists before going to Counseling. Counseling is product specific, and if they take Counseling for a different loan product then the one they choose, the Borrowers will have to do it again.

## **1. Initial Conversation with a Reverse Mortgage Specialist**

First, we like to have a conversation with the Seniors to establish if a Reverse Mortgage is right for them or if another option may be better suited. We talk about their situation, plans, and goals, how much money they may receive, etc. The Reverse Mortgage Specialist will answer any questions they may have.

If Borrowers would like to proceed, we will schedule an appointment in their home and inform them of what documents they will need.

## **2. Application Meeting with a Reverse Mortgage Specialist**

During this meeting we will discuss how Reverse Mortgages work, their figures, the process, Counseling, how the loan is paid off, etc. All the Borrowers questions and concerns will be addressed. If the Borrowers have any advisors, we will also forward the Borrowers information to them as well.

If the Borrowers decide to continue, their application will be taken. This does not commit them to getting the loan. It is preferable to apply as Mortgage Trust Group has their information on file to answer any questions that they or their advisors may have. On the HECM program there is loan amount protection for about 3 months from the application date. Any increase in the rates while they decide would decrease their loan amount, it is therefore beneficial to sign an application, without commitment, as soon as possible.

The Borrowers can change their mind or change their payment plan at anytime until closing.

The Borrowers will be given copies of all application documents as well as brochures, copies of the proposed notes, mortgage, and figures, for them and their advisors to study.

## **3. Counseling**

The Borrowers will be given a list of Counselors during the application meeting. Counseling is mandatory as a protection for Seniors. Counseling is given by approved third parties to confirm that the Borrowers know the facts about Reverse Mortgages and about any other options.

Counseling is product specific, so they must make sure they take the correct Counseling, or the Borrowers will have to repeat the process.

Counseling is given at no cost and does not commit the Borrowers into getting the loan.

By law, Mortgage Trust Group cannot begin processing the loan until we have the Borrower's original Counseling Certificate in hand.

#### **4. Processing - Appraisal, Title, and Inspections**

Should the Borrowers decide to continue, once we have their original Counseling Certificate in hand we will begin processing the loan.

The Appraiser will contact them to schedule a walk through their house to determine its value, if any repairs are necessary to meet loan guidelines and if a termite inspection is required.

A title examination will be ordered as well all processing to prepare their loan for underwriting.

#### **5. Underwriting**

Once the loan application package is complete it will be underwritten to confirm it meets all loan guidelines and regulations.

#### **6. Closing**

Once the loan is finalized and the Borrower's wishes are again confirmed, they will have a closing to sign all the documents. These documents will be recorded after the legal three day recession period.

At closing the Borrowers can elect to have their payments directly deposited in their checking or savings account. If not, the payment checks will be mailed to them. They can elect to have their payments directly deposited at any time in the future.

### **When Does a Reverse Mortgage Come Due?**

Basically a Reverse Mortgage comes due when:

- The last surviving borrower permanently leaves the home.
- The home is allowed to deteriorate and they fail to correct the problem.
- All borrowers permanently move to a new principal residence.
- The last surviving borrower fails to live in the home for 12 consecutive months.
- The Borrowers fail to pay property taxes or hazard insurance and do not correct the situation.

The Bank never wants to foreclose. At the time of application, the Borrowers are required to provide two individuals as Alternative Contacts. Should there be any problem and the Bank cannot get ahold of the Borrowers; the Bank will contact one of the Alternative Contacts to help resolve the problem. This is another protection measure for Seniors.

### **Listing a Property with a Reverse Mortgage**

Listing a property with a Reverse Mortgage is no different then listing any property with a traditional mortgage.

If the property has been transferred to the Borrower's estate, any monthly payments will stop, but the interest, and therefore the loan balance will continue to increase until it is paid off.

As long as the estate shows they are actively working to sell the property, for example listing the subject with a real estate agent, they will be given the time to market the property.

# Using Reverse Mortgages for Purchases

The Home Keeper Reverse Mortgage program can be used for purchasing a one unit property.

A Reverse Mortgage is normally used when Borrowers are downsizing. For example, the borrowers sell their current home, using the proceeds for a sizable down payment and a Reverse Mortgage for the difference.

Monthly payments and or credit lines can be part of the financing structure based on the borrowers qualifications.

## Other Facts to Show Your Knowledge

### **The Interest Rates on a Reverse Mortgage**

The interest rate varies by the Reverse Mortgage loan program. Unlike traditional mortgages, the rates on Reverse Mortgages are limited by the federal government. There are no fixed interest rate options currently on Reverse Mortgages, since there is not a fixed period for when the loan is due. On traditional mortgages, a 20 or 30 year loan comes due in 20 or 30 years. A Reverse Mortgage loan continues as long as the Borrowers live in their home. For example, if the Borrower is 62 and ends up living in their home until they are 85 years old, it is a 23 year loan. If they live there until they are 95 years old, it is a 33 year loan. If they live there until they are 105 years old it is a 43 year loan. As the term is not fixed, a fixed rate for an unfixed period cannot be determined.

HUD has been trying to figure out a method to offer a fix rate for several years.

Adjustable rates are based on an index and a margin. The index + the margin = the rate.

The indexes for the various Reverse Mortgage program options include:

- The 1 Year U.S. Treasury Rate
- 1 month Certificate of Deposit Secondary Market Rate
- The LIBOR (London Inter-Bank Overnight Rate)

### **Reverse Mortgage Closing Costs**

Another misunderstanding is that Reverse Mortgages are very expensive. The closing costs are similar to traditional mortgages. However, with a traditional mortgage all the money is borrowed at closing. With a Reverse Mortgage the money is borrowed over time. Therefore at the time of closing, the costs can seem very high in relation to the amount borrowed at that time. Over time, the costs become cheaper and cheaper as a percentage of what has been borrowed.

### **Servicing Fees and the Service Set-Aside**

All mortgages have servicing fees that are charged for servicing the loan. These servicing fees are buried in the rate of traditional mortgages. With Reverse Mortgages the government sets the interest rate, and servicing fees are charged independently.

The Servicing Set-Aside is funds from the loan, set-aside towards the monthly servicing fee. Servicing fees vary from \$35 to \$20 a month depending on the loan program.

## Life Estates and Trusts

Reverse Mortgages are the only loans that allow the Borrowers to closing with a Life Estate or a Trust.

Life Estates or a Trust are highly recommended to protect the equity in the home from the State should the Borrowers require Medicaid.

The Cost Reduction Act of 2005 extended the "look back" period on real property transfers from 3 years to 5 years.

Medicaid will not force the sale of a Senior's home, but the State will put a lien on the property for the benefits received.

A Life Estate or Trust can protect the Senior's home equity.

## What If I Wish To Get Reverse Mortgage Figures For Someone?

You can call or email me, email works best, the following information and I will email or fax the figures back to you:

- 1) Their Name
- 2) Their Address with Zip Code
- 3) The Type of Home – Condo, Single Family, etc.
- 4) Their Birth Date
- 5) The amount of any liens on the property
- 6) A short description of the issues, so I understand how to best structure the loan to meet their needs. For example - needs this amount a month in income, needs so much for home improvement, needs to pay-off so much in credit cards, etc.

I will forward the figures and recommendations back to you for your review.

**NOTE:** The above information applies to the Reverse Mortgage programs that Mortgage Trust Group offers. The regulations of several States allow for Reverse Mortgage/Equity programs that differ greatly from the above government sponsored and insured programs. Caution and legal advice is highly suggested for those other reverse equity programs.

The Reverse Mortgage programs Mortgage Trust Group offers have the following safeguards to protect Seniors:

- Mandatory Advance Counseling, to ensure that they understand fully about Reverse Mortgages and any other options, so they can select the option that best fits their needs.
- Government Limits on interest rates and loan fees.
- A ceiling on the repayment amount – it can never exceed the value of their home.
- Federally mandated consumer disclosures.