



Massachusetts Division of Banks

# Reverse Mortgages

a *DOB connects* webcast

## Panelists

Kevin Cuff, Deputy Commissioner

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## Moderator

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# Who is the Division of Banks?

- A Massachusetts state regulatory agency
- DOB Mission:
  - To ensure a sound, competitive, and accessible financial services environment throughout the Commonwealth of Massachusetts
    - Regulates state-chartered banks and credit unions
    - *Also regulates mortgage lenders, mortgage brokers, mortgage loan originators, debt collectors, retail installment sales finance companies, insurance premium finance companies, motor vehicle sales finance companies, small loan companies, check cashers, check sellers, foreign transmittal agencies and ATM machines.*
- Areas of focus:
  - Regulations and supervision of depository and non-depository institutions
  - Consumer protection





# What are Reverse Mortgages

- *A special type of mortgage loan for seniors (generally age 62 and older) that pays a homeowner loan proceeds drawn from accumulated home equity. Unlike a traditional home equity loan or second mortgage loan, no repayment is required until the borrower(s) moves, sells, dies, or is out of the home for more than 12 consecutive months.*



# What are Reverse Mortgages?

- A reverse mortgage loan is a special type of mortgage loan for seniors (generally age 62 and older).
  - Pays you loan proceeds drawn from your home's equity (HECM Max: \$822,375 – adjusted annually)
  - No repayment is required until you no longer live in the mortgaged home
  - Interest is calculated as compound interest
  - Mandatory reverse mortgage counseling

# Why a Reverse Mortgage?



## ■ Growth in home equity

- In 2020, Americans age 62 or older hold an estimated **\$20 trillion** of home equity according to the NRMLA/Hollister Reverse Mortgage Market Index.
- Projecting as much as **\$37 trillion** in home equity by 2030.
- The average home equity in a senior-owned household is estimated to be about **\$365,000** according to the NRMLA.

## ■ Increase in number of retirees

- 48 million retirees in 2020. Many seek housing options that include aging in place within their current residence.

## ■ Distressed economic times (COVID 2020)

- Provides financial security for those who are “**house rich and cash poor.**”

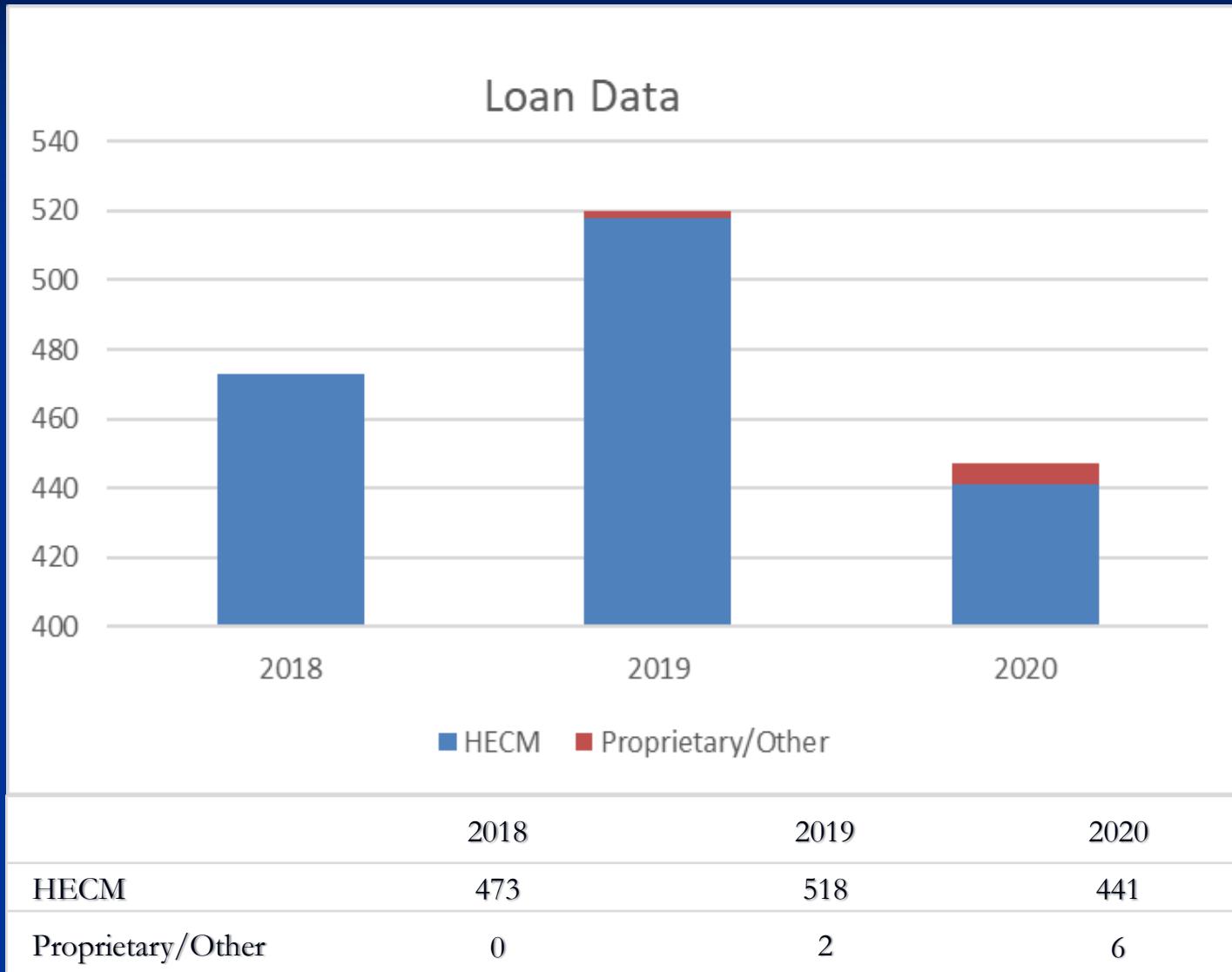




## Common Types of Reverse Mortgages

- **HECM:** Beginning in 1989, U. S. Department of Housing and Urban Development (“HUD”) sponsored, FHA-insured, Home Equity Conversion Mortgage (“HECM”). The HECM is the most common type of reverse mortgage loan.
  - There are three types of HECM reverse mortgages currently available:
    - HECM Standard which is the fixed-rate reverse mortgage
    - HECM adjustable-rate reverse mortgage
    - HECM for purchase are either fixed or adjustable-rate
- **Proprietary:** “Proprietary Reverse Mortgages” are private loans and are NOT sponsored and protected by the federal government. “Proprietary” have unique features including access to higher equity values. Massachusetts “Proprietary Reverse Mortgages” are capped at \$1.5mm.

# HECM Massachusetts Loans



# Characteristics of a HECM

- **Non-recourse loan**
- **Mortgage Amount Based On:**
  - Age of the youngest borrower.
  - Current interest rate.
  - **Lesser** of appraised value or HUD HECM Lending Limit.
- **Financial Requirements:**
  - Financial Assessment (Taxes & Insurance)
  - No repayment as long as the property is the primary residence.
  - Closing costs may be financed in the mortgage.
  - Lender must be in first lien position.



# Pay-out Options



There are several ways to receive the proceeds from a reverse mortgage:

- Lump sum – fixed rate loan: a lump sum of cash at closing.
- Tenure – adjustable rate loan: equal monthly payments as long as the homeowner lives in the home.
- Term – adjustable rate loan: equal monthly payments for a fixed period of time.
- Line of Credit – adjustable rate loan: draw any amount at any time until the line of credit is exhausted.

# Loan Re-payment ?

- The last living borrower dies.
  - Heirs sell or payoff loan
- The borrower sells the property.
- The property ceases to be the principal residence of the borrower (over consecutive 12-months).
- Property may be foreclosed on if borrower does not upkeep property and pay property taxes & insurance.
- The borrower may prepay the loan at any time without a penalty.



# Fees ?

- A typical reverse mortgage loan has up-front fees and costs, which should be reviewed carefully. These fees may amount to thousands of dollars and increase the amount owed on the loan. Therefore, understand the total costs associated with the loan by asking questions and insisting on answers.
- Typical fees include:
  - **Origination Fees**
    - 2 percent of the first \$200,000 borrowed and 1 percent for any amount after that. The origination fee must not exceed \$6,000 (HECM).
  - **Monthly Service Fees**
    - amount of money deducted from the available loan proceeds at closing to cover the projected costs of servicing the account.
  - **Closing Costs**
    - Includes
      - Appraisal fee
      - Credit report fee
      - Recording fee, etc.
  - **Plus ...**





# Interest Rate and Mortgage Insurance Premium Additional Fees

## ■ Interest Rate:

- HECM borrowers can choose an adjustable interest rate or a fixed rate. If a borrower chooses an adjustable interest rate, the interest rate may adjust monthly or annually.

## ■ Mortgage Insurance Premium:

- The HECM insurance guarantees that you will receive expected loan advances. The insurance also guarantees that, if you or your heirs sell your home to repay the loan, your total debt can never be greater than the value of your home.



# Counseling

- Counseling by a Massachusetts Executive Office of Elder Affairs approved agency is **mandatory** for all borrowers **prior** to obtaining a reverse mortgage.
- Participate in an “in person” counseling session, if possible. Mandatory in many instances.
- COVID: *April 27, 2020 Industry Guidance Relative to Compliance w/ Reverse Mortgage Counseling Requirements under Ch. 65 of the Acts of 2020*
- Take family members with you to the counseling session.
- Ask the counselor about alternative loan products.
- Ask the counselor how to interpret the loan documents.
- Make sure you and any co-borrower receive certificates verifying attendance at a counseling session.

# Key Points to Remember



## ***Beware of: FRAUD***

- Sales tactics involving the required purchase of annuities, other investments, long term care insurance or other types of insurance policies with proceeds from the loan. A company cannot require a borrower to purchase an annuity.
- Sales tactics involving contractors looking for proceeds to pay for home repairs.
- Being advised to transfer title to the property out of you or your spouse's name to qualify for the loan. Understand the legal consequences of title transfers.
- Being advised to have loan proceeds payable to third parties, and not you as the borrower(s).
- Estate planning services that offer to refer you to a lender for a fee or percentage of the loan. You can obtain information on lenders from the Division of Banks and the Department of Housing and Urban Development at no cost.

# Key Points to Remember



## ■ Advertising Materials

- Review all solicitations about reverse mortgages carefully for information that could be misleading.
- If you have any questions about solicitations that are received in the mail contact the Division of Banks consumer assistance unit at (617) 956-1501.

# Borrower Beware: Some Advice



- Obtain independent legal and other financial advice prior to signing loan documents and retain your own legal representation at closing of the loan.
- Discuss the loan with trusted family members.
- Know that reverse mortgage loans cannot have prepayment penalties or restrictions. Loans must be able to be prepaid in full or in part at any time without penalty.
- Understand your obligations under the loan, i.e. to pay taxes, insurance, and maintain the property in a satisfactory condition. Failure to fulfill these obligations may constitute a default and possibly lead to foreclosure action.
- Understand that over time the loan balance may increase and impact the accumulated equity in your property.
- Contact the Division's Consumer Assistance Unit at 617-956-1501 with any questions or complaints.

# Remember !!



## *First Step:*

- Do your homework! There are a number of additional resources that explain reverse mortgages.  
<https://www.consumerfinance.gov/consumer-tools/reverse-mortgages/>
- Make sure you are doing business with a lender with an **approved reverse mortgage program** in the Commonwealth. Check this link to see the list of approved lenders  
<https://www.mass.gov/info-details/reverse-mortgage-information-for-consumers>

# Resources



- **Division of Banks, Consumer Assistance Unit**
  - 617-956-1501
- **Executive Office of Elder Affairs**
  - 617-727-7750
- **National Council on Aging**  
<https://www.ncoa.org/page/contact-us>
- **American Association of Retired Persons (AARP)**  
<https://www.aarp.org/>
- **U. S. Department of Housing and Urban Development**  
<https://www.hud.gov/states/massachusetts/offices>
- **Consumer Financial Protection Bureau**  
<https://www.consumerfinance.gov/>



# Questions

