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Educating Seniors on Reverse Mortgages

By Dr. Linda Eagle

Reverse mortgages have quickly become a popular, safe and easy way to increase the retirement income of senior citizens. However, many senior customers are reluctant to approach their banks about these mortgages due to bad reputation these loans have received as a result of the hidden costs and complicated terminology associated with these lending products.

Since most people are unfamiliar with real estate terms, it is essential that banks provide seniors and their families with information about reverse mortgages in a manner that is clear and easy to comprehend. All customers should enter their loan originator's office knowing exactly what they want and feel satisfied about the choices they make about their financial futures. Therefore, it is essential that a customer interested in a reverse mortgage completely understands the pros and cons of taking one on. In order to help their customers make appropriate lending decisions, all banks should properly and continuously train their staff to identify and meet the individual financial needs of their senior customers.

How a Reverse Mortgage Works

Reverse mortgages are special types of home loans that allow customers to convert a portion of the equity of their homes into cash. The equity that builds up over years of home mortgage payments can be paid to the customer. Unlike second mortgages or traditional home equity loans, no repayment is required until the borrower no longer uses the home as their chief residence.

The U.S. Department of Housing and Urban Development's (HUD's) Federal Housing Administration (FHA) established one of the first reverse mortgages, called the Home Equity Conversion Mortgage (HECM).¹ The HECM is a secure and sound plan that grants seniors enhanced financial security and allows customers to withdraw a portion of the equity in their homes. Many seniors use HECMs to cover unanticipated medical expenses, complement their social security and make home improvements, as well as meet other financial needs.

Banks can educate seniors about the way a reverse mortgage works by training their employees to explain that with a reverse mortgage, seniors are borrowing money that they would have earned had they sold their homes. For most seniors, this concept may sound a bit far-fetched, especially if they have been

¹ US Department of Housing and Urban Development. "Top Ten Things to Know if You're Interested in a Reverse Mortgage," [<http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm>], February 2009.

paying a lender for most of their lives. This is why it vital to have a banking staff that is trained to answer any type of questions customers may have.

Clarifying Reverse Mortgage Myths

Even though seniors are able to reap many benefits from a reverse mortgage, it still must be paid back, just like with any other loan. Many seniors believe that a reverse mortgage is like free money in their pockets. It is the responsibility of the bank to educate its senior customers and make them realize that although reverse mortgages come with many great benefits; these loans are certainly not free money.

Like any other loan, there are still fees involved, such as those paid to the loan originator and the appraiser, in addition to recording fees. Interest must also be paid on the loan, which is typically the same amount of interest that is paid on traditional mortgages. Since reverse mortgages can be costly to repay, it is important that the bank makes it clear to customers that these types of loans should not be used to pay off small debt.

Another common myth is that reverse mortgages are direct value-to-dollar loans when they really are not. Customers must realize that the bank is not going to lend them the actual value of their home; rather, what the bank lends is a percentage of that value, based on age, location and interest rates. The bank should never allow customers to leave the bank believing that they are going to receive the exact value of their home through a reverse mortgage.

Selecting Ideal Candidates

Even though a bank may encounter a senior customer who has owned his/her own home for 40 years, this does not automatically make this customer an ideal candidate for a reverse mortgage. The only way to determine if a customer would make an ideal candidate is to talk with the customer and to examine his/her finances, income and credit history. Training will allow the bank's lenders to hit on all of the key points they should ask customers, such as:

- *“Are you at least 62 years old and own your own home?”*
- *“Do you plan to be in your home for at least five years?”*
- *“Are you fully comfortable with the terms of the loan?”*

Customers are able to quickly pick up on whether the bank staff or lender they are speaking with is completely knowledgeable about reverse mortgages. If a customer detects any uncertainty in an employee's voice or feels that the staff was not able to sufficiently answer his/her questions or concerns, s/he is likely to choose another mortgage provider.

Choosing a Reverse Mortgage

When it comes to choosing a reverse mortgage, many seniors go with the HECM due to its accessibility. The HECM is offered in every state, along with the Financial Freedom Cash Account Plan, which is designed specifically for seniors with substantial home equity or higher-valued homes. And, while the HECM remains the most popular reverse mortgage choice, there are three other basic types of reverse

mortgages that banks should also make their customers aware of. They are:

- **FHA-insured.**

FHA-insured reverse mortgages consist of a monthly payment amount plus a line of credit.² Like other reverse mortgages, the mortgage amount is not due as long as the customer lives in his/her home.

- **Lender-insured.**

Lender-insured reverse mortgages are insured by the lender and usually offer a monthly payment amount or a monthly payment plus a line of credit. The interest the customer pays may be charged at a fixed or adjustable rate and additional loan costs can include mortgage insurance premiums and other fees.

- **Uninsured.**

Uninsured reverse mortgages are very different from the other two types since they provide monthly payment amounts for a fixed term only- a specific number of years that the customer selects when s/he first takes out the mortgage. The customer's loan balances become payable and due when the payments cease. For the most part, interest is set at a fixed rate and no mortgage insurance premium is required.

In order to help senior customers choose the right reverse mortgage, bank employees must be trained to ask customers about the amount of money they need monthly, how many years they will need this money, how they will repay the loan when it becomes due and how much remaining equity they will need after paying off the mortgage.

Efficiently trained bank employees will be able to help seniors choose the reverse mortgage that is best while laying out all of the options in a straightforward and easy-to-understand manner. The bank must always keep the needs, wants, goals and financial plans of its customers at the forefront of its practices. Once customers are able to clearly see what each mortgage has to offer by evaluating the benefits and features of each loan, they will be happy with the bank's expertise and thus, feel comfortable enough to move forward with a decision.

The Future of Reverse Mortgages

The HUD is estimating \$30 billion in reverse mortgages for the fiscal year 2010. It has requested a \$798 million financial backing for the FHA's reverse mortgage program, making it the first time that HUD has requested such support. HUD is estimating that 121,000 loans will be endorsed under the FHA's home equity conversion mortgage in the fiscal year 2010.³ The HECM Reverse Mortgage Guarantee Program credit subsidy rate is particularly responsive to the speculations for future house price appreciation due to the loans' extended average tenure in addition to the rising outstanding balances that build up during the life of the loans.

The HECM funding rate reflects a significant change from previous years since the economic estimates for the fiscal year 2010 budget forecast considerably lower house price growth in the upcoming years. Additionally, the FHA has made various improvements in the HECM credit funding cash flow model

² US Department of Housing and Urban Development. "FHA Reverse Mortgages (HECMs) for Consumers," [<http://www.hud.gov/offices/hsg/sfh/hecm/hecmabou.cfm>], January 2009.

³ Moeller, Philip Moeller. "The New Rules of Reverse Mortgages," [<http://www.usnews.com/money/blogs/the-best-life/2009/02/09/the-new-rules-of-reverse-mortgages>], February 2009.

during 2009 that provides greater sensitivity to program and economic variables.⁴ Due to the projected increase in popularity of these loans, it is more important than ever that lenders are properly educated on the latest developments in reverse mortgages.

Reverse mortgage training should be a continuous, hands-on process that is instituted by a well-known and accredited training provider with a solid history of successfully educating lenders on the reverse mortgage process. Customers are very astute when it comes to determining whether a lender is well-trained and is therefore considered trustworthy enough to handle this important step in their lives.

Final Word

Reverse mortgages are complex and so selling them involves working closely with senior customers to answer their questions and to help them make the right lending decisions. Because the decision to take out a reverse mortgage is a very important step in a senior's life, it is essential that the bank provide ongoing training to its staff so that they may assist their customers in every step of the lending process. When lending to seniors, the bank must empower its employees to help their customers make the right lending choices. By knowing their customers better, employees will be better able to help this important customer base, and ultimately place the bank ahead of the competition.



Dr. Linda Eagle is Founder & President of The Edcomm Group Banker's Academy—a 23-year-old education and consulting firm dedicated to serving Banks, Credit Unions, Money Services Businesses (MSBs) and all areas of the Global Financial Community with thousands of generic and customized training programs in areas such as BSA/AML, Regulatory Compliance, Teller Training, Systems Training, Sales and Service Training, and many more.

The Edcomm Group Banker's Academy is headquartered in New York, NY. For more information, email linda.eagle@edcomm.com or call +1.212.631.9400.

⁴ Reverse Mortgage Daily. "HUD Estimates \$30 Billion in Reverse Mortgages for FY 2010," [<http://reversmortgagedaily.com/2009/06/29/hud-estimates-30-billion-in-reverse-mortgages-for-fy-2010/>], June 2009.