



LOS ANGELES COUNTY  
**CONSUMER &  
BUSINESS AFFAIRS**

Reverse Mortgage



LOS ANGELES COUNTY  
**CONSUMER &  
BUSINESS AFFAIRS**

## Our Mission

*To promote a fair and vibrant marketplace, we serve consumers, businesses, and communities through education, advocacy, and complaint resolution.*

**Serving Los Angeles  
County Consumers and  
Businesses since 1976**

# Foreclosure Prevention Program

- ▶ Chelo Jovellanos, Foreclosure Prevention Counselor
  - ▶ [cjovellanos@dcba.lacounty.gov](mailto:cjovellanos@dcba.lacounty.gov)
- ▶ Ani Davtian, Foreclosure Prevention Counselor
  - ▶ [adavtian@dcba.lacounty.gov](mailto:adavtian@dcba.lacounty.gov)
- ▶ Contact DCBA:
  - [homehelp@dcba.lacounty.gov](mailto:homehelp@dcba.lacounty.gov)
  - [dcba.lacounty.gov](http://dcba.lacounty.gov)
  - (800) 593-8222

# Disclaimer

- ▶ The Department of Consumer and Business Affairs is not a Housing and Urban Development (HUD) approved agency and we are not certified reverse mortgage counselors
- ▶ Please contact a HUD agency near you to get certified reverse mortgage counseling
- ▶ This presentation is for informational purposes only



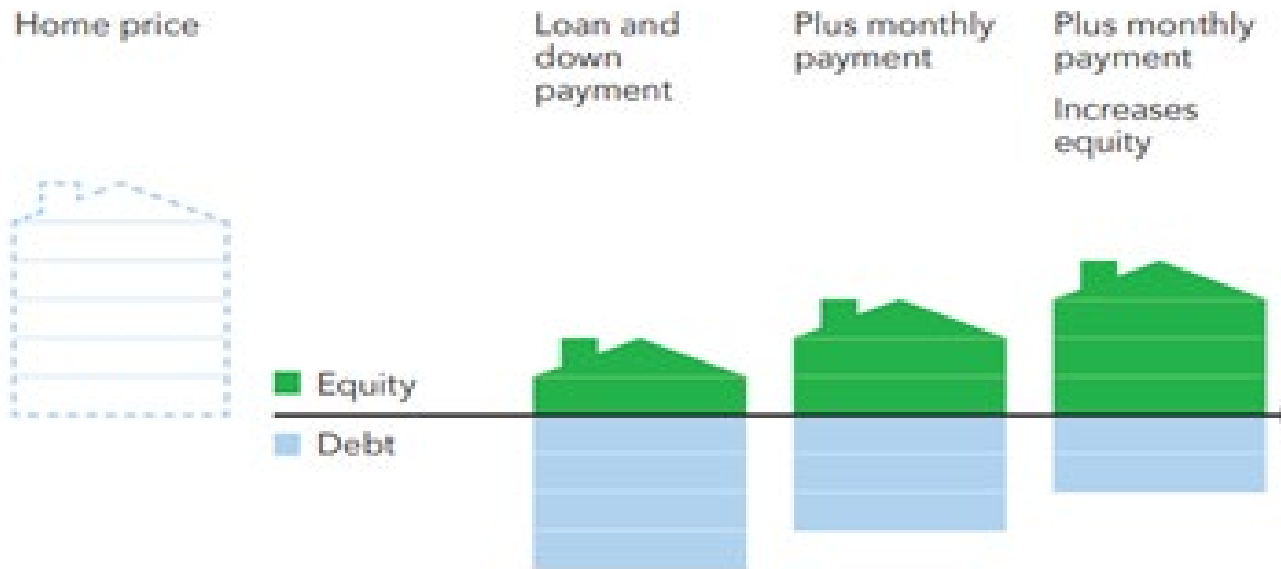
# Agenda

- Traditional vs. Reverse Mortgage
- Requirements/Eligibility For A Reverse Mortgage
- Is Reverse Mortgage Right For You?
- Benefits of a Reverse Mortgage
- Avoiding Reverse Mortgage Scams
- Avoiding Foreclosure In Reverse Mortgage
- Questions



# Traditional vs. Reverse Mortgage

Traditional Mortgage - borrow money to pay for the home at the time of purchase and pay it back over time



# Traditional vs. Reverse Mortgage

Reverse Mortgage - borrow money using your home as a guarantee for the loan.  
Reverse Mortgage is repaid when the borrowers no longer live in the home. Loan balance goes up over time. As loan balance increases, home equity decreases.



# Requirements And Eligibility For A Reverse Mortgage

## Borrower's Eligibility:

- ▶ Homeowners who are 62 years old and older
- ▶ Your home must be your principal residence (live in the house at least half the year)
- ▶ You must either own your home outright or have a low mortgage balance
- ▶ You may not be delinquent on any federal debt such as federal income taxes or student loans
- ▶ You should agree to set aside a portion of the reverse mortgage funds during loan closing or have enough money to pay property charges (taxes, insurance, maintenance costs)
- ▶ You must receive counseling from HUD- approved reverse mortgage counseling agency



Requirements





# Requirements And Eligibility For A Reverse Mortgage

## Financial Assessment of Lenders:

- Income
- Assets
- Debts
- Credit History

## Your Home:

- Must be in good condition
- Must meet HUD standards (HECM) - health and safety, all basic systems work, no damage that would make the house lose value
- If repairs are needed, may have to do some of them before closing

## Responsibilities After Approval

The Borrower must:

- ▶ Live in the house
- ▶ Pay property taxes
- ▶ Maintain their homeowner's insurance
- ▶ Keep the house in good condition
- ▶ Pay required charges (HOA dues, condo fees, etc)
- ▶ Pay closing costs
- ▶ Home repair set-aside if required by lender
- ▶ Other payments required by lender (IRS debts, etc.)
- ▶ Existing Mortgage (pay-off, will be paid by reverse mortgage)

# How will the borrower get the money?

- ▶ **Lump Sum** = All at once (up to limit) - fixed interest rate
- ▶ **Line of Credit** = In the future, when you want it - adjustable interest rate
- ▶ **Monthly (Tenure or Term)** = A small amount each month - adjustable interest rate
  - ▶ Tenure = every month as long as you live in the house
  - ▶ Term = every month for a specific period of time that you choose, like 7 years
- ▶ You get the money from the loan servicer (company that manages the loan)
- ▶ If you use up the money, you can't get anymore but you can still stay in the house

# Benefits of a Reverse Mortgage to Seniors



You remain the owner of your home



There are no monthly mortgage payments required from you



You are protected if the housing market declines



You may choose from several options of disbursement

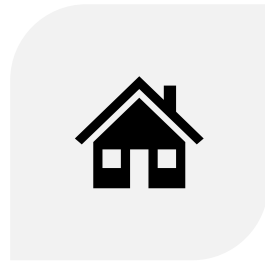


You can use a reverse mortgage to buy a new home (HECM for Purchase)

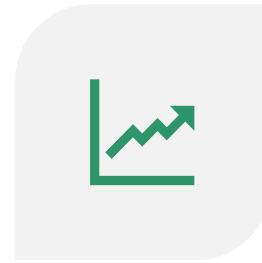
# Benefits of a Reverse Mortgage During a Pandemic



YOU WILL HAVE  
SUPPLEMENTAL  
INCOME



YOU MAY GET  
FORECLOSURE  
PROTECTION



YOU WILL GET LOW  
INTEREST RATES

# HECM for Purchase

- ▶ Types of eligible dwellings under HECM for Purchase:
  - ▶ Single-family homes
  - ▶ 2 to 4-unit homes with one unit occupied by the borrower
  - ▶ Condominiums approved by HUD
  - ▶ FHA-approved manufactured homes

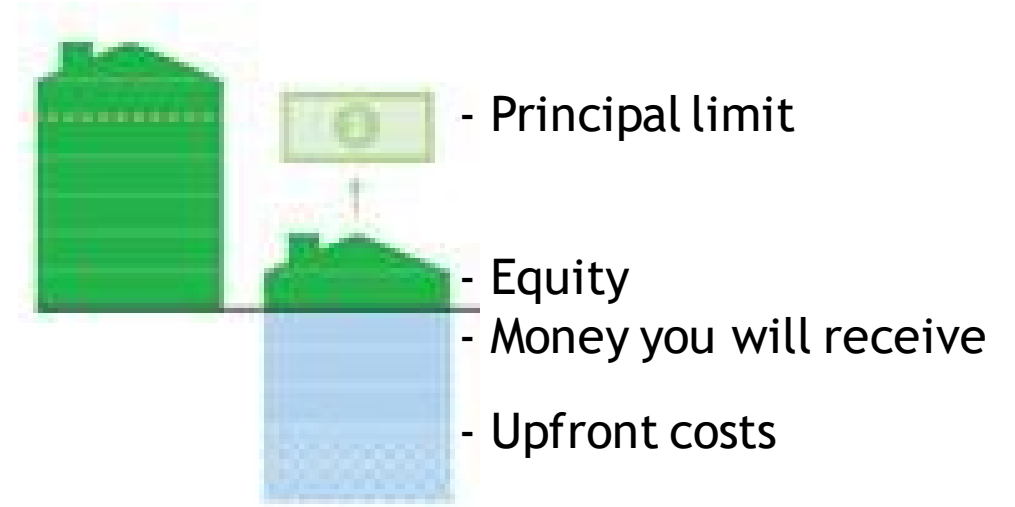
A Reverse Mortgage typically covers 38-71% of the new home's purchase price.

The buyer must come up with the rest from the sale of the former home, from retirement accounts, or gift money and savings.

# Is Reverse Mortgage Right For You?

## Costs

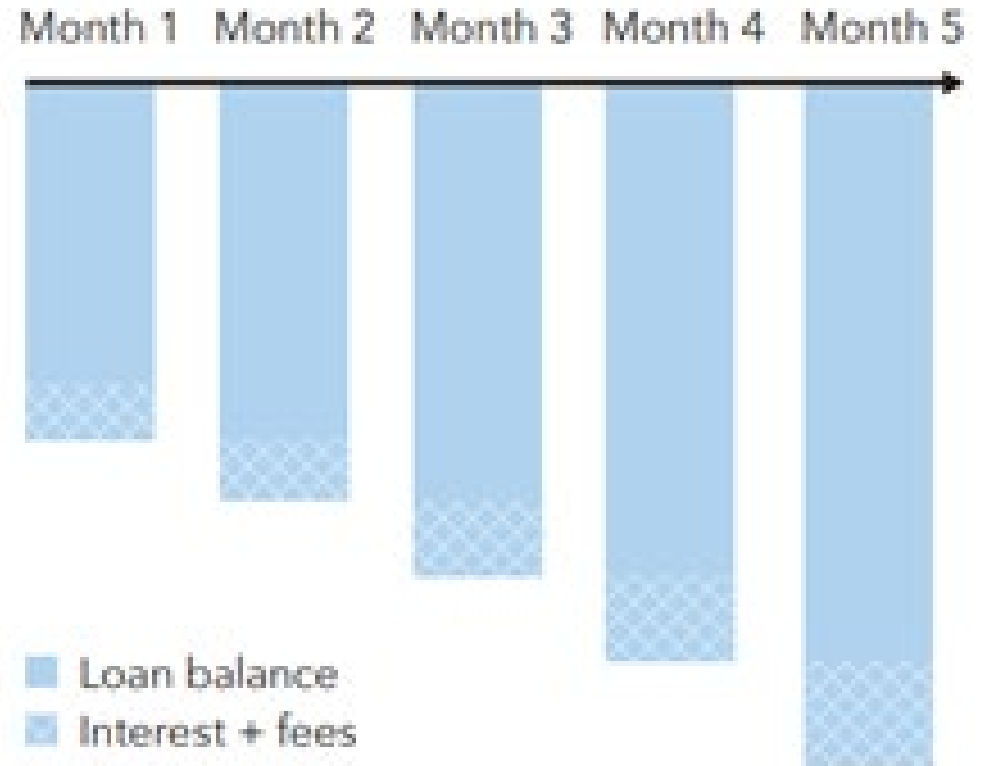
- ▶ Upfront
  - ▶ One-time
  - ▶ Origination fees (cannot exceed \$6000 and paid to lender)
  - ▶ 3<sup>rd</sup> party costs
  - ▶ Initial mortgage insurance premium



# Is Reverse Mortgage Right For You?

## Costs

- ▶ Ongoing
  - ▶ Interest
  - ▶ Servicing fees
  - ▶ Annual mortgage insurance premium (0.5% of the outstanding mortgage balance)
  - ▶ Property Charges

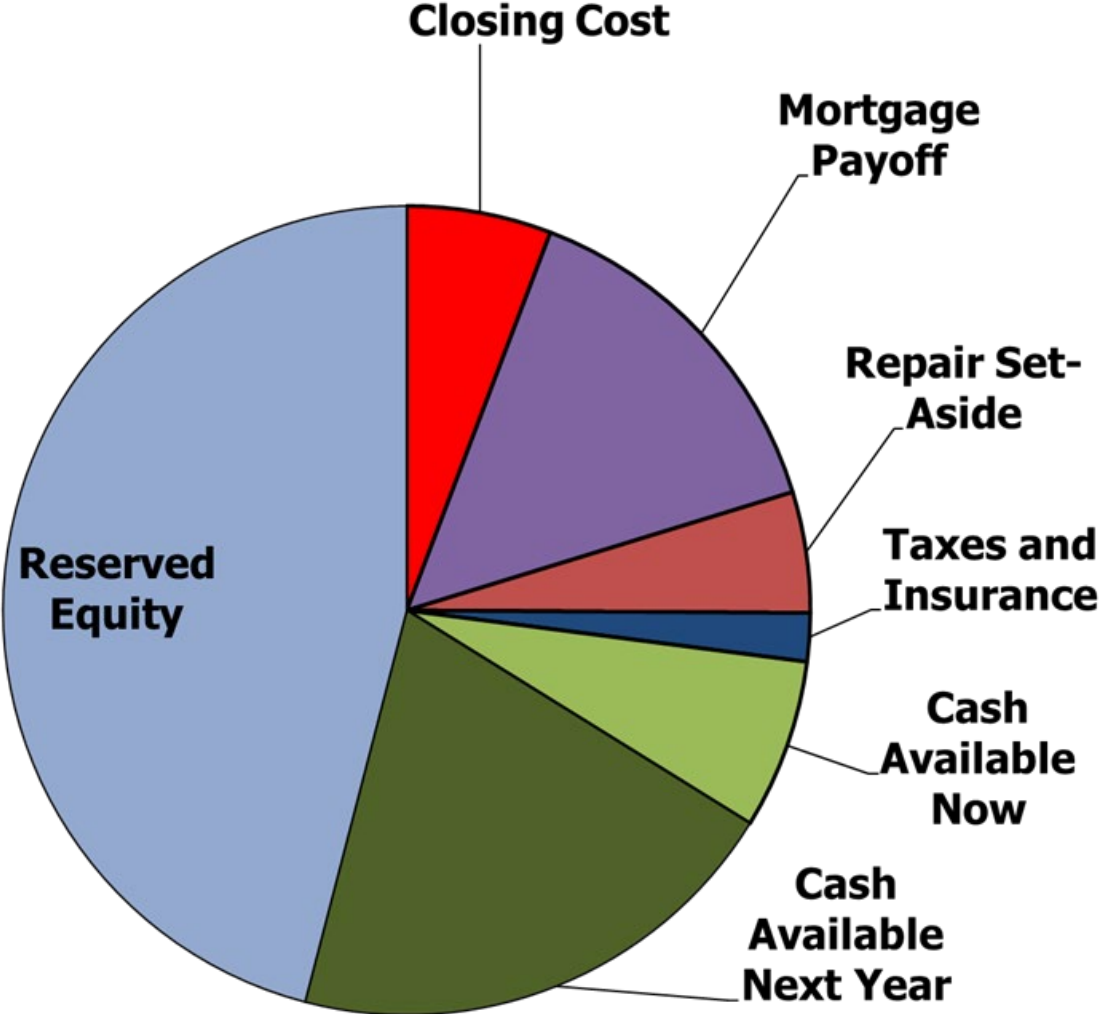




# Is Reverse Mortgage Right for You?

Estimated Closing Costs		
Finance Charges	POC Amount	Estimated Amount
Document preparation		\$175.00
Endorsements		\$50.00
Flood certification		\$12.00
MERS registration		\$11.95
Mortgage Insurance Premium		\$10,000.00
Origination Fee		\$6,000.00
Settlement or closing fee		\$550.00
Other Charges		
Florida Statutory Charge		\$3.28
Appraisal fee	\$550.00	
Credit report		\$50.08
HECM counseling fee	\$125.00	
Intangible tax		\$3,000.00
Lender's title insurance		\$615.00
Notary / Signing		\$200.00
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Recording charges mortgage		\$485.00
State tax/stamps mortgage		\$5,250.00
Tax Cert Fee		\$35.00
Tax Certificate		\$54.00
	\$675.00	\$26,691.31

# Is Reverse Mortgage Right for You?



# Is Reverse Mortgage Right For You?

## Borrowing Limit - Principal Limit

- ▶ Age
- ▶ Interest rate on your loan
- ▶ Value of your home

## Interests:

- ▶ Fixed Rate - currently 3-4%
- ▶ Adjustable Rate - currently 1.8 - 3%

<https://reverse.mortgage/rates>

- ### Lower borrowing limit
- Younger borrowers
  - Higher interest rates
  - Lower-valued homes

- ### Higher borrowing limit
- Older borrowers
  - Lower interest rates
  - Higher-valued homes

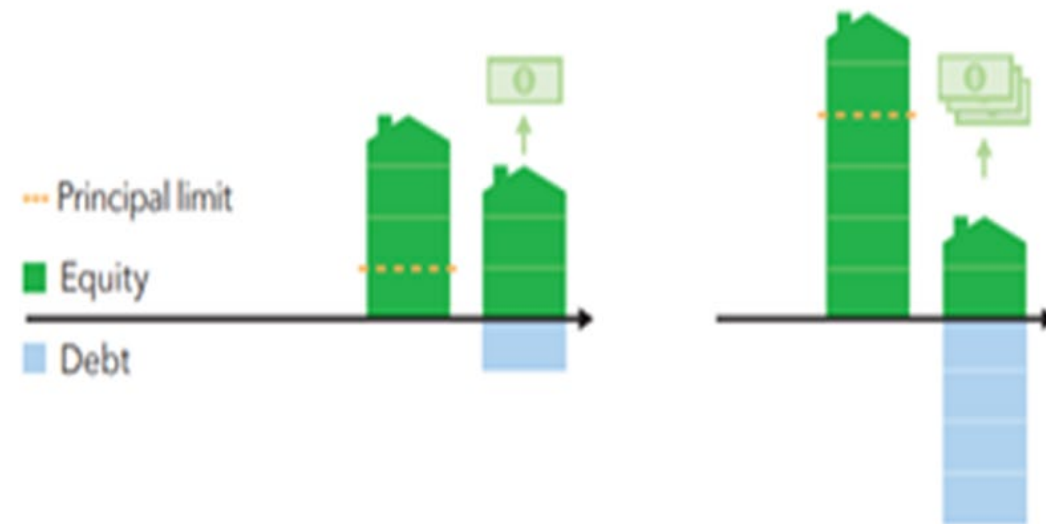


Image Source: CFPB

## If the borrower still has a traditional mortgage

- ▶ Some of the money borrowed from the reverse mortgage will be used to pay off the current mortgage
- ▶ If you still owe a lot of money on the existing mortgage, you might not have enough equity to pay off the current mortgage with a reverse mortgage; therefore, you may be disqualified for getting a reverse mortgage

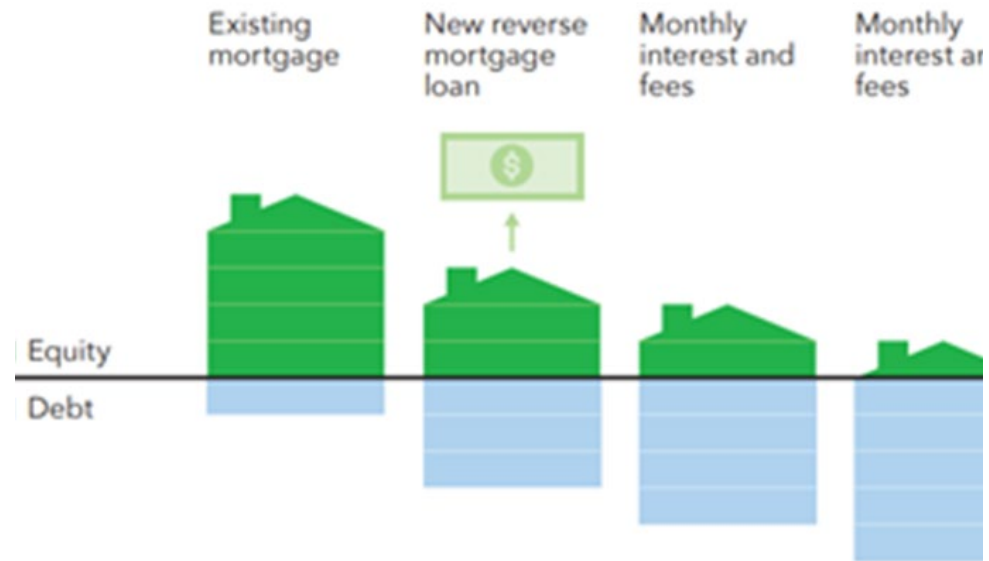
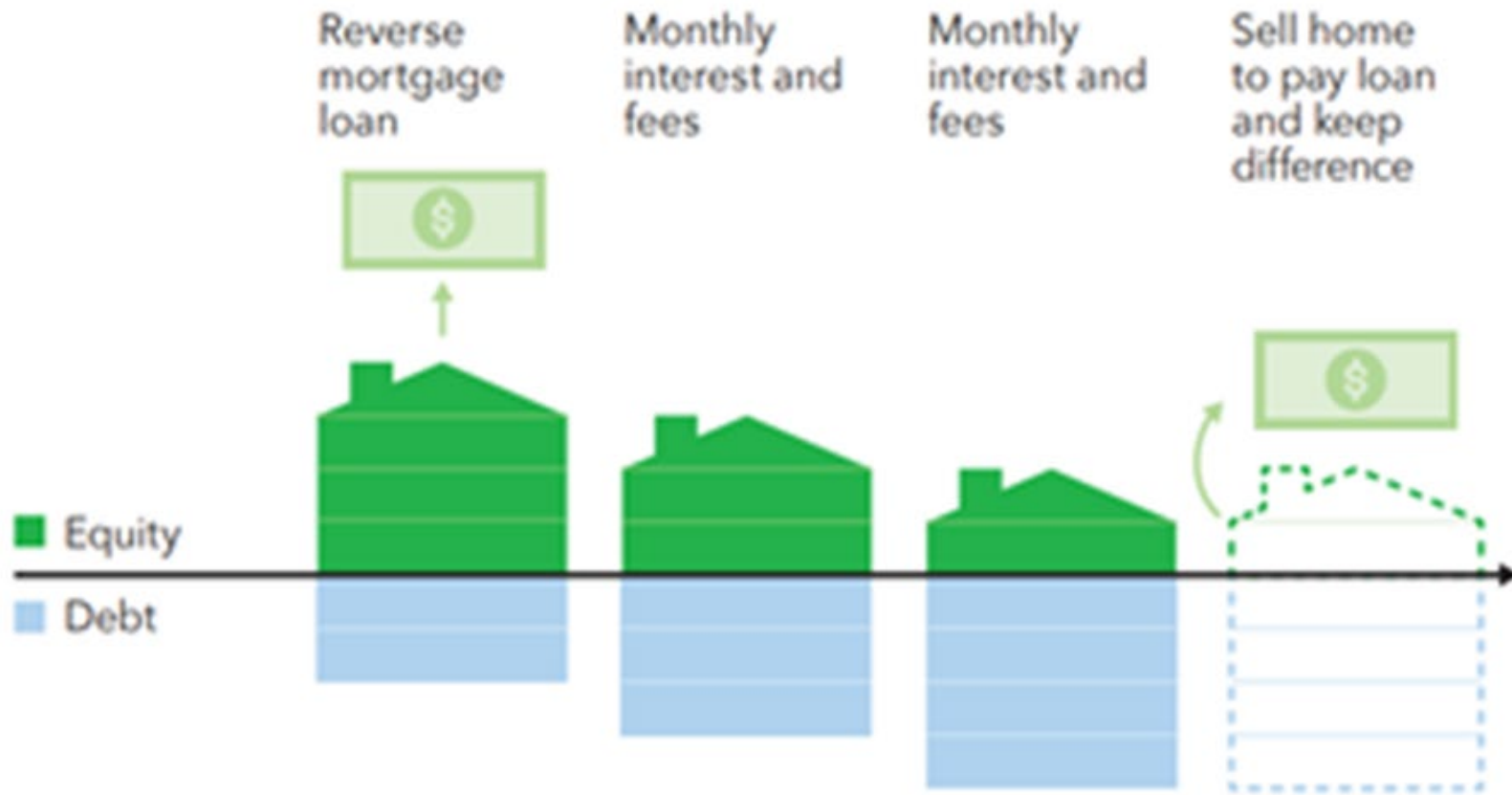
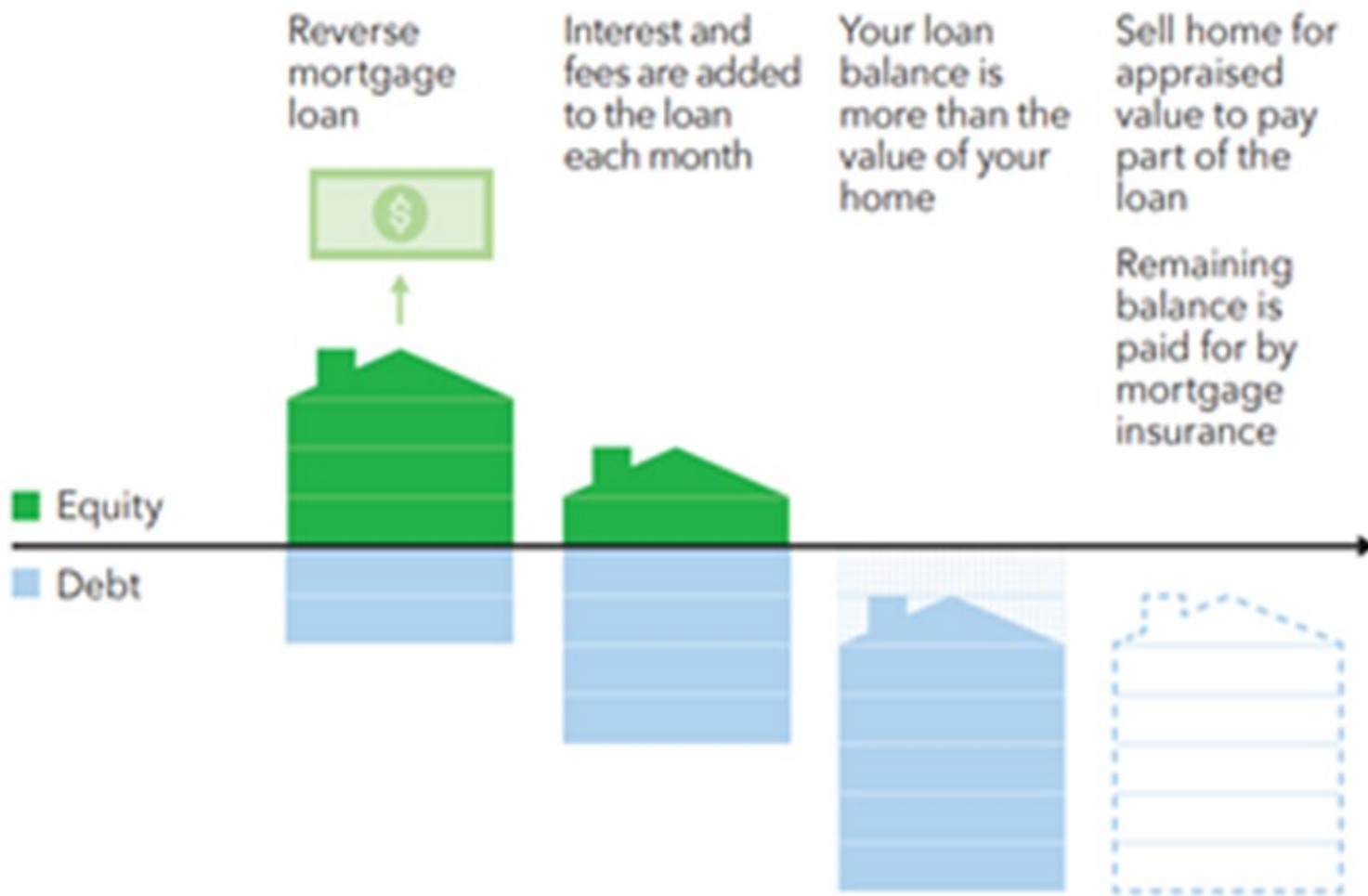


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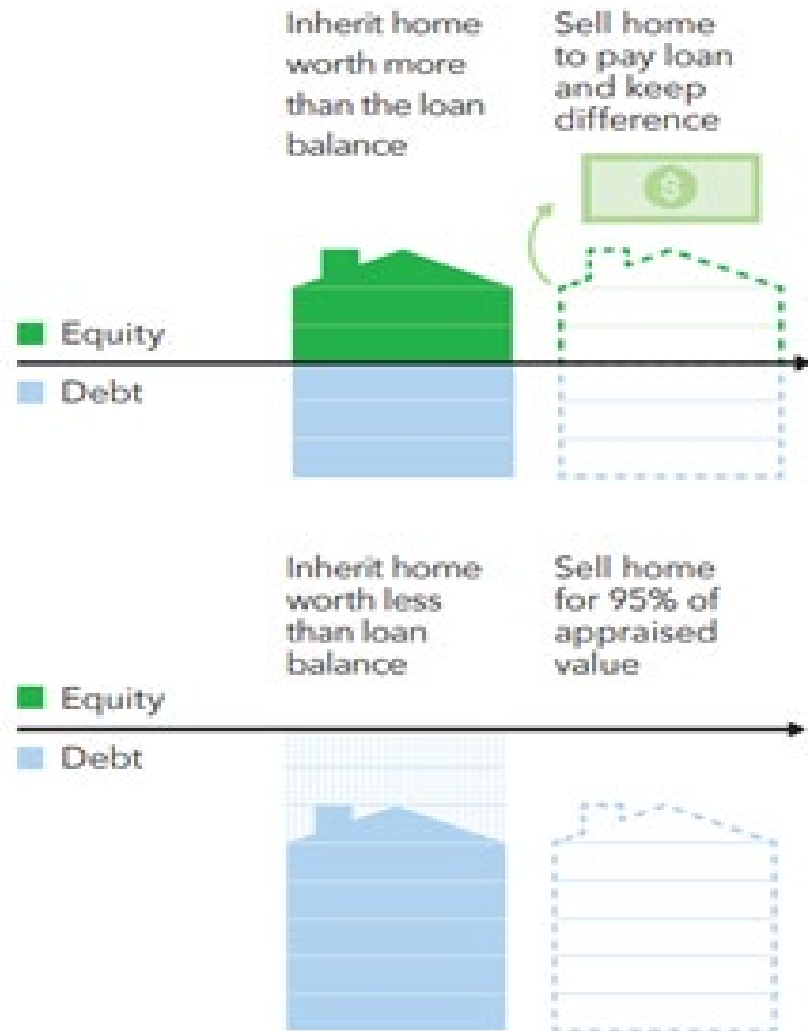
What if the reverse mortgage balance is less than the home value when the borrower wants to sell the home?



# What if the borrower owes more on the reverse mortgage than the worth of the home?



## What happens to the home when the borrower pass away?



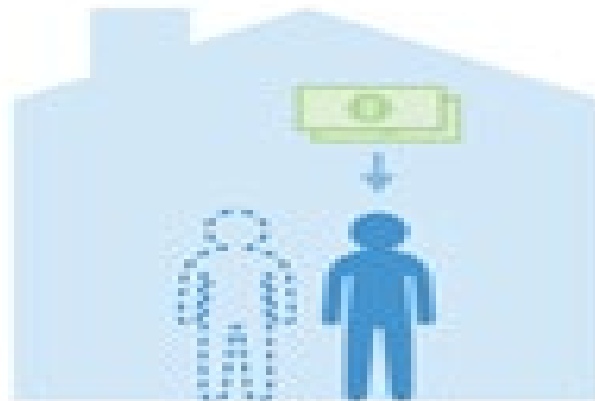
- ▶ How does it work when loan balance is less than the home value?
- ▶ How does it work when the loan balance is more than the home value?

# How can a reverse mortgage affect people living with the borrower?

You and a co-borrower may live in your home with a reverse mortgage

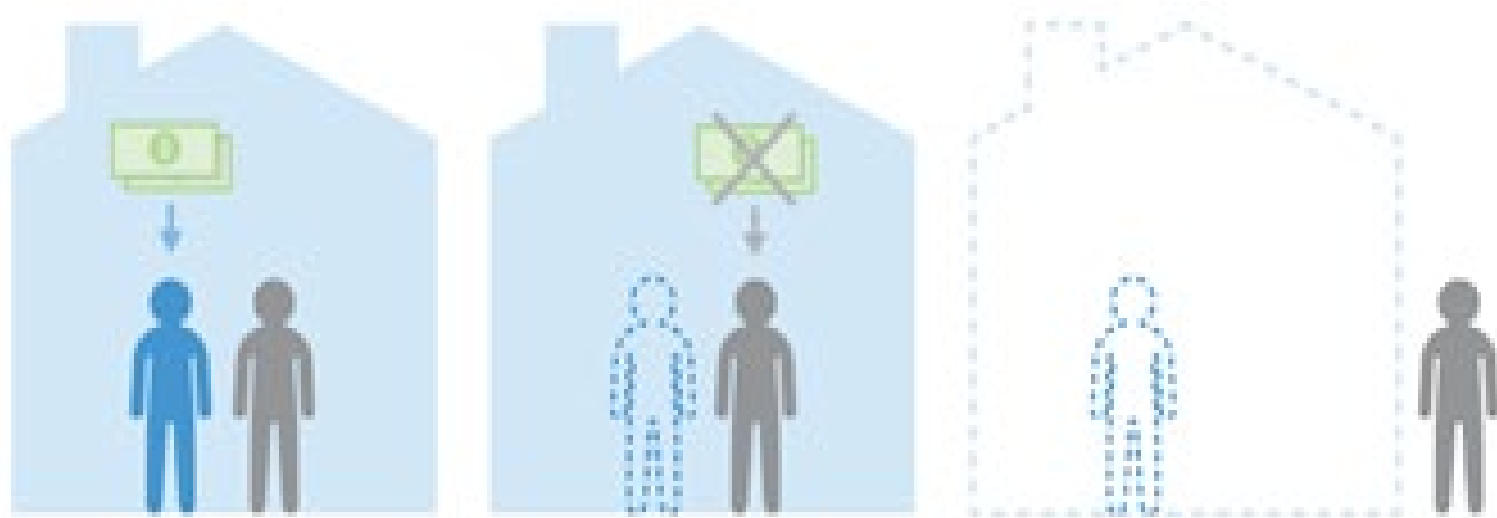


When you pass away or move, the co-borrower may remain in the home and receive money from the reverse mortgage





# How can a reverse mortgage affect people living with the borrower?



Anyone may live with you in your home with a reverse mortgage

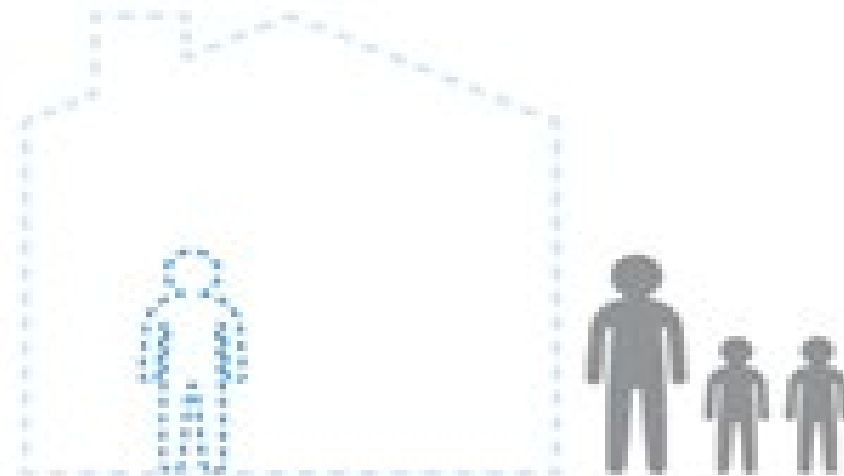
When you die a non-borrowing spouse may remain in the home under certain conditions, but will not receive money from the reverse mortgage

Non-eligible spouses will need to make other living arrangements after you die

# How can a reverse mortgage affect people living with the borrower?



Anyone can live in your home with you when you have a reverse mortgage



When the last co-borrower or eligible spouse no longer lives in the home, the loan comes due for repayment and others need to move out

# Eligible Borrowing Spouse

## Eligible:

- ▶ Living in the home at the time the loan closes and still living in the home as a primary residence at the time the borrowing spouse passes
- ▶ Must secure title to the property within 90 days of the passing of the borrower
- ▶ Recommendation: borrowers add the non-borrowing spouse back to title as soon as the loan closes
- ▶ Protected for deferral
- ▶ Same responsibilities as the borrower

# Ineligible Borrowing Spouse

## Ineligible:

- ▶ No deferral granted
- ▶ Does not occupy the property
- ▶ Cannot get title to the home
- ▶ Married after the borrower has already applied for the reverse mortgage because the new spouse was not accounted for on the original loan

# Eligible non-borrowing Spouse

- ▶ Married to a reverse mortgage applicant who is living on the property as their primary residence
- ▶ Cannot access any reverse mortgage proceeds during the borrower's lifetime or after their passing if they are in deferral period
- ▶ 62 Years of age
- ▶ Age is factored in the loan to value calculation on the reverse mortgage loan because of the deferral option they are eligible for
- ▶ May become ineligible over time if they move out of the property during the period that the reverse mortgage is in place

# When does the Reverse Mortgage have to be paid back?

- ▶ When the borrower passes away (last borrower leaves the home permanently)
- ▶ When the borrower moves away
- ▶ When the borrower sells the home



# Other Options to consider before getting a Reverse Mortgage



- ▶ Other home equity options (HELOC)
- ▶ Refinancing
- ▶ Downsizing
- ▶ Lowering your expenses

# Disadvantages of Reverse Mortgage

- ▶ The heirs may receive nothing when the borrower pass away
- ▶ Friends, relatives, or roommates living with the borrower may be forced to vacate the home if the borrower move out for more than a year or passes away; unless the boarders are also borrowers of the loan
- ▶ Moving into a nursing home or an assisted living facility for more than 12 consecutive months is considered a permanent move under reverse mortgage regulations
- ▶ Failure to stay current in property taxes, homeowner insurance premiums, and home maintenance costs may cause lenders to call the reverse mortgage due, potentially resulting in the loss of one's home



# Reverse Mortgage Scams

As a result of the economic uncertainty caused by the COVID-19 pandemic, scammers may be targeting older homeowners through reverse mortgage schemes:

- ▶ A trusted family member or caregiver coercing an elderly homeowner into applying for a reverse mortgage loan or impersonating their elderly relative during the loan process.
- ▶ Using an older homeowner's identity, Social Security number, or other personal information without his or her knowledge to get the loan money.
- ▶ Tempting reverse mortgage borrowers to use loan money to make a “can't miss” investment or to take out a reverse mortgage to pay for high-cost repairs or improvements to the home.
- ▶ Trying to convince the reverse mortgage borrower to sign a power of attorney that gives the scammer sole access to the reverse mortgage loan money.

# Avoiding Reverse Mortgage Scams

- ▶ Don't get a reverse mortgage just because a contractor says that's the best way to pay for expensive repairs or home improvements.
- ▶ Reverse mortgage loan officers are not allowed to sell you investments or other financial instruments. Don't plan to buy an annuity or make other investments with the money from a reverse mortgage.
- ▶ Money does NOT come from the individual loan officer who worked with you on the loan. Never sign over loan proceeds to the loan officer.

# Avoiding Reverse Mortgage Scams

- ▶ Talk to a few lenders before you decide to take out a reverse mortgage. If a lender says they are the only person you should talk to, that's a warning sign, and it could be a scam.
- ▶ Only speak with HUD-approved reverse mortgage counselor
- ▶ Watch out for loan officers who:
  - ▶ Tries to talk you into borrowing more than you want
  - ▶ Advises you to stop paying your mortgage before HECM is approved
  - ▶ Doesn't listen to your concerns
  - ▶ Doesn't return calls

# Foreclosure in Reverse Mortgage

- ▶ You were late or missed paying your [property charges](#) (which includes property taxes, homeowners hazard insurance premiums, flood insurance premiums, ground rents, condominium fees, and homeowners' association fees)
- ▶ You failed to keep your home in good repair
- ▶ You did not occupy your home as your principal residence
  - ▶ You are absent from your home for a majority of a year for non-medical reason
  - ▶ You are absent from your home more than twelve consecutive months for healthcare purposes

# How to Avoid Foreclosure in Reverse Mortgage

- ▶ Act quickly when you received the Notice of Default
- ▶ Contact DCBA to know options to avoid foreclosure (sell the house, refinance, deed-in-lieu, etc)
- ▶ If you can afford to pay your taxes and homeowners insurance, do it right away
- ▶ Contact mortgage servicer asap
  - ▶ Know how much taxes or insurance to pay
  - ▶ Learn what repairs are needed
  - ▶ Know if they send the annual certification for principal residence (HECM)

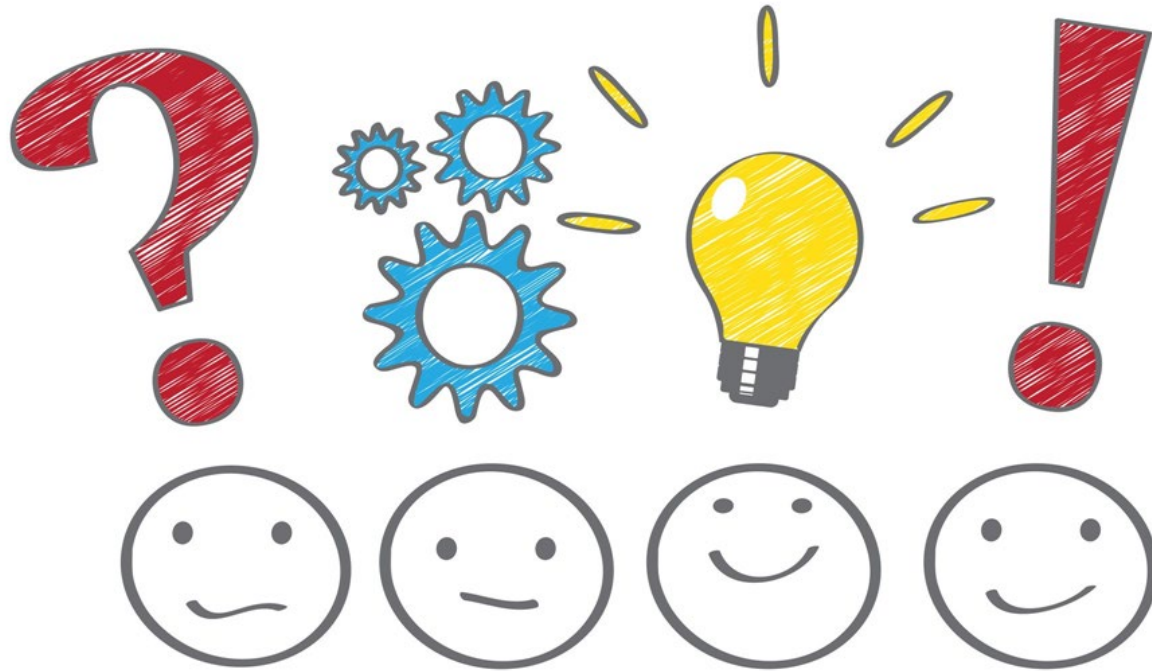
# Agencies

## DCBA

- Phone Number: (800) 593-8222
- Website: [dcba.lacounty.gov](http://dcba.lacounty.gov)
- Email: [homehelp@dcba.lacounty.gov](mailto:homehelp@dcba.lacounty.gov)

## HUD Agency

- Website: [www.hud.gov](http://www.hud.gov)
- HUD Agency Locator: [www.hud.gov/findacounselor](http://www.hud.gov/findacounselor)



Questions?