Summary of Findings: Design and Testing of Truth in Lending Disclosures for Reverse Mortgages

July 2010

Submitted to:
Board of Governors of the
Federal Reserve System

Submitted by:

ICF MACRO
an ICF International Company

ICF Macro
11785 Beltsville Drive
Calverton, Maryland 20705

Summary of Findings: Design and Testing of Truth in Lending Disclosures for Reverse Mortgages

July 2010

Submitted to:
Board of Governors of the
Federal Reserve System

Submitted by:
ICF Macro
11785 Beltsville Drive
Calverton, Maryland 20705

Table of Contents

Executive Summary **i**

Chapter I: Introduction **1**

Background 1

Overview of Research and Design Strategy 1

Chapter II: Guiding Principles for Disclosure Design **3**

Chapter III: Testing of Revised Disclosure Forms **5**

Focus Groups in Bethesda, MD & St. Louis, MO (January 2010) 5

Objectives and Methodology *5*

Key Findings *6*

Subsequent Design Decisions *11*

Interviews in Bethesda, MD (March 2010) 12

Objectives and Methodology *12*

Key Interview Findings *13*

Subsequent Design Decisions *19*

Interviews in Phoenix, AZ (March 2010) 21

Objectives and Methodology *21*

Key Interview Findings *22*

Subsequent Design Decisions *28*

Interviews in Chicago, IL (April 2010) 29

Objectives and Methodology *29*

Key Interview Findings *31*

Subsequent Design Decisions *36*

Chapter IV: Summary **37**

Appendix A: Sample Recruiting Protocol

Appendix B: Participant Demographic and Background Information

Appendix C: Disclosure Forms Used in Testing

Executive Summary

Background and Description of Project

In 1968 Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring lenders to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the Board) the responsibility of implementing TILA, and the Board currently does so through its Regulation Z. Regulation Z sets disclosure rules for many types of financial transactions, including those related to credit cards, closed-ended mortgages, and home equity lines of credit.

In December 2009 the Board contracted with ICF Macro, an ICF International Company, to assist it with its review and revision of disclosures related to reverse mortgages. ICF Macro is a research and evaluation company with expertise in the design and cognitive testing of effective consumer communication materials. ICF Macro worked with the Board on its review of credit card disclosures and is currently contributing to its review of TILA regulations related to closed-end mortgages and home equity lines of credit.

The goal of the work described in this report was to develop model reverse mortgage disclosures that are understandable to consumers and will help them make informed financial decisions. The findings from this research informed the Board's proposed revisions to Regulation Z rules for reverse mortgages, which the Board will publish for public comment in July 2010. The revised disclosure forms that were developed and refined through the testing will be included as model forms with the proposal.

Methodology

This project was carried out in two phases. The first phase consisted of two rounds of focus groups held in Bethesda, MD and St. Louis, MO. The purpose of these focus groups was to learn more about consumers' understanding of reverse mortgages, as well as the process through which consumers decide to apply for a reverse mortgage. Focus group participants also provided feedback on a sample reverse mortgage disclosure that was representative of those currently in use. Following these focus groups, ICF Macro's design team used what they learned to develop improved versions of the disclosures for further testing.

The second phase of the research consisted of three rounds of in-depth cognitive interviews with consumers. In each round, participants were shown a set of revised reverse mortgage disclosures and asked a series of questions to assess their reaction to and comprehension of the forms. After each round of interviews, Board staff were briefed on the findings and revised forms were developed for the next round of testing. In most rounds, multiple versions of each type of document were developed so that the impact of varying language or format could be studied.

Participants in each location were recruited by telephone using a structured screening instrument to ensure the selection of a range of participants in terms of gender, educational level, and ethnicity. About a quarter of participants currently had reverse mortgages; the remainder were potentially eligible to obtain one (i.e., were at least 62 years old and had at least 50 percent equity in their primary residence). Participants were deemed ineligible to participate if they worked for a bank or

other financial institution, worked in the real estate or mortgage industry, or were not responsible for making financial decisions regarding their mortgage.

ICF Macro's design and testing focused on two different types of forms. The first was a reverse mortgage disclosure form, which would be provided to consumers a few days after they applied for a reverse mortgage. The second form addressed in testing was an educational document titled *Key Questions to Ask About Your Reverse Mortgage Loan*. This document, which is intended for consumers that are considering a reverse mortgage, was designed to counter misconceptions about reverse mortgages that became apparent through consumer testing.

Summary of Key Findings

Participants' Understanding of Reverse Mortgages

- Several participants had a good understanding of the positive and negative features of reverse mortgages, while some individuals either clearly did not understand or had misconceptions about them.
- Facts about reverse mortgages that most focus group and interview participants understood include the following:
  - Traditional mortgages are different from reverse mortgages, in that traditional mortgages have to be paid back during the borrower's lifetime.
  - Reverse mortgage borrowers receive payments from the bank.
  - The amount of money available for payment to the borrower is based on his or her equity in the home.
  - Borrowers must meet a minimum age requirement to qualify (participants generally thought the qualifying age was in the 60s).
  - The borrower is still responsible for paying taxes and insurance on the property.
- Important misconceptions about reverse mortgages that were shared by a significant number of focus group and interview participants include the following:
  - By getting a reverse mortgage, a borrower is giving the bank ownership of his or her home.
  - A reverse mortgage is not a loan, and does not need to be repaid—it represents the exchange of a home for a stream of funds.
  - If the amount owed on a reverse mortgage exceeds the value of the home, the borrower is responsible for paying the difference.
  - If at any point a borrower "outlives" their reverse mortgage—that is, if the equity in their home decreases to zero—they will no longer receive any payments from the bank.

Development and Testing of Reverse Mortgage Disclosure

Participant Feedback on Current Disclosure Form

- Participants in the focus groups were shown a version of a reverse mortgage disclosure that was representative of those that are currently in use. These participants generally found this disclosure very difficult to understand or use for a variety of reasons—
  - Some participants had difficulty understanding fairly basic information on the form, such as how much money they would receive through the reverse mortgage.
  - Several did not understand what the interest rate shown on the form represented or how interest would be charged on a reverse mortgage.
  - Most participants were confused by why they would be charged "mortgage insurance" or how this insurance would be paid. Some confused this with their homeowners insurance.
  - Several participants did not understand some of the terms used on the disclosure, such as "tenure" or "appreciation."
- Participants had particular difficulty understanding the meaning of the Total Annual Loan Cost (TALC) rates on the form, which are currently required to be disclosed by statute. Most participants mistakenly thought that the TALC rates were interest rates. Some incorrectly thought that the fact that the TALC rate would be lower if they held the loan for a longer period of time meant that their interest rate would decrease over time.
- Because understanding of the current disclosure was so poor, ICF Macro and Board staff developed several revised versions of the form that were tested in subsequent rounds.

Structure of Disclosure Form

- Currently, TILA requires reverse mortgage lenders to provide borrowers a disclosure specific to reverse mortgages and also other disclosures related to open-end or closed-end credit. With this in mind, the Board decided to include other statutorily required information on the reverse mortgage disclosure form so that multiple forms would not be necessary.
- In early rounds of testing, some participants had difficulty understanding basic facts about reverse mortgages, even after reviewing the disclosure. For this reason, ICF Macro and Board staff included more information about how reverse mortgages work, and moved this information near the beginning of the form so that it would be more apparent to consumers. The model form that will be proposed by the Board includes this information in a section titled *About This Loan* that appears at the top of the first page of the form.

Fees

- In early rounds of testing, several participants commented that they were surprised at the number of fees that reverse mortgage borrowers could be charged. For this reason, fees were disclosed prominently in the disclosure used in testing, as well as in the model form that will be proposed by the Board.

"How the Loan Balance Grows" Section

- To encourage borrowers to think of a reverse mortgage as a loan that would have to be repaid, and to show how the amount of the loan would change over time, the revised disclosure developed by ICF Macro and Board staff included a section titled *How the Loan Balance Grows*.[1] This section of the form showed the amount of money the borrower would have received, the amount of money he or she would owe in interest and fees, and his or her total loan balance at three different points in time. Most participants understood the information in this section of the form, and its inclusion appeared to give participants a better understanding of how a reverse mortgage would work, compared to the version shown in the focus groups.

- Several different versions of this section were used in different rounds of interviews. The other versions of the form included the information described above as well as additional information. For example, one version also showed the home value over time and how the borrower's equity in the home would decrease over time. Another version itemized how much money the borrower would have received through different types of payments, such as an initial payment, monthly payments, and a line of credit. However, testing showed that this additional information decreased consumers' understanding of this section. As a result, ICF Macro and Board staff decided to retain the simplest format and content for this section.

- Versions of the disclosure that were tested in the first two rounds showed how the loan balance would change under two different scenarios—one in which the borrower accessed his or her line of credit, and one in which he or she did not. However, several participants had difficulty distinguishing between the two scenarios, even when a description of both was provided. Therefore, the model form that the Board will propose shows only the first scenario.

TALC Rate Table

- Participants in the focus groups, as well as in all rounds of cognitive interviews, were shown a TALC rate table similar to that which is currently required by statute. In almost all cases, participants were unable to interpret the table. Most participants incorrectly assumed that the percentages shown in the table were interest rates, and many thought that the table showed that the interest rate on their loan would decrease over time.

- After each round, ICF Macro and Board staff made revisions to the TALC rate table to try to clarify it for participants. Most of these changes were made to the explanatory text that accompanied the table, as well as table labels and column headings. However, none of these changes were effective; participants continued to be very confused by the TALC rates. Almost all interview participants also indicated that they would be unlikely to find this information helpful, and that including TALC information on the disclosure would decrease the usefulness of that form rather than increasing it.

- Because of continuing low consumer comprehension of the TALC rate table, Board staff decided not to include it on its proposed model forms.

[1] The title of this section changed over time; this is the title used in the form that will be proposed by the Board.

Development and Testing of "Key Questions to Ask About Your Reverse Mortgage Loan"

- As described previously in this section, participants in the focus groups had a number of misconceptions about reverse mortgages. In an attempt to combat these misconceptions, ICF Macro and Board staff developed an educational document, titled *Key Questions to Ask About Your Reverse Mortgage Loan*, that provides basic information about these products. The document was designed in question-and-answer format, both because this was likely to be understandable for consumers and to mirror the format of similar documents developed by the Board on the topics of closed-end mortgages and home equity lines of credit.

- Participants in all three rounds of interviews were shown this document. Almost all indicated that they found it informative, and several who had reverse mortgages commented that they wished they had been shown the document before they had applied for the product.

- As additional misconceptions became apparent through consumer interviews, appropriate revisions were made to the Key Questions document. For example, because some participants in the first round of interviews expressed surprise at the number of fees they would be charged for opening a reverse mortgage, an additional question was added to the Key Questions document explaining these charges. Therefore, the final version that will be proposed by the Board is closely aligned with the information that reverse mortgage consumers need.

Chapter I: Introduction

Background

In 1968 Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring lenders to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the Board) the responsibility of implementing TILA, and the Board currently does so through its Regulation Z. Regulation Z sets disclosure rules for many types of financial transactions, including those related to credit cards, closed-ended mortgages, and home equity lines of credit.

In December 2009 the Board contracted with ICF Macro, an ICF International Company, to assist it with its review and revision of disclosures related to reverse mortgages. ICF Macro is a research and evaluation company with expertise in the design and cognitive testing of effective consumer communication materials. ICF Macro worked with the Board on its review of credit card disclosures and is currently contributing to its reviews of TILA regulations related to closed-end mortgages and home equity lines of credit.

The goal of the work described in this report was to develop model reverse mortgage disclosures that are understandable to consumers and will help them make informed financial decisions. The findings from this research informed the Board's proposed revisions to Regulation Z rules for reverse mortgages, which the Board will publish for public comment in July 2010. The revised disclosure forms that were developed and refined through the testing will be included as model forms with the proposal.

Overview of Research and Design Strategy

The research for this project was carried out in two phases. The first phase consisted of two rounds of focus groups held in Bethesda, MD and St. Louis, MO (see Table 1). The purpose of these focus groups was to learn more about consumers' understanding of reverse mortgages, as well as the process through which consumers decide to apply for a reverse mortgage. Focus group participants also provided feedback on a sample reverse mortgage disclosure that was representative of those currently in use. Following these focus groups, ICF Macro's design team used what they learned to develop improved versions of the disclosures for further testing.

The second phase of the research consisted of three rounds of in-depth cognitive interviews with consumers. In each round, participants were shown a set of revised reverse mortgage disclosures and asked a series of questions to assess their reaction to and comprehension of the forms. After each round of interviews, Board staff were briefed on the findings and revised forms were developed for the next round of testing. In most rounds, multiple versions of each type of document were developed so that the impact of varying language or format could be studied. Board staff attended all rounds of testing.

Table 1: Timeline of Consumer Testing

	Location	Dates	Number of Participants
Focus Groups	Bethesda, MD	January 21, 2010	20
Focus Groups	St. Louis, MO	January 27, 2010	20
Interviews (Round 1)	Bethesda, MD	March 3–4, 2010	11
Interviews (Round 2)	Phoenix, AZ	March 25–26, 2010	10
Interviews (Round 3)	Chicago, IL	April 14–15, 2010	10

Participants in each location were recruited by telephone using a structured screening instrument to ensure the selection of a range of participants in terms of gender, educational level, and ethnicity. Participants either currently had reverse mortgages or were potentially eligible to obtain one (i.e., were at least 62 years old and had at least 50 percent equity in their primary residence). Participants were deemed ineligible to participate if they worked for a bank or other financial institution, worked in the real estate or mortgage industry, or were not responsible for making financial decisions regarding their mortgage. The screening criteria did not change significantly across all rounds of focus groups and interviews. A sample recruitment screening instrument is included as Appendix A, and a summary of participants' background and demographic information is provided in Appendix B.

Each focus group lasted approximately 90 minutes, and all four were conducted using the same moderator protocol. The individual interviews lasted approximately 60 minutes; and while the interview protocol varied between rounds, the general structure of these interviews was very similar. A description of the moderator and interview protocols, as well as the findings from the focus groups and interviews are provided in Chapter III.

One similarity between the methodology used for the focus groups and individual interviews is that participants were not given any documents in advance. During the focus groups, participants reviewed documents individually before sharing their feedback with the group. During the interviews, participants either reviewed documents quietly or, in the case of the disclosures, were asked to "think aloud" as they reviewed the document, indicating whenever they found something surprising, interesting, or confusing.

Although participants in both the focus groups and individual interviews were asked questions about the documents they reviewed, their responses are reported differently. For the individual interviews we report the number of responses to key questions, while for focus groups we typically report the response of the group to key questions. Unlike an individual interview where participants provide answers to each question, focus group participants are not usually individually polled to obtain their feedback.

Chapter II: Guiding Principles for Disclosure Design

Much of ICF Macro's design of revised disclosures is based directly on findings from cognitive testing. This reliance on direct consumer research is an important strategy for ensuring that disclosure forms are useful and understandable to their intended audiences, and in the specific contexts in which they are provided. At the same time, there are a number of general principles to which ICF Macro's designers try to adhere whenever engaged in this or similar projects. These principles include the following:

- **Use plain language.** Jargon and technical language should be avoided whenever possible and replaced with words that are more easily understood by consumers. The use of simple language is particularly important in the context of disclosures, because consumers at the greatest risk of being taken advantage of are often those with lower literacy levels. While readability metrics (such as the "grade level" of the writing) can be useful in this respect, the best way to determine whether language is truly understandable is through direct consumer testing.

- **Prioritize information and structure disclosures so that the most important information for consumers is easiest for them to find.** Consumers frequently do not read disclosures carefully. Those who do look at them often skim them quickly to look for a few key pieces of information. If consumers cannot quickly find the information they are looking for, they are likely to become frustrated and stop reading. Therefore, before any design work can begin there must be some discussion to identify the most important pieces of information on the form. This information should be located most prominently on the disclosure to increase the likelihood that even consumers who skim the form quickly can find and understand it.

- **Provide information in a format that makes it easy to compare terms between disclosures.** One purpose of reverse mortgage disclosures is to serve as a tool to help consumers compare products from different lenders. Narrative text is often difficult to compare in this way because consumers cannot always identify the equivalent information between forms. Providing information in more structured formats, such as tables with consistent labels and headings, facilitates this kind of shopping comparison.

- **Keep language and design elements consistent between forms so that information can be tracked over time.** In the current reverse mortgage disclosure process, consumers get information about the product for which they are applying at multiple points in time. One goal of the revised disclosures is to help consumers track the terms of their loan at each stage in the process (e.g., from application to closing) to make sure nothing changes without their knowledge. To facilitate this, the structure and formatting of disclosure elements, as well as the language that is used to describe various aspects of the product, should be made consistent between disclosures whenever possible.

- **Use headings and titles to make documents more navigable and to help consumers find the information they are looking for.** When large amounts of text are included, plain language headings should be used to distinguish sections on different topics. Tables, rows, and columns should have short, easy-to-read titles that accurately describe the information that is provided.

This allows consumers to find information that they are looking for quickly and efficiently, and decreases the likelihood that they will become distracted by unrelated text.

- **Group-related concepts and figures.** Reverse mortgage disclosures contain a great deal of information about a complex financial product. Consumers are likely to find it easier to absorb and make sense of the information if it is grouped in a logical way so they do not have to constantly shift their mindset as they read. For example, the revised reverse mortgage disclosures group several pieces of information about fees and charges into the same section of the form.

- **Build off of prior research whenever possible.** While each type of disclosure is different, findings from cognitive testing can often translate between different documents. The applicability of a disclosure format in a new context should always be confirmed through cognitive testing, but it often provides a useful starting point. For example, the tabular structure used in the revised reverse mortgage disclosures—as well as wording related to the refundability of fees—was originally developed by ICF Macro designers in their work on disclosures related to home equity lines of credit.

Chapter III: Testing of Revised Disclosure Forms

Focus Groups in Bethesda, MD & St. Louis, MO (January 2010)

Objectives and Methodology

Two focus groups were held on January 21, 2010 in Bethesda, MD (B1 and B2) and two others were held on January 27, 2010 in St. Louis, MO (S1 and S2). The goal of the groups was to obtain feedback from consumers on the information they thought was important to know about reverse mortgages and to test their comprehension of the existing reverse mortgage disclosure form. Each group consisted of 10 individuals, male and female, who were at least 62 years old. Two participants in B1 and S1 currently had reverse mortgages, as did three in B2. Two participants in S2 had reverse mortgages themselves, and a third person had arranged for a reverse mortgage for his elderly mother. The remaining participants in each group did not have reverse mortgages and had varying degrees of knowledge about the product.

Participants in the groups were shown a one-page disclosure form that summarized the terms of a hypothetical loan. This form was based closely on those that are currently provided to borrowers. It is included in Appendix C.

The moderator protocol included the following sections.

- *Defining a Reverse Mortgage.* Participants without a reverse mortgage were asked to explain what they understood about the product.
- *Shopping Process for Reverse Mortgage.* Participants with a reverse mortgage were asked to share their experiences and perceptions of shopping for the product.
- *Type of Information and Informational Resources.* Participants without a reverse mortgage were asked to discuss how they would get more information about a reverse mortgage, while participants with a reverse mortgage discussed how they had obtained their information.
- *Reverse Mortgage Disclosure.* The participants were shown the disclosure and asked a series of questions testing their comprehension. Before reviewing the form, participants were given a document—*Basic Facts About Reverse Mortgages*—created by ICF Macro and reviewed by Board staff, in which key features of reverse mortgages were highlighted (see Appendix C). The purpose of the document was to ensure that all participants had a basic level of understanding about reverse mortgages before reviewing the disclosure.

Key Findings

Participants' Understanding of Reverse Mortgages

To assess participants' general understanding of reverse mortgages, participants without a reverse mortgage were first asked to explain how they thought the product worked. At the end of the discussion, current reverse mortgage holders were asked to share their understanding of the product.

Responses in all four focus groups were mixed. Several participants appeared to have a good understanding of the positive and negative features of reverse mortgages, while some individuals did not understand or had misconceptions about the product.

- All reverse mortgage holders and most participants without a reverse mortgage understood that—
  - Reverse mortgage borrowers receive payments from the bank.
  - The amount of money available for payment to the borrower is based on the amount of his or her equity in the home.
  - Borrowers must meet a minimum age requirement to qualify. Participants generally thought the minimum qualifying age was in the 60s, with participants specifically mentioning 60, 62, and 65 as qualifying ages.
  - Borrowers usually do not have to pay back the reverse mortgage during their lifetime.
  - Traditional or forward mortgages are different from reverse mortgages. At least one participant in each of the first three groups said that the difference is that "you don't have to pay it back." Other comments (paraphrased) include the following:
    - A traditional mortgage is paid regularly. With a reverse mortgage, your heirs can repay the debts.
    - In a traditional mortgage, you make payments on the house. In a reverse mortgage, payments are made to you.
- All reverse mortgage holders and some participants without a reverse mortgage understood that—
  - The homeowner is still responsible for paying taxes and insurance on the property.
- A few participants (mostly current reverse mortgage holders) said they understood that—
  - The borrower or borrower's heirs could repay the loan at any time.
  - If the borrower were to leave the home for more than six months, fail to pay the associated insurance costs or property taxes, or fail to maintain the home the loan would come due.
  - Borrowers who have not completely paid off their home may also qualify for a reverse mortgage.
  - A consultation with a counselor is required to obtain a reverse mortgage.

- There are fees associated with obtaining a reverse mortgage.
- Borrowers only have access to a percentage of their equity through a reverse mortgage.
- If the proceeds from the sale of the house are not enough to cover the loan, the borrower will not be held responsible for the difference (expressed by reverse mortgage holders in S2).
- Home Equity Conversion Mortgages (HECMs) are backed by the federal government. Most participants considered this an important selling point for this loan.

- Misconceptions expressed by participants include—
  - Once you obtain a reverse mortgage, the bank owns the home. Upon the borrower's death, the bank (not the borrower's heirs) owns the house.
  - If the borrower were to move into a nursing home, the reverse mortgage payments would be made to the nursing home (comment made by a participant in one group).
- Participants were asked to identify situations in which a reverse mortgage would be a reasonable option for consumers. Participants in three of the four groups focused on immediate financial need as a good reason for considering a reverse mortgage, while participants in S2 focused on the need for discretionary spending.
- Participants were asked to identify situations in which a reverse mortgage would not be a good idea. Paraphrased responses include the following:
  - If you're not going to keep the reverse mortgage a long time
  - If you don't have much equity in your home
  - If you want to leave anything to your heirs
  - If you don't need the money.

Sources of Information About Reverse Mortgages

All participants were asked where they would go to obtain information about reverse mortgages.

- For many participants, initial knowledge about reverse mortgages came from seeing advertisements about reverse mortgage programs on television.
- For more detailed information, most respondents said that they would go to a source that they trusted, such as a local bank or friends and family members who know about reverse mortgages.

Reverse Mortgage Borrowers' Reflections on the Loan Process

Participants with reverse mortgages were asked to describe their loan application experience. Some reverse mortgage borrowers were very familiar with the terms of their loan, but others did not appear to have a good understanding of their loan. Participant feedback is summarized as follows:

- Only a few reverse mortgage borrowers stated they shopped around for reverse mortgages before committing to one.

- All of the participants who had reverse mortgages had met with a counselor, via telephone or in person, before closing on the mortgage. With the exception of one person, all said that the information they got from the counselor was helpful. Some participants said that their counselor was not affiliated with their lender, but others did not know if this was the case.
- Reverse mortgage borrowers generally thought that the length of time from initiating contact with a lender to closing on the loan was not very long. The longest time period estimated was "about 60 days."
- No one indicated that they were encouraged to purchase another financial product, such as an annuity, with proceeds from their reverse mortgage. In fact, one person said that he had to sign a waiver that he would not buy an annuity with the proceeds.
- One reverse mortgage borrower commented that he had gone through the process with a lot of misinformation, such as the belief that by getting a reverse mortgage he was signing his house over to the bank. It appears that through the process of applying for the loan he learned this was not the case.
- One borrower commented that he was surprised by all of the expenses associated with a reverse mortgage. Several participants who had reverse mortgages said that they wished they had a better idea of the upfront costs associated with reverse mortgages before starting the application process.

Questions About Reverse Mortgages

Participants were asked what information they would want to know about reverse mortgages if they were going to apply for one. Participants' most frequently asked questions are summarized in this section. Similar questions have been grouped together under a general heading for ease of readability.

- How much can be borrowed? (asked in all groups)
  - How much can you borrow on a home that is fully paid off?
  - How much equity can you take out?
- What happens at the end of the loan or if you move out? (asked in all groups)
  - Can your child pay off the loan and keep the house?
  - When the house is sold, who gets the money that is left over?
  - What happens when you move out?
  - How long do you have to live there?
  - What happens if you move to a nursing home? Can your spouse still live in the home?
  - What happens if both owners have to move to a nursing home?
- What are the eligibility requirements for a reverse mortgage? (asked in 3 of the 4 groups)
  - How do you qualify?
  - How much equity do you need to qualify?

- What is the age limit?
- Why is there an age limit?
- Do both spouses have to sign as co-borrowers?

- What are the fees and charges? (asked in 3 of the 4 groups)
  - Is the interest rate for a reverse mortgage fixed or variable?
  - What type of cap is there on interest rates?
  - Does the bank clearly state what the interest rate is?
  - What will you pay in total interest from start to finish?
  - What are the fees?
- Ownership (asked in 3 of the 4 groups)
  - After you get a reverse mortgage, who owns the property?
  - Does the title remain with you or go to the bank?
  - Who is responsible for maintaining the property?
- What is the difference between a reverse mortgage and other financial products? (asked in 3 of the 4 groups)
  - What's the advantage of a reverse mortgage over a HELOC?
  - What's the advantage of a reverse mortgage over a personal loan?
  - How different do reverse mortgage terms tend to be from bank to bank?
- Property values (asked in 2 of the 4 groups)
  - How does property value affect your reverse mortgage?
  - What happens if the value of your house goes up or down?
- Expiration of funds (asked in 2 of the 4 groups)
  - What happens if "the money runs out"—that is, if the amount of money you receive from the bank exceeds the value of the house? Do you have to start paying your mortgage again?
- Use of funds (asked in 1 of the 4 groups)
  - Can you invest the money you get from a lump sum reverse mortgage payment?
  - What are the tax implications of various uses of funds from a reverse mortgage?
- Other questions (asked in 1 of the 4 groups)
  - Are reverse mortgage counselors required to be certified?

- Can you get out of a reverse mortgage?
- What is the benefit to the lender of providing a reverse mortgage?
- How does the bank determine the monthly reverse mortgage payment they will provide?

Comments/Questions About the Disclosure

As noted above, before participants were shown the disclosure, they were given a document (*Basic Facts about Reverse Mortgages*) that answered some basic questions about the product. Despite this, however, most participants were unable to decipher significant sections of the disclosure. Confusion centered on the following topics: interest rates and other loan costs, insurance, the total amount of the loan, the TALC rate table, and definitions of certain terms.

Interest Rates and Other Loan Costs

- Participants in all four groups had difficulty determining what the *initial interest rate* shown on the form represented. One participant thought that it referred to the rate on an existing traditional mortgage on the house, rather than the rate for the reverse mortgage. Another participant thought that the rate should be "0%" because the loan was not being paid back.
- Many participants were not sure to what the interest was being applied—for example, whether it was charged on the initial advance or the total amount that they had borrowed. In general, people seemed unsure of what "interest" meant in the context of a reverse mortgage.
- Several participants wondered whether there was a cap on the interest rate. Others were unsure, based on the disclosure, whether the interest rate was monthly or annual.
- Participants were unsure of what fees and charges were included in the loan and how these fees were paid. Specific questions include (paraphrased)—
  - Is the closing cost and insurance premium a part of the loan?
  - How do the initial loan charges get paid?
  - Which costs are one-time and which are monthly?
  - Can you take the closing cost and insurance out of the loan (i.e., pay them separately)?

Insurance

- Participants in three of the four groups either did not understand why mortgage insurance was included on the form or were unsure of how it was to be paid. Comments include (paraphrased)—
  - What do they mean by "mortgage insurance?"
  - Why is there a mortgage insurance premium? Is that the same as PMI?
  - Is the insurance premium a one-time cost or is it annual?
  - What is the difference between mortgage insurance premium ($7,100) and mortgage insurance (0.5%)?

- At the end of one group, participants were asked who they thought collected the insurance on the loan. All participants assumed these payments were given to the lender. Participants in this group were also asked why they thought the government insured some reverse mortgages. Participants were generally unsure, but some thought it was an attempt by the government to increase consumer confidence in the product.

Total Amount of the Loan

- Many participants expressed concern that they could not tell from the form how much money they were borrowing or would be responsible for repaying. Comments include (paraphrased)—
  - What is the repayment amount?
  - What is the amount of the total loan you're receiving? For how many months will you receive a payment?

TALC Rate Table

- None of the participants understood how to read the TALC rate table. Participants had different views on what they thought the percentages in the table represented. Most incorrectly said that the percentages in the table were interest rates, and thought it showed that their interest rate would decrease over time. Some, however, had a variety of other misinterpretations of the TALC rates. For example, one participant thought that the percentages referred to the amount of equity he was taking out of his home. Another thought that the percentages indicated how expensive it would be for him to buy back his home after a given period of time.
- Several participants suggested it would be more helpful to include dollar amounts instead of percentages in the table.
- Participants in three of the four groups also noted that the TALC rate table did not include any information about what would happen if a home's value depreciated.

Definition of Terms

- Participants generally did not understand the terms "tenure," "disclosure," and "appreciation," all of which were used on the form they were shown.

Subsequent Design Decisions

- The focus groups made clear that many eligible reverse mortgage borrowers—and some who have already taken out reverse mortgages—have serious misconceptions about the product. Therefore, the Board decided to develop and test an educational document for potential borrowers that would address some of these misconceptions.
- Because participants had significant difficulty understanding the TALC information on the form, ICF Macro and the Board decided to develop and test alternative ways to present information about the costs associated with a reverse mortgage loan, such as tables and bar charts that would show how the loan balance would grow over time.

Interviews in Bethesda, MD (March 2010)

Objectives and Methodology

Eleven cognitive interviews were conducted in Bethesda, MD over March 3 and 4, 2010. The two goals of testing in this round were to assess consumer comprehension of (1) a revised reverse mortgage disclosure form, and (2) alternative presentations of information about the costs associated with a reverse mortgage loan.

Because focus group participants found it difficult to find and understand basic information about the loan on the disclosure that they reviewed, ICF Macro and the Board decided to restructure the disclosure to make it more readable. The revised form was a two-page document organized around six key headings—

- Borrower & Property Information
- Loan Amount
- Fees & Charges
- Interest Rates
- Paying Off the Loan
- How the Loan Balance Will Grow

Two versions of this disclosure were tested. The only difference between the two forms was the *How the Loan Balance Will Grow* section. A description of this variation follows:

- **Form FDA-1:** A summary of how the borrower's loan balance would grow was presented in two scenarios—one in which the borrower did not access his line of credit (Scenario 1) and the other where he borrowed $1,500 each year from the line of credit (Scenario 2). Each scenario was presented in tabular form and showed how much money the consumer would have received after one, five, and ten years; how much the consumer owed in interest and fees after one, five, and ten years; and the total loan balance after one, five, and ten years.
- **Form FDB-1:** This form provided the same information as FDA-1. It also showed the home's appraised value (assuming the value of the home increased by 2 percent each year) and the borrower's equity remaining in the home after one, five and ten years.

In addition to the two versions of the full disclosure form, five other forms were shown to participants. Three of these forms (TLC-1, ETD-1, ETD-2) illustrated alternative ways to present information about the costs associated with a reverse mortgage loan. A brief description of these five forms follows.

- A two-page document, titled *Key Questions to Ask About Your Reverse Mortgage*, that provided basic information about reverse mortgages in a question-and-answer format.
- **TLC-1:** A one-page document that included the TALC rate table that is currently required by statute. Because focus group participants had found this table so difficult to understand, the explanatory text in TLC-1 was revised from the form that had been used in the focus groups.

- **ETD-1:** A bar chart displaying how the consumer's home equity could change over time. ETD-1 displayed change over time in dollars.
- **ETP-1:** ETP-1 was identical to ETD-1, except that ETP-1 displayed change over time in percentage terms rather than in dollars.
- **SA-1:** A model clause explaining that the reverse mortgage loan included shared appreciation.

The seven documents that were shown to participants in this round are included in Appendix C.

The interview protocol included the following sections:

- *Defining a Reverse Mortgage.* Participants were asked to explain what they understood about reverse mortgages.
- *Reverse Mortgage Decision Process.* Participants without a reverse mortgage were asked whether they had ever considered a reverse mortgage, when a reverse mortgage might be a reasonable thing to consider, and how they would get more information about reverse mortgages. Participants with reverse mortgages described their experiences with and perceptions of reverse mortgages.
- *Key Questions to Ask About Your Reverse Mortgage.* Participants were asked to read and comment on a two-page document that summarized key features of a reverse mortgage. Participants were shown this document to ensure that all participants had a basic understanding of how reverse mortgages actually worked before reviewing either FDA-1 or FDB-1.
- *Reverse Mortgage Disclosure Form.* After providing feedback on the Key Questions document, the participant was then shown FDA-1 or FDB-1. Five participants reviewed FDA-1, and seven reviewed FDB-1.[2] After reviewing the form, the participant was asked a series of questions testing his or her comprehension of the content.
- *TALC Table.* Participants were shown TLC-1 and asked a series of questions testing their comprehension. They were also asked whether they would find this information helpful if it were included on the disclosure form.
- *Alternate Tables.* At the conclusion of the interview, participants were shown ETD-1, ETP-1, and SA-1, and asked to provide feedback on the forms' clarity and usefulness.

Key Interview Findings

Three of the 11 participants in this round had reverse mortgages; other participants were candidates for reverse mortgages based on their age and the amount of equity they had in their home. The participants with reverse mortgages used the product in very different ways. One used it to purchase additional real estate, one used it to eliminate her current mortgage payments, and the third used it for supplemental cash flow in the event she wanted to do things such as travel.

Participants' Understanding of Reverse Mortgages

Several participants appeared to have a good understanding of the positive and negative features of reverse mortgages, while some individuals either clearly did not understand or had misconceptions about them. The general level of understanding was very similar to that of the focus group participants.

[2] In two cases, there was enough time in the interview for participants to review both forms.

- All reverse mortgage holders and most participants without a reverse mortgage understood—
  - Reverse mortgage borrowers receive payments from the lender.
  - The amount of money available for payment to the borrower is based on his or her equity in the home.
  - Borrowers must meet a minimum age requirement to qualify. As in the focus groups, participants generally thought the qualifying minimum age was in the 60s.
  - Borrowers usually do not have to pay back the reverse mortgage during their lifetime.
  - Traditional or forward mortgages are different from reverse mortgages.
- All reverse mortgage holders and some participants without a reverse mortgage understood—
  - The homeowner is still responsible for paying taxes and insurance on the property.
- A few participants understood—
  - The borrower or heirs could repay the loan at any time.
  - Borrowers only have access to a percentage of their equity through a reverse mortgage.
- Misconceptions held by participants include—
  - Once you obtain a reverse mortgage, the bank owns the home and so upon the borrower's death there would be nothing left for any heirs.
  - A reverse mortgage is not a loan and does not need to be paid back—it is just the exchange of a home for a stream of funds.

Review of Key Questions Document

- All participants indicated that they would find this document very useful for helping them understand reverse mortgages.
- Several participants were surprised to hear that a reverse mortgage could cost more than other loan options, because information they had read previously emphasized the money that you got from a reverse mortgage rather than the fact that interest rates and fees were charged on the product. Other information that many participants found surprising include—
  - If the borrower were to leave the home for more than 12 months, fail to pay the associated insurance costs or property taxes, or fail to maintain the home the loan would come due.
  - If the proceeds from the sale of the home are not enough to cover the loan, the borrower will not be held responsible for the difference.
- A few participants expressed confusion about the phrase "forward loan."

Review of Reverse Mortgage Disclosure Form (FDA-1 and FDB-1)

While reviewing the form, participants were asked to "think aloud" so that their initial reactions to the documents could be captured. Participants were then asked specific questions about each section of the forms.

Initial Reactions

- Participants thought the most important information on the form was the information regarding the fees and charges and the loan payment options (i.e., initial advance, monthly payments, and line of credit).
- Questions participants had while reviewing the form include—
  - Does the insurance premium cover the property or the borrower?
  - How long will you receive payments for?
  - How does the lender know if the property is being maintained?
  - If you move out of the home, can your children move into the home and you keep the loan as long as your children maintain the property?

Loan Amount

- After reviewing the disclosure, some participants were unsure how much money they would receive. The sources of confusion seemed to be—
  - Participants were confused about the various ways they could obtain money through a reverse mortgage (i.e., initial advance, monthly advance, line of credit, or a combination of these methods). In some cases this was because participants with experience with the product assumed that all reverse mortgage holders would get cash advances in the same way they had, in other cases it was because participants were not familiar with "lines of credit."

Fees and Charges

- Most participants were able to clearly identify the initial fees and charges associated with the reverse mortgage. Several expressed surprise that these initial costs were so high.
- One person acknowledged that he had never considered that there might be costs involved with a reverse mortgage. He realized after looking at the disclosure that "banks don't give these things away for free," but he had never previously thought about the fact that reverse mortgages have costs associated with them.
- Several people said that they were not concerned about the fees and charges associated with a reverse mortgage because the loan would not be paid off until after their death. As one participant commented, "It's not my problem."
- Almost half (5) of the participants understood that one-time fees and charges could either be paid in advance or added to the loan balance. However, three of these five participants did not see this information on the form; they just assumed this was the case.
- There was some confusion among participants about when monthly fees and charges would be paid. Only half of the participants (including the three current reverse mortgage holders)

understood that these fees and charges would be added to their loan balance each month. Four participants thought they would have to pay the fees and charges out of the monthly advance of $1,261.64. The other participant did not know how these fees and charges would be paid.

- Several respondents misinterpreted the monthly mortgage insurance premium as "5 percent" rather than "0.5 percent."
- Most participants incorrectly assumed that the Initial Mortgage Insurance Premium shown on the form referred to homeowners' insurance. Several were confused as to why they would be charged for this when opening their reverse mortgage, since they already had insurance on their house.

Interest Rates

- All respondents were able to identify the initial interest rate as 4.9 percent.
- Most participants saw that the maximum interest rate during the course of the loan was 9.9 percent.
- A few participants read the information in the Interest Rate section from left to right, incorrectly assuming a direct relationship between the information in the left column with that in the right column. For example, some believed that "When the loan is due" the maximum interest rate would be 9.9 percent, even though these were in fact two independent terms of the loan.
- All participants understood that the interest rate could not increase by more than 2 percent per year. Two participants commented that they would want to know what the change in interest rate would be based on.
- Several expressed confusion about the use of the phrase "When the loan is due" in the Interest Rate section of the form, because their understanding was that the loan would not have to be paid off.

Paying Off the Loan

- Six of the 11 respondents understood that the loan would need to be repaid when the last surviving borrower died, or if they failed to live in the home for 12 consecutive months.
- Several participants were surprised to see that the loan could come due if the borrower failed to live in the house for 12 consecutive months. They felt this was an unfair requirement if the borrower was out of the home due to an illness.
- All participants understood that if the home sold for more than the outstanding reverse mortgage loan balance, they or their heirs could keep the difference. However, only a few understood that if the home sold for less than the outstanding reverse mortgage loan balance, they would not be responsible for paying the difference. In general, participants appeared to be answering these questions based on their existing perceptions about reverse mortgages, rather than using the information on the form.

How Your Loan Balance Grows

As noted above, this section of the form differed between FDA-1 and FDB-1.

- Amount Owed
  - Three of the five participants that saw FDA-1 first were able to identify how much they would owe the bank after five years. Participants that saw FDB-1 first had lower comprehension than those that saw FDA-1 first; of the participants who saw FDB-1 first, only one participant was able to identify how much she would owe after five years.
- Amount Received
  - Four of the five participants that saw FDA-1 first were able to identify how much money they would have received after five years. Again, only one participant who saw FDB-1 first was able to do so.
- Amount Owed in Interest and Fees
  - Participants generally understood the figures in the "How much will I owe in interest and fees" row, regardless of whether they were shown FDA-1 or FDB-1. Again, participants were surprised that these figures were so high.
- Appraised Home Value and Equity Remaining
  - FDB-1 contained information on the appraised value of home and the amount of equity the borrower would retain over time. Three of the seven participants who saw this form understood that the appraised home values were estimates. Two of these three participants, however, did not think this information was important or necessary.
  - One participant incorrectly thought he was being charged interest on the value of his home and not on the loan balance.
  - Most participants who reviewed FDB-1 were surprised at how little equity they would retain over time. However, most were unsure how they would use this information.
- Payment Scenarios
  - Most participants did not understand the difference between Scenario 1 and Scenario 2—that is, that Scenario 2 assumed use of the line of credit while Scenario 1 did not. This was primarily because participants did not carefully read the description provided above each table. Some missed the word "never" when they read the description of Scenario 1 and therefore assumed that they were borrowing from their line of credit. Others did the reverse when they read Scenario 2. One participant who noticed the difference suggested that it would be easier to distinguish the two scenarios if they were located on different pages.
  - After reading that Scenario 1 described a situation in which they "never borrow from the Line of Credit," some participants mistakenly thought that this meant they never borrowed any money at all.

- Those who saw FDA-1 first tended to focus their attention on the row "How much will I owe altogether?" Those who saw FDB-1 first tended to focus on the row "How much equity will I have in my home?"

- Overall, participants' comprehension was higher when looking at version FDA-1 first. This appeared to be at least in part because more variables (e.g., the value of the home) were changing in the table shown in FDB-1.

Review of TALC Disclosure (TLC-1)

- As in the focus groups, most participants thought the TALC rates shown were interest rates, and thought the table showed that their interest rate would decrease if they held the mortgage for a longer period of time. The rest of the participants indicated that they did not know what the TALC rate table showed.

- The description provided above the TALC table did not improve comprehension. Most participants found it difficult to understand and indicated that it did not clarify the figures shown in the table.

- Participants were asked if adding the TALC information to the disclosure document (FDA-1 or FDB-1) would make their loan easier or more difficult to understand. All participants were in agreement that the inclusion of TALC rates on the disclosure, even if it was provided in addition to the other information in FDA-1 or FDB-1, would make their loan more difficult to understand.

Review of Equity Bar Charts (ETP-1 and ETD-1)

On the first day of the interviews, all participants were shown ETP-1 first and later shown ETD-1. On the second day, participants were first shown ETD-1 and then shown ETP-1.

- Almost all participants reacted positively to the charts, as they were able to quickly tell from either chart that the equity in their home was declining over time. Few participants, however, could explain why this was happening.

- Several participants questioned why the total value of the home was increasing in ETD-1, because the chart did not explain that it assumed home appreciation.

- Several participants did not understand the difference between the terms "home value" and "equity."

- Most participants indicated that they preferred ETD-1 over ETP-1, as they found dollar figures easier to understand than percentages.

Review of Shared Appreciation Language

- Most participants understood what "shared appreciation" meant, and were able to clearly explain the concept to the interviewer.

- Participants generally responded negatively to the idea of shared appreciation, and about half said that they would not agree to such a term if it were included in their reverse mortgage.

Subsequent Design Decisions

Based on interview findings from this round, the following changes were made to the forms.

Review of Key Questions Document

- One of the most serious misconceptions that some participants had about reverse mortgages was that the product was not a loan. To emphasize that the product is a loan, several changes in wording were made throughout the document. For example, the word "Loans" was added to the title of the document, changing it to *Key Questions to Ask about Reverse Mortgage Loans*.

- When participants were asked to describe reverse mortgages, they usually mentioned the benefits of obtaining this product (e.g., not having to make monthly payments). Few participants mentioned or appeared to understand the risks involved in obtaining a reverse mortgage. For this reason, the decision was made to reorder the questions on the document to make the risks more prominent. The question that addressed risk ("Is a reverse mortgage loan right for me?") was moved from question 7 to question 3. Specific sections of this question were also highlighted to make them more noticeable.

- Another feature of reverse mortgages with which participants seemed unfamiliar was the cost of the product. For that reason a new question was added as question 4—"What fees and charges are added to a reverse mortgage loan?" This question highlighted that reverse mortgages have closing costs, a loan insurance premium, interest, and a servicing fee.

- Some participants were not familiar with the term "forward mortgage." Consequently, this term was removed from the document and replaced with "traditional mortgage."

- Most participants were surprised to learn that if the money earned through selling the home was not enough to pay the loan, they or their heirs would not be responsible for paying the difference. To ensure that readers did not assume that this applied to all mortgages, and to encourage them to have a conversation with their lender, the response to the question, "What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?" was modified.

Review of Reverse Mortgage Disclosure Form (FDA-1, FDB-1)

General Information about Reverse Mortgages

- A number of participants did not understand basic information about their loan (e.g., when they would have to repay the funds and how much money they would be receiving) despite the fact that it was described in the disclosure form. To increase the likelihood that consumers would see this information, two changes were made to the form—

  - A new section titled "About this Loan" was created that described what consumers were applying for, how they may receive funds, when the loan must be repaid, and their responsibilities as a borrower.

  - The section titled "Paying of the Loan" was split into two sections, "When the Loan is Due" (which specified the conditions under which the loan must be repaid) and "Repayment Options" (which described the options borrowers had for repaying the loan).

Loan Amount

- To more accurately characterize the loan disbursement options, this section heading was changed from "Loan Amount" to "Payment of Loan Funds."

Fees and Charges & Interest Rates

- Several participants did not notice that the form described when one-time fees and charges and monthly fees and charges could be paid. To make this information more noticeable, the way in which this information is presented was revised.

- As noted above, a few participants mistakenly read the interest rate table from left to right, incorrectly attributing a relationship between the information in the two different columns. To clarify this misinterpretation, the "Interest Rates" section was reorganized and merged with the "Fees and Charges" section.

How Your Loan Balance Will Grow

- Participants demonstrated significantly better comprehension of form FDA-1 than form FDB-1. This appeared to be at least in part because of the assumption in FDB-1 that the home value would increase over time, which made the table more complex. To determine if this was the source of confusion, in the version of FDB used in the next round, the estimated home value was left unchanged over time.

- Because most participants did not understand or notice the difference between Scenarios 1 and 2, a more detailed description of the scenarios was added to the FDA and FDB versions of the form. In addition, a third version—FDC—was developed that explicitly detailed the amount being received through different loan disbursement methods (i.e., initial advance, monthly advance, and line of credit). This third version, along with the revised FDA and FDB forms, was tested in the following round of interviews.

Review of Equity Bar Charts (ETP-1 and ETD-1)

- Because participants stated that they found ETD-1 easier to understand than ETP-1 because they preferred to be shown dollar amounts, ETP-1 was not tested in subsequent rounds.

- Several revisions were made to the ETD form to make it more understandable. For example, the value of the home was made constant over time because participants found the projected appreciation to be confusing. Additional text explaining the meaning of the chart was also added, and the wording used in the legend was revised to minimize use of the word "equity."

Review of TALC Disclosure (TLC-1)

- Participants generally understood the first paragraph of text on TLC-1, but became confused as they read the subsequent paragraphs and table. As a result, the last two paragraphs of explanatory text were revised. Several changes were also made to the TALC rate table, including inserting the word "life expectancy" in the table.

Review of Shared Appreciation Language (SA-1)

- Because participants' comprehension of the language about shared appreciation was high, no revisions were made to this document. However, ICF Macro and the Board decided to continue

to test the language in the next round of interviews to confirm general comprehension across consumers.

Interviews in Phoenix, AZ (March 2010)

Objectives and Methodology

Ten cognitive interviews were conducted in Phoenix, AZ on March 25 and 26, 2010. Like the previous round, the goals of these interviews were to test consumer comprehension of a two-page reverse mortgage disclosure that would be provided to consumers a few days after they applied for a reverse mortgage, and to test alternative ways to present information regarding the costs associated with reverse mortgages. Unlike the previous round, three versions of the disclosure form were tested instead of two. All three forms were identical except for the *How the Loan Balance Grows* section on the second page of each form. A description of the variations follows.

- **Form FDA-2:** A summary of how the loan balance grows was presented in two scenarios—one in which the borrower did not access his line of credit (Scenario 1) and the other where he borrowed $1,500 each year from the line of credit (Scenario 2). Each scenario was presented in tabular form and showed how much money the consumer would have received after one, five, and ten years; how much the consumer owed in interest and fees after one, five, and ten years; and the total loan balance after one year, five years, and ten years. There were no significant changes in this section from the corresponding section in the previous round (FDA-1).

- **Form FDB-2:** This form provided the same information as FDA-2. It also showed the home's appraised value and the borrower's equity remaining in the home after one, five and ten years. The main change from the form used in the previous round (FDB-1) was that the appraised home value remained the same instead of increasing by 2 percent each year. This was done to simplify the table, since most participants in the previous round did not understand why the value of the home was changing.

- **Form FDC-1:** Unlike the other two versions, FDC-1 included a table that showed how much money the consumer would receive over time from each loan distribution option (i.e., the initial payment, monthly payments, and line of credit). The second table, which was identical to Scenario 2 of FDA-2, illustrated the total amount received by the consumer, the total amount owed in interest and fees, and the total loan balance for the same time periods.

In addition to the three versions of the disclosure form, four other forms were reviewed. Two of these forms (TLC-2, ETD-2) illustrated alternative ways to present information about the costs associated with a reverse mortgage loan. A brief description of these four forms follows.

- A revised two-page document, titled *Key Questions to Ask About Your Reverse Mortgage Loan*, that provided basic information about reverse mortgages in a question-and-answer format.

- **TLC-2:** A one-page document that included the TALC rate table that is currently required by statute. This was a revised version of TLC-1 tested during the previous round.

- **ETD-2:** A bar chart displaying how the consumer's equity could change over time. This was a revised version of ETD-1 tested in the previous round.

- **SA-1:** A model clause explaining that the reverse mortgage loan included shared appreciation. This was the same document tested in the previous round.

The interview protocol included the following sections.

- *Defining a Reverse Mortgage.* Participants were asked to explain what they understood about reverse mortgages.
- *Reverse Mortgage Decision Process.* Participants without a reverse mortgage were asked whether they had ever considered a reverse mortgage, when a reverse mortgage might be a reasonable thing to consider, and how they would get more information about reverse mortgages. Participants with reverse mortgages described their experiences with and perceptions of reverse mortgages.
- *Key Questions to Ask About Your Reverse Mortgage.* Participants were asked to read and comment on a two-page document that summarized key features of a reverse mortgage. They were shown this document to ensure that all participants had a basic understanding of how reverse mortgages actually worked before reviewing the disclosure form.
- *Reverse Mortgage Disclosure Form.* At least three participants reviewed each form and were asked questions to assess their comprehension of the documents.
- *TALC Table.* Each participant was shown TLC-2, and asked a series of questions testing their comprehension. They were also asked whether they would find this information helpful if it were included on the disclosure form.
- *Alternate Tables.* All participants reviewed ETD-2 and SA-1.

Key Interview Findings

Participants' Understanding of Reverse Mortgages

As in the previous round, several participants appeared to have a basic understanding of some of the features of reverse mortgages, while some individuals either clearly did not understand or had misconceptions about them.

- Four of the ten participants in this round currently held reverse mortgages. Two had gotten reverse mortgages to eliminate their monthly mortgage payment; the other two wanted funds for what they both called "semi-retirement."
- Three participants without a reverse mortgage had previously considered obtaining the product. One participant said he was waiting for the value of his home to increase, another was considering obtaining a reverse mortgage on an investment property that he was having difficulty selling (this participant did not understand that he would be required to live in the mortgaged property), while the third did not explain her reasons for considering the product.
- All reverse mortgage holders and most participants without a reverse mortgage understood—
  - Reverse mortgage borrowers receive payments from the bank.
  - The amount of money available for payment to the borrower is based on his or her equity in the home.

- Almost half of the participants did not understand that—
  - Only seniors would qualify for a reverse mortgage. These participants thought that any individual with sufficient equity in their home would qualify.
  - A reverse mortgage is a loan that must be repaid. Some thought that getting a reverse mortgage simply meant that a person was trading his or her house for a stream of funds. Interestingly, even one of the participants who currently has a reverse mortgage shared this misconception. Of the participants that understood that a reverse mortgage is a loan that must be repaid, a few thought that repayment would only be necessary if the home was sold.
- When asked to describe situations in which a reverse mortgage would be a reasonable option, participants mentioned individuals who needed money for nursing home care, who were living on a very limited income and have a financial need, and who want to get money out of their home.
- Participants said that a reverse mortgage may not be a reasonable product for individuals who only wanted the loan for travel or leisure, who do not plan to live in the home for the rest of their life, who do not need additional income, or who want their heirs to inherit their home. Participants also thought a reverse mortgage would not be a good product if the value of the home decreased or if the borrower "outlived" the loan.
- Resources participants said they would use to learn more about reverse mortgages include the library, a bank, knowledgeable friends, the internet, and calling the numbers listed in reverse mortgage commercials.
- When asked what questions they might ask a lender about reverse mortgages, participants mentioned—
  - How much money could I get?
  - What would it cost me to obtain the loan?
  - If the borrower dies before receiving all the promised loan disbursements, what happens to the unpaid balance?
  - If the borrower wants to sell the home and buy another, can the reverse mortgage be "rolled-over"?

Review of Key Questions Document

Participants were asked to review the two-page document *Key Questions to Ask About Reverse Mortgage Loans* and to describe what they learned or what they were surprised by.

- All participants said the document was very useful in helping them understand how reverse mortgages worked. One participant with a reverse mortgage commented that the document would have been very helpful if he had received it at the time he obtained his reverse mortgage.
- When asked whether anything in the document surprised them, participants mentioned the following:
  - Reverse mortgage loans must be repaid

- The borrower could lose his/her home
- The risks involved with a reverse mortgage described in the section titled *Is a reverse mortgage loan right for me?* (e.g., the loan amount increases over time, there is less cushion for emergencies, and this loan costs more than other loan options)
- The borrower must live in the mortgaged home
- The borrower cannot be out of the home for more than 12 consecutive months
- If the home sells for less than is owed when the loan comes due, the borrower will not be responsible for the difference
- The age requirement for reverse mortgages
- The homeowner remains responsible for paying the taxes, insurance, and maintaining the property
- The tax implications of obtaining a reverse mortgage
- The reverse mortgage may affect eligibility for assistance from some federal and state programs.

- Questions participants still had after reviewing the Key Questions document include the following:
  - What happens if the borrower "outlives the loan"? (question asked by a participant with a reverse mortgage)
  - How is the value of the home determined?

Review of Reverse Mortgage Disclosure Form (FDA-2, FDB-2, FDC-1)

While reviewing the form, participants were asked to "think aloud" so that their initial reactions to the documents could be captured. Participants were then asked specific questions about each section of the forms.

Initial Reactions

- Participants had different opinions on what information on the form was most important. The most frequent responses were as follows: the information in the About this Loan section (e.g., "The amount of the loan plus interest and fees, must be paid back in full when the loan comes due…"), the amount being received, and the amount that would need to be repaid.
- Questions participants had while reviewing the form include—
  - What happens if you outlive the equity in the home? Can you stay in the home or do you have to move?
  - How is the reverse mortgage insurance premium different from homeowners' insurance? Does the borrower have to accept the reverse mortgage insurance coverage or can he or she get his or her own home insurance?

- If ten years is the maximum timeframe shown in the How the Loan Balance Grows section, does that mean that is the borrower's life expectancy?
- Why would someone want a reverse mortgage? Why not sell the home and put the proceeds in the bank? Why not get a line of credit?
- Why is the loan balance growing over time?
- Can the borrower transfer the reverse mortgage from one home to another?

Payment of Loan Funds

- Almost all participants understood that the current value of the home was $275,000. Only one participant could not find this information on the form.
- The majority of participants understood that the borrower would receive $12,000 in an initial advance, $1,286.95 per month, and that they would have access to a $15,000 line of credit. One participant did not see this information and one was not clear about how long the borrower would receive payments.
- Although most participants saw that they would have access to a line of credit, several did not understand how such a line would work.

Fees and Charges

- Half of the participants understood that they could either pay account opening fees up front or have them added to the loan balance. The other participants did not notice they had these two options.
- All participants understood that the initial interest rate was 4.9 percent, and that this rate could change up to 2 percent each year up to a maximum of 9.9 percent.
- Almost all participants understood that the interest would be added to the loan balance and did not need to be paid to the bank each month. A few participants thought the interest would have to be paid monthly.

When the Loan is Due

- Most participants understood when the loan would come due. However, one thought that the loan would come due when the "time period" for payments expired. Another believed that upon the death of the borrower, the loan would not become due; instead, the borrower's heirs would inherit the debt.
- Almost all participants understood that at the end of the loan the borrower would owe more than he or she borrowed because of the interest and fees added to the loan. One participant thought he would owe the same amount that he had borrowed, while another participant could not provide a clear answer to this question.

Repayment Options

- All participants understood that if the home sold for more than the outstanding reverse mortgage loan balance, the borrower's heirs could keep the difference. As in the previous round, however, a few simply assumed this was the case—they did not notice the information about this on the disclosure.

- Almost all participants understood that if the home sold for less than the outstanding reverse mortgage loan balance, the borrower would not be responsible for the difference. Again, a few participants simply assumed that this was the case, and did not notice information related to this issue on the form. Two participants incorrectly believed the borrower or the borrower's estate would have to pay the difference.

How the Loan Balance Grows

As noted above, this section of the form differed between FDA-2, FDB-2, and FDC-1.

- Amount Owed

  - While most participants eventually understood the information in this row of the table, those who saw FDA-2 seemed to understand it more quickly. This seemed to be because the tables shown on FDA-2 were the simplest of the three. One of the participants who was shown FDB-2 thought that he would owe only the amount shown for interest and fees, while two of those who saw FDC-1 confused the amount they would owe with the amount they would receive.

- Amount Received

  - All three participants who saw FDA-2 were able to easily identify the amount of money they would have received after five years, and understood that the amount received would increase over time as the bank provided the borrower with more money. Only about half of participants who saw the other two forms understood these aspects of the loan. Again, it seemed that the primary reason that participants understood FDA-2 better than other versions was that it was the simplest of the three.

  - Unlike the other two forms, FDC-1 provided a separate table that showed the amount of money they would receive through the initial advance, monthly advance, and line of credit. Participants generally understood this information. One, however, did not realize that the table provided only an example of how the line of credit could be used, and thought she would be limited to borrowing that amount.

- Amount Owed in Interest and Fees

  - Almost all participants were able to provide an accurate explanation of the line in the table showing how much the borrower would owe in interest and fees, regardless of which version of the form they were shown. One participant who saw FDA-2, however, incorrectly thought that the numbers in this row increased over time because the interest rate was increasing, although there was a note in the table that indicated that the figures in the chart assumed the interest rate remained constant.

- Total Amount Owed
  - All participants were able to provide an accurate explanation of the line in the table showing the total amount owed, regardless of which form they were shown.
- FDB-2 was the only form that displayed how the borrower's equity changed over time. Participants who were shown this form generally understood the information in this row. However, most indicated that they would not find this information useful.
- Forms FDA-2 and FDB-2 showed two scenarios—one where the borrower did not access the line of credit (Scenario 1), and one where the borrower did (Scenario 2). Participants were asked which scenario they would prefer to see on the form if they could only select one. Of the six participants who saw these forms, half preferred Scenario 2 (borrowing from the line of credit) because they thought it would be helpful to see what would happen to their loan if they access the line. The other half indicated they would prefer to see both scenarios. However, four of the six initially did not understand how a line of credit worked until the moderator explained it to them.

Review of TALC Disclosure (TLC-2)

- As in the previous round, most participants had a great deal of difficulty explaining the TALC rate table. Only two participants were able to articulate that the percentages in the chart represented costs for the loan. These participants were also the only two that provided an explanation for why the TALC percentages decreased over time. One said that the reason the percentages decreased was because "the same amount of money is a smaller percentage on a larger figure"; the other said that "the loan cost will be less because it is stretched out over time." No other participants were able to provide a clear or accurate explanation of what the TALC table showed. Most either thought that the rates in the table were interest rates, or simply commented that they found the information confusing.
- Despite the fact that the descriptive text above the TALC rate table had been revised before this round to make it clearer and more informative, it did not appear to be effective in helping participants interpret the table. Most did not read the text carefully, and those that did indicated that they found it confusing.
- When asked how they would use the information in the TALC table, only one participant indicated that she might. This participant stated that she would use the information to determine how much it would cost her to maintain the loan. However, she later commented that she did not think the information was important.
- Participants were unsure why the percentages in the table remained the same while the appreciation rate changed. One participant commented that the form should show what would happen if the property depreciated.
- Most participants said that if the TALC rate table were added to the disclosure form, it would make that form more difficult to understand. None thought that it would make the disclosure form clearer or more useful.

Review of Equity Bar Chart (ETD-2)

- All participants reacted positively to the bar chart, and said that they found it helpful. All understood from the chart that as they received money and paid interest and fees, their equity in their home would decrease.
- Participants generally read the chart by simply comparing the proportions of the different colored blocks instead of referring to the actual dollar values that were provided on the y-axis. As a result, most noted that their equity was decreasing over time but did not use dollar values in their explanation.
- In general, participants seemed to be more comfortable interpreting the bar chart than they were with other tables that provided more specific numbers.
- All participants said it would be helpful to add this chart to the loan summary form, but most agreed it should not replace the *How the Loan Balance Grows* tables.

Review of Shared Appreciation Language (SA-1)

- As in the previous round, most participants understood what shared appreciation meant and were able to explain the concept to the interviewer. However, one participant thought that a shared appreciation feature would not apply to a loan if the home was sold for more than the loan balance.

Subsequent Design Decisions

Based on interview findings from this round, the following changes were made to the forms.

Key Questions

- Several participants did not understand the "loan insurance premium" described in question 4. Some participants thought this was similar to a home insurance premium, and therefore thought they could obtain their own loan insurance. To help consumers understand that this was different from homeowners' insurance, the phrase used on the form was changed to "government insurance premium."

Reverse Mortgage Disclosure

Payment of Loan Funds

- Unlike the first round, participants in this round generally understood how they would receive loan funds. However, it was unclear whether they realized that they could control how they received loan funds—for example, that they could decide whether to take money as an initial draw or monthly payment. Therefore, this information was added to the "Payment of Loan Funds" section.

How Your Loan Balance Will Grow

- Participants in the first two rounds of interviews generally understood the format of the *How Your Loan Balance Will Grow* section in the FDA form better than in the FDB or FDC forms. Most participants also indicated that they did not find the information about equity shown in the FDB form to be particularly useful. Therefore, ICF Macro and Board staff decided to use the format of FDA in all subsequent forms.

- Although some participants preferred the scenario that included borrowing from the line of credit, many participants in all three rounds of testing did not seem to understand how a line of credit worked. For this reason, and because space limitations on the form did not allow for both scenarios to be included, ICF Macro and Board staff decided to include only Scenario 1 on all subsequent forms.

TALC Disclosure

- One of the misconceptions participants had about the TALC rate table was that the numbers in the chart represented interest rates at different points in time. To help address this misconception, the column labels were changed, for example, from "2 years" to "After 2 years."
- Minor revisions were again also made to the explanatory text.

Shared Appreciation

- Because comprehension of the language about shared appreciation continued to be high, ICF Macro and the Board determined that it was not necessary to test this text in the subsequent round.

Equity Bar Chart

- Although participants reacted positively to ETD-2 and found it helpful, they also acknowledged that other information in the *How Your Loan Balance Grows* section was more important. Because of space limitations on the disclosure, therefore, ICF Macro and the Board decided not to test ETD-2 in subsequent rounds.

Interviews in Chicago, IL (April 2010)

Objectives and Methodology

Ten cognitive interviews were conducted in Chicago, IL on April 14 and 15, 2010. The primary focus of this round of interviews was to continue the testing of consumer comprehension of model reverse mortgage loan forms developed by ICF Macro. For this round, additional information was added to the forms that had not been included in previous rounds. The reason for this was that in many situations TILA requires reverse mortgage lenders to provide borrowers disclosures specific to reverse mortgages and other disclosures related to open-end credit. With this in mind, the Board decided to test whether the required information could all be provided on a single disclosure to minimize burden both on the part of lenders and consumers. Consequently, in this round statutorily required information about risks, the Annual Percentage Rate (APR), and the refundability of fees was included on the forms.

Two versions of the disclosure (FDA-3 and FDA-4) were tested in this round. The first page of both forms were identical, containing information about the borrowers, the property, general information about reverse mortgages, a description of how borrowers would receive the loan funds, and the APR of the loan. The second and third pages of each form varied, providing slightly different presentations of information regarding when fees could be refunded, the risks associated with a reverse mortgage, and the terminology used to describe the mortgage insurance premium. The following is a description of the differences between the forms:

- **FDA-3:** This form presented information on when fees could be refunded in a separate section titled Refundability of Fees on the third page of the form. The information on risks was also placed on the third page and divided into two rows: one that explained that the borrower could lose the home and another that explained why the borrower might not be able to borrow additional money. This form more closely reflected the design of the proposed model disclosures for home equity lines of credit that were published by the Board in July 2009. Additionally, on this form, the term used to describe the mortgage insurance premium was "Government Insurance."

- **FDA-4:** This form presented information on the refundability of fees with other information about fees on page 2. The information on risks was placed on the third page and divided into five rows. The first row described the ways a borrower could default on the loan, and the next three described the actions that the lender could take in the event of default. The final row communicated that other changes could also be made to the loan. On this form, the term used to describe the mortgage insurance premium was "Reverse Mortgage Insurance Premium."

All participants on the first day of the interviews reviewed FDA-3. By the end of Day 1 it was clear that many participants were either overlooking or misunderstanding the information regarding when fees could be refunded, the risks of reverse mortgages, and the insurance premium. Therefore, the disclosure form was revised and presented to participants on Day 2 as FDA-4.

In addition to the disclosure forms participants reviewed the following:

- A revised two-page document, titled "Key Questions to Ask About Your Reverse Mortgage Loan," that provided basic information about reverse mortgages in a question-and-answer format.

- **TLC-3:** A one-page document that included the TALC rate table that is currently required by statute. This was a revised version of TLC-2 reviewed in the previous round.

The interview protocol included the following sections:

- *Defining a Reverse Mortgage.* Participants were asked to explain what they understood about reverse mortgages.

- *Reverse Mortgage Decision Process.* Participants without a reverse mortgage were asked whether they had ever considered a reverse mortgage, when a reverse mortgage might be a reasonable thing to consider, and how they would get more information about reverse mortgages. Participants with reverse mortgages described their experiences with and perceptions of reverse mortgages.

- *Key Questions to Ask About Your Reverse Mortgage.* Participants were asked to read and comment on a two-page document that summarized key features of a reverse mortgage. They were shown this document to ensure that all participants had a basic understanding of how reverse mortgages actually worked before reviewing either FDA-3 or FDA-4.

- *Reverse Mortgage Disclosure Form.* Participants on Day 1 reviewed FDA-3, while those on Day 2 reviewed FDA-4. Participants were asked questions to assess their comprehension of the pages.

- *TALC Table.* Each participant was shown TLC-3, and asked a series of questions testing their comprehension. They were also asked whether they would find this information helpful if it were included on the disclosure form.

Key Interview Findings

Two of the participants in this round had reverse mortgages; other participants were candidates for reverse mortgages based on their age and the amount of equity they had in their home. The two participants with a reverse mortgage said that they used it to eliminate their monthly mortgage payment. Both said they were not concerned about leaving the property for their heirs; one participant said he had none, and the other participant said her children were self-sufficient.

Participants' Understanding of Reverse Mortgages

About half of all participants appeared to have a good understanding of the positive and negative features of reverse mortgages, while some individuals either clearly did not understand or had misconceptions about them.

- Both reverse mortgage holders and most participants without a reverse mortgage understood—
  - Traditional or forward mortgages are different from reverse mortgages.
  - With a reverse mortgage, payments are made to the borrower.
  - A reverse mortgage borrower does not make monthly payments to a lender.
  - The amount of money available for payment to the borrower is based on the equity in the home.
  - Borrowers must own their own home and meet a minimum age requirement to qualify. Participants generally thought the qualifying age minimum was in the 60s.
- As in previous rounds, some participants incorrectly assumed that once a borrower obtains a reverse mortgage, the lender owns his or her home. Also as in previous rounds, some did not view the product as a loan, but instead thought reverse mortgage borrowers were just exchanging their home for a stream of funds.
- Participants thought a reverse mortgage might be a reasonable product to consider for people with a financial need, no heirs, and those who wanted money for a specific purpose (e.g., travel). Two participants could not think of any circumstances under which a reverse mortgage would be a reasonable financial product to consider.
- To learn more about reverse mortgages, participants said they would contact their bank, research information at the library, or "Google" the subject.
- When asked what questions they might ask a lender about reverse mortgages, the responses of participants without reverse mortgages included—
  - How much money could I get?
  - What are the fees associated with a reverse mortgage?
  - What would the interest rate be?
  - Do you have to make regular payments on the interest for a reverse mortgage?
  - How quickly does it have to be repaid if you are still alive?

Review of Key Questions Document

- All participants said the document was very useful in helping them understand how reverse mortgages worked.
- When asked whether anything in the document surprised them, participants mentioned the following facts about reverse mortgages:
  - A reverse mortgage is a loan and must be repaid
  - A reverse mortgage's loan balance increases over time
  - The homeowner remains responsible for paying the taxes, insurance, and maintaining the property
  - The large number of fees borrowers are required to pay to obtain a reverse mortgage
  - The tax implications of obtaining a reverse mortgage (one of the participants who held a reverse mortgage said her loan officer told her reverse mortgages had no tax implications)
  - The borrower cannot be out of the home for more than 12 consecutive months.
- Questions that participants still had after reviewing the Key Questions document include—
  - Is the money you receive from a reverse mortgage considered taxable income?
  - Does having a reverse mortgage have an impact on Social Security benefits?
  - Does the statement "The loan balance increases over time" mean that the borrower gets more money over time or that the borrower will pay more when the loan comes due?

Review of Reverse Mortgage Disclosure Form (FDA-3 and FDA-4)

While reviewing the form, participants were asked to "think aloud" so that their initial reactions to the documents could be captured. Participants were then asked specific questions about each section of the forms.

Initial Reactions

- The majority of participants thought the most important information on the document was information regarding the interest rate, fees, and charges.
- Several participants misunderstood the requirement that borrowers cannot be out of the home for more than 12 consecutive months. They interpreted this to mean that the borrower had to remain in the home for 12 consecutive months, rather than that there could be no consecutive 12-month period when they were out of the house.
- Questions participants had while reviewing the form include—
  - Who conducts the appraisal to determine the value of your home?
  - What does "Constant Maturity Treasury rate" (CMT) mean?
  - Do the reverse mortgage fees have to be paid up front?

- Is there an option to lock in the interest rate?
- What is government insurance? Do they insure the house? (FDA-3)
- Is the reverse mortgage premium in addition to home insurance? (FDA-4)
- What happens if you eventually use all your equity and are still alive and in the home?
- What does "Failing to meet any other borrower obligation" mean? Can the reverse mortgage be terminated if, for example, you defaulted on a different loan?

- After reading the disclosure, three participants without reverse mortgages became more cautious in their attitudes toward reverse mortgages. One participant said he was now "leery" of taking out a reverse mortgage, while another participant stated, "I would have to think twice about taking a reverse mortgage, looking at all these fees." The third participant said, "I definitely do think I need a lawyer… After reading this, I wouldn't want one [a reverse mortgage]."

Payment of Loan Funds

- Almost all participants understood that the current value of the home was $275,000.
- Almost all participants understood that the borrower would receive $12,000 in an initial advance, $1,286.95 per month, and that they would have access to a $15,000 line of credit. One participant initially said that the borrower would get $275,000 because that's what the house is worth.
- Most participants understood the phrase "You may choose to change the way we pay loan funds to you." One participant who did not understand the phrase thought it meant that if the value of the home went down, the lender could reduce the monthly payment. Another participant wondered whether this meant the money could be deposited to a checking account instead of a savings account.
- Several people were confused about how the line of credit worked within the context of a reverse mortgage.

Annual Percentage Rate

- Most participants understood that the initial interest rate was 2.93 percent, and that this rate could change up to 2 percent each year. One person incorrectly thought that the rate could change by 2.5 percent (the margin used to determine the rate).
- The majority of participants clearly understood that borrowers did not have to send interest payments to the bank each month, but that interest would instead accumulate over the life of the loan and be owed when the loan comes due. However, three participants thought the borrower did have to pay monthly interest to the bank. Two of the three thought the interest had to be paid monthly, while the third said that he thought it came out of the "value of the property" (it was not clear exactly what he meant by this).

Fees

- All participants understood what fees they would be charged to open the account. However, some participants thought these fees had to be paid up front, while others understood the fees could be added to the loan balance.

- All participants understood what fees they would be charged on a monthly basis.
- Participants generally did not understand the reasons that account opening fees could be refunded.
  - All participants correctly indicated that they could not receive a refund of their account opening fees if their APR changed after more than three days. However, participants generally thought that they could not receive a refund in this situation because the three-day window had passed. None mentioned that a change in APR was not a qualifying change in terms that could ever lead to a refund of fees.
  - Several participants did not understand that they could receive a refund of their account opening fees after more than three days if there was a change in payment terms. Although four of the five participants who reviewed FDA-3 correctly stated that the borrower would receive a refund, they incorrectly used the text after the *Refundability of Fees* section to justify their answer instead of looking at the text in this section. They thought that because the text after this section said "You are under no obligation to accept the terms of this loan" that they would be entitled to a refund. The information in *Refundability of Fees* section was consequently moved in FDA-4 to avoid this confusion.
  - Unlike participants who reviewed FDA-3, participants who saw FDA-4 did not attempt to use the statements on page 3 as justifications for their answer. Interestingly, they did not use any information on the form to justify their answer. Two participants simply assumed that fees should be refunded, as they believed that although a borrower may have to accept a change in the APR, he or she should not have to accept a change in any other loan terms. One participant said fees should be refunded because he felt the change was a breach in contract, while the other participants did not think the borrower would be entitled to a refund.

How Your Loan Balance Will Grow

- All but one participant was able to correctly identify the amount the borrower would have received after five years. The participant who was unable to answer this question was able to describe the payments he would have received, but could not use the table to tell the interviewer the exact amount.
- Only half of the participants could explain why the figures in the "How much money will you have received?" line was increasing over time. One participant thought the figures were increasing because the equity in the home was increasing, while another thought it was because of interest and fees.
- The majority of participants understood the row labeled "How much will be owed in interest and fees?" and understood that the figures in this row were cumulative.
- The majority of participants understood the row labeled "How much will be owed altogether?" One participant incorrectly stated that if he did not use his line of credit he would not owe the amount stated in this row. He did not seem to notice the line in the table that stated the figures were based on the assumption that the line of credit was not accessed.
- Six of the ten participants were able to correctly use the table to identify the amount the borrower would owe after five years. Three of the other four participants had difficulty answering the question initially, but were able to find the answer when the interviewer

specifically asked them to look at the table. Even after being asked to look at the table, one participant was still unable to identify the correct figure.

- Only five respondents understood that the borrower would continue to receive monthly payments until he or she moved out of the home or died. One participant thought the borrower would only receive payments for ten years because this was the longest time period listed in the How the Loan Balance Grows section. The other four participants assumed the borrower would stop receiving payments either once the loan balance equaled the value of the home or once the loan balance equaled the equity in the home.

Repayment Options

- All participants understood that if the home sold for more than the loan balance, the borrower or the borrower's heirs could keep the difference.
- The majority of participants understood that if the home sold for less than the loan balance, the borrower or the borrower's heirs were not responsible for the difference. However, some participants thought the entire loan balance would need to be repaid.
- Most participants understood that the loan must be repaid when the borrower dies, moves out of, or sells the home.
- Most participants understood that they would always owe the bank more than they borrowed because of the interest and fees added to the loan amount.

Risks

- All participants who reviewed FDA-3 and four who reviewed FDA-4 understood that there were conditions under which the borrower could stop receiving payments and no longer have access to the line of credit. Conditions that were mentioned by participants included failing to keep the home in good repair, failing to pay taxes, and being out of the home for 12 consecutive months.
- Four participants who reviewed FDA-3 and two who reviewed FDA-4 understood that there were conditions under which the lender could require the borrower to leave the home. Examples that were mentioned by participants included failing to keep the home in good repair, failing to pay taxes, and being out of the home for 12 consecutive months. Of the participants that did not understand, one stated that she did not know the answer to the question; one thought the lender could never put the borrower out of the home; and two others believed the borrower could be asked to leave at any time as "nothing is guaranteed."

Review of TALC Disclosure (TLC-3)

- As in previous rounds, comprehension of the TALC disclosure was extremely low. Only one of the ten participants was able to correctly explain what the TALC rates represented. The other nine participants could not provide a clear explanation of the TALC rate table. Most participants commented that they found it very confusing. As in previous rounds, several participants incorrectly thought that the table showed that their interest rate would decrease over time. One commented that it showed a decrease in "expenses" over the life of the loan.
- Three of the ten participants said the TALC rate table should be added to the disclosure form. However, two of the three wanted it on the form because they incorrectly believed it showed

that the interest rate was decreasing. The third could not clearly articulate why she wanted the information on the form or how she would use this information.

- Nine of the ten participants indicated that there was no situation in which they would find the information in the TALC table useful. The remaining participant stated that reviewing the TALC would help her realize she needed to stay in her home for a longer time. However, this participant was also one of those who incorrectly thought that the table showed the interest rate was decreasing.

Subsequent Design Decisions

Reverse Mortgage Disclosure

- One of the questions that participants asked in all rounds was what would happen if they "outlived" the loan—that is, if their loan balance grew to be greater than the value of their home. To provide consumers with information about what would happen if this event occurred, a fifth bullet was added to the *About This Loan* section explaining that in this situation borrowers could continue to live in the home and receive loan funds.

Fees

- The decision was made to retain the information about when fees could be refunded in the "Fees" section (as presented in FDA-4), because ICF Macro and Board staff considered it a more logical placement for the information and because this placement led to fewer misconceptions by participants.

Risks

- ICF Macro and Board staff decided to present information about risks as it was shown in FDA-4, because it was a clearer explanation of the actions that could be taken if the borrower defaulted on the loan in any of the listed ways.

Chapter IV: Summary

This report summarizes work conducted by ICF Macro from January 2010 through June 2010 in support of the Board's efforts to revise rules pertaining to disclosures for reverse mortgage loans. ICF Macro used focus groups and cognitive interviews with consumers to design disclosure forms that are clearer and more understandable than those that are currently in use. This work focused on two different kinds of forms—

- A Loan Summary Form that lenders would be required to provide to reverse mortgage borrowers no more than three business days after an application for a reverse mortgage loan is submitted. This disclosure would provide information about a reverse mortgage transaction including the following:
  - A description of how the loan funds will be disbursed (initial advance, monthly advance, line of credit)
  - How the interest rate would be determined
  - The APR for the loan
  - The total amount of account-opening fees that will be charged, as well as a breakdown of those fees
  - A description of monthly fees that apply to the account
  - A description of potential risks, including possible termination or suspension of the loan disbursements by the lender
  - Information about the refundability of fees
  - An example of how the loan balance could grow over time.
- A new document titled *Key Questions to Ask About Your Reverse Mortgage Loan*. This educational document provides information about reverse mortgages in a concise and easy-to-read question-and-answer format. Testing of this document showed that it improved comprehension, and participants uniformly found it informative and helpful.

The results of the interviews described in this report will inform the Board's proposed disclosure rules for reverse mortgages, which are scheduled for publication in July 2010. The disclosure forms developed through iterative testing will be released with the proposal as model forms. By relying heavily on direct consumer testing in the development of these forms, the Board hopes to ensure that its new regulations will lead to financial disclosures that will be easy for consumers to read and understand and, as a result, will help them make well-informed financial decisions.

Appendix A:
Sample Recruitment Protocol

Participant Screener for Federal Reserve Board In-Depth Interviews

Bethesda, MD
March 3rd and 4th, 2010

General Information and Recruiting Specifications

- Interviews will be held at 10:00 a.m., 11:30 p.m., 1:15 p.m., 2:45 p.m., and 4:15 p.m. each day.
- A total of 14 recruits. Seven for each day (5 interviewees, 1 AM floater, and 1 PM floater). Floaters must stay through the end of the AM or PM interviews.
- Participant stipend is $75. Floater stipend $100.
- INTERVIEWERS: Ask all participants to bring their reading glasses if necessary, because they will be asked to read sample mortgage documents as part of the interview.

Recruiting Script

Hello, I am calling on behalf of the United States Federal Reserve Board. The Federal Reserve Board is sponsoring a series of interviews in your area so that they can learn more about how people make financial decisions. They will use what they learn from these groups to help make sure that the information that banks provide to consumers about reverse mortgages is useful and easy to understand. I would like to ask you a few questions to determine if you are a candidate for an interview.

Q1: Do you currently own a home?

- ❑ Yes → Continue
- ❑ No → *Thank respondent politely and end call.*

Q2: Are you 62 years old or older?

- ❑ Yes → Continue
- ❑ No → *Thank respondent politely and end call.*

Q3: Are you the person in your household who would be responsible for making financial decisions related to your mortgage?

- ❑ Yes → Continue
- ❑ Yes, in cooperation with my [spouse, partner, etc.] → Continue
- ❑ No → *Ask the respondent whether the primary decision maker is available to join the call. If not, thank respondent politely and end call.*

Q4: Do you work, or have you ever worked, for a bank or other financial institution, or in the real estate or mortgage industry?

- ❑ Yes → *Thank respondent politely and end call.*
- ❑ No → Continue

Q5: ARTICULATION: In a few sentences, please explain what you think a reverse mortgage is?

- ❑ If respondent gives an accurate/partially accurate thoughtful, articulate answer → Continue
- ❑ If respondent does not give a thoughtful, articulate answer → *Thank respondent politely and end call.*
- ❑ If respondent gives an incorrect, but thoughtful, articulate answer → *Thank respondent politely and end call.*

Note: A reverse mortgage is a loan secured by your home that you do not have to pay back for as long as you live there. To receive this loan you must be a homeowner who is at least 62 years old, and have no/low current mortgage.

Q6: Have you ever taken out a reverse mortgage on your home?

- ❑ Yes → Participant qualifies in Quota A; skip to INVITATION
- ❑ No → Continue

Q7: Do you currently have more than 50% equity in your primary residence?

- ❑ Yes → Participant qualifies in Quota B; skip to INVITATION
- ❑ No → *Thank respondent politely and end call. Record contact information for all users who fall into this category for potential future use.*

INVITATION: Great. We will be holding interviews in Bethesda on March 3rd and 4th. Participants will receive $75 in exchange for their time and input on this important topic. I was wondering if you would be interested in attending.

- ❑ Yes → Continue to screening questions 8-10
- ❑ No → *Record reason (not interested, not available on that date, etc.). If unavailable on that date, retain their information because we may do additional rounds of testing in the future. Thank them politely and end call.*

Recruiting Quotas	Screening Criteria
	• At least five participants must be in Quota A. • At least five participants must be in Quota B.
Q8: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. [*Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.*] a) White b) Black or African-American c) Hispanic or Latino d) Asian or Pacific Islander e) Native American or Alaska Native	At least 5 recruits should respond "b," "c," "d," or "e"
Q9: What is the highest level that you reached in school? a) High school degree or less b) Some college work c) College graduate	• At least 3 recruits should respond "a" • At least 4 recruits should respond "b"
Q10: *Gender*	At least 5 male recruits

If participant qualifies: Based on your responses, we would like to invite you to participate in an interview, which will be held at Shugoll Research in Bethesda, MD. The interview will last about 60 minutes. We will be showing you some sample financial documents for you to refer to, so if you use reading glasses please be sure that you bring them. We will provide you with a $75 stipend for participating in the interview, as well as refreshments.

Appendix B: Participant Demographic and Background Information

Demographic	Bethesda. MD January 21, 2010 Focus Groups	St. Louis, MO January 27, 2010 Focus Groups	Bethesda, MD March 4–5, 2010 Interviews	Phoenix, AZ March 25–26, 2010 Interviews	Chicago, IL April 14–15, 2010 Interviews	Total
Gender						
Male	11	13	8	4	5	41 (58%)
Female	9	7	3	6	5	30 (42%)
Total	20	20	11	10	10	71 (100%)
Ethnicity						
White	6	16	5	6	8	41 (58%)
African-American	10	4	6	1	2	23 (32%)
Latino	1	0	0	2	0	3 (4%)
Asian	2	0	0	0	0	2 (3%)
Other	1	0	0	1	0	2 (3%)
Total	20	20	11	10	10	71 (100%)
Education						
High School	1	5	5	3	2	16 (23%)
Some College	5	6	5	2	4	22 (31%)
College Graduate	14	9	1	5	4	33 (46%)
Total	20	20	11	10	10	71 (100%)
Reverse Mortgage						
Yes	5	5	3	5	2	20 (28%)
No	15	15	8	5	8	51 (72%)
Total	20	20	11	10	10	71 (100%)

Appendix C:
Disclosure Forms Used in Testing

Focus Groups:

Bethesda, MD—January 21, 2010

St. Louis, MO—January 27, 2010

Basic Facts About Reverse Mortgages

Current Disclosure Form

Basic Facts about Reverse Mortgages

- **What is a "reverse mortgage"?**
  - A reverse mortgage is a loan available to homeowners age 62 and older who own all or almost all of the equity in their home that allows the homeowner to exchange equity in their home for cash.

- **How are "reverse mortgages" different from traditional or "forward" mortgages?**
  - "Forward mortgages" are loans traditionally used to buy a home or to take out equity for bills or other expenses. When you take out a forward mortgage to buy a home, the lender usually owns most of the equity in your house. Over time, as you pay back the loan, you get that equity back from the lender. Once the forward mortgage is paid off, you have all the equity in your home—the lender owns nothing.
  - With a reverse mortgage, you already own most, if not all, of the equity in your home, and you exchange this equity for money from a lender in the form of a lump sum, monthly payments, line of credit or some combination of these payment options. You do not pay back this money over time, and therefore you do not earn equity back from the lender. In fact, you often have the opportunity to get more money from the lender over time in exchange for more equity in your home.

- **How long does a reverse mortgage last?**
  - The reverse mortgage ends when you die, move out of the house, or break the rules of the reverse mortgage by, for example, not paying property taxes. At that point, the reverse mortgage must be paid off.

- **How are reverse mortgages repaid?**
  - The reverse mortgage is *usually* repaid by selling the house. If there is any money left over after the reverse mortgage is paid off, almost all reverse mortgage programs let the homeowner (or his/her heirs) keep that money. If the money earned through selling the home isn't enough to pay off the reverse mortgage, then usually the bank has to absorb the difference; the bank can't sue you or your heirs for it If the reverse mortgage is insured by the federal government (as most today are), the government will absorb the difference instead of the bank. However, if the homeowner or the heirs want to keep the house they must pay the whole loan balance.

- **How do you get cash through a reverse mortgage?**
  - There are several ways that you can receive the cash from your reverse mortgage, including:
    1) as a single "lump sum" of cash
    2) as a regular, monthly cash advance
    3) through a "credit line" account that lets you decide when and how much of your available cash is paid to you. (A credit line is like an account that can readily be tapped into if the need arises or not touched at all and saved for emergencies.), or
    4) as any combination of these options (for example, a lump sum at the beginning and then monthly cash advances)

- **What is a "Home Equity Conversion Mortgage," or "HECM"?**
  - The HECM is the most well-known and most widely available type of reverse mortgage. HECM loans are popular in part because they are guaranteed by the federal government. This means that if the bank cannot continue to make payments to you under the reverse mortgage, the government will step in to ensure that payments continue. It also means that the government will absorb the difference between the money received from selling the house and the amount due on the reverse mortgage.

Date: 1/14/2010

Federal Housing Administration

Time: 15:37

Home Equity Conversion Mortgage (HECM) Program (V1.2)

TOTAL ANNUAL LOAN COST RATE

Borrower Name/Case Number: J. Marsh

Refinance: No

LOAN TERMS		MONTHLY LOAN CHARGES	
Age of youngest borrower:	81	Mo. Servicing Fee:	$35.00
Appraised Property Value:	$355,000	Mortgage Insurance:	0.5 % annually
Initial interest rate:	5.250%		
Monthly advance:	$1,581.74	OTHER CHARGES	
Initial Advance:	$25,000.00	Shared Appreciation:	None
Line Of Credit:	$15,000.00		
Length Of Term:	TENURE		

INITIAL LOAN CHARGES		REPAYMENT LIMITS
Closing Cost:	$6,550.00	Net proceeds estimated at 93% of projected home sale
Morgage Insurance Premium:	$7,100.00	
Annuity Cost:	None	

Total Annual Loan Cost Rate

Appreciation Rate	DISCLOSURE PERIOD (Yrs.)			
	2	5	9	13
0%	18.38%	9.52%	7.40%	2.24%
4%	18.38%	9.52%	7.40%	6.73%
8%	18.38%	9.52%	7.40%	6.73%

The cost of any reverse mortgage loan depends on how long you keep the loan and how much your house appreciates in value. Generally, the longer you keep a reverse mortgage, the lower the total annual loan cost rate will be.

This table shows the estimated cost of your reverse mortgage loan, expressed as an annual rate. It illustrates the cost for your age, that life expectancy, and 1.4 times that life expectancy. The table also shows the cost of the loan, assuming the value of your home appreciates at three different rates: 0%, 4%, and 8%.

The total annual cost rates in this table are based on the total charges associated with this loan. These charges typically include principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs (but not disposition costs -- costs when you sell the home).

The rates in this table are estimates. Your actual cost may differ if, for example, the amount of your loan advances varies or the interest rate on your mortgage changes. You may receive projections of loan balances from counselors or lenders that are based on an expected average mortgage rate that differs from the initial interest rate.

SIGNING AN APPLICATION OR RECEIVING THESE DISCLOSURES DOES NOT REQUIRE YOU TO COMPLETE THIS LOAN

Signature: _____ Date: _____

Round 1:

Bethesda, MD—March 3–4, 2010

Key Questions Disclosure

Revised Disclosure Form (FDA-1)

Revised Disclosure Form (FDB-1)

Revised Total Annual Loan Cost (TLC-1)

Equity Over Time: Percent Example (ETP-1)

Equity Over Time: Dollar Example (ETD-1)

Shared Appreciation (SA-1)

FEDERAL RESERVE BOARD CONSUMER PROTECTION RESOURCES

Key Questions to Ask About Reverse Mortgages

When you are shopping for a reverse mortgage, consider the questions below. Ask your lender about other loan products, such as a traditional home equity loan or home equity line of credit. For more information, go to: *www.frb.gov*.

1

What is a reverse mortgage?
A reverse mortgage is a loan available to seniors (usually age 62 and older) who own all or almost all of the equity in their home. It allows you to exchange equity in your home for cash. With a reverse mortgage loan, you typically don't pay back the loan for as long as you live in your home. Instead, the loan must be repaid in full when the last living borrower dies, sells the home, or moves out of the home for 12 months or more. Repaying the loan in full includes the amount of the original loan plus all interest and any other fees and charges. Most borrowers (or their heirs) repay a reverse mortgage by selling the home.

2

How is a reverse mortgage different from a traditional or forward mortgage?

- **Forward mortgages** are loans traditionally used to buy a home or to borrow against your home equity for bills or other expenses. When you take out a forward mortgage, usually the lender owns most of the equity in your home. As you pay back the loan over time (usually through monthly payments), you get that equity back from the lender. Once the forward mortgage is paid off, you own all the equity in your home—the lender owns nothing.

- With a **reverse mortgage**, you already own all or most of the equity in your home, and you exchange this equity for cash from a lender. Because you do not pay back this money gradually over time, you do not earn equity back from the lender. Instead, the amount you owe the lender increases as interest and other fees and charges are added to the amount of the original loan.

3

Does the lender own my home while I have a reverse mortgage?
No. You continue to own your home while you have a reverse mortgage loan. This means that you must still pay for property taxes, insurance, and repairs.

4

Can I lose my home while I have a reverse mortgage?
Yes. You could lose your home if you do not pay for property taxes, insurance, and repairs. For example, if you don't pay your taxes, the lender could demand that you repay the loan in full. You may have to sell your home to repay the loan. Or the lender could take your home through foreclosure. Also, if you don't live in your home for 12 straight months or more (for example, if you are in the hospital or a nursing home), the lender could demand that you repay the loan in full, and you may have to sell your home to repay the loan.

5	**What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?** A reverse mortgage is usually repaid by selling the home. If the money earned through selling the home isn't enough to repay the reverse mortgage, the lender usually absorbs the difference. The lender can't sue you or your heirs for more money. If the reverse mortgage is insured by the federal government, the government will absorb the difference instead of the lender. However, if you or your heirs want to keep your home, the loan must be repaid in full when it comes due.

6	**What happens if there is money left over after the home is sold?** Almost all reverse mortgages let the homeowner (or the homeowner's heirs) keep any money left over after the loan is repaid in full. Ask your lender if this applies to your loan.

7	**Is a reverse mortgage right for me?** The advantage of a reverse mortgage is that you can exchange your home equity for cash and do not have to make monthly payments on the loan. But reverse mortgages have risks: • **Loan amount increases over time**: Because you do not pay the lender back over time, the amount you owe increases every month. The younger you are when you take out a reverse mortgage, the more time there will be for the compound interest to grow and the more you will owe. • **Less cushion for emergencies**: By taking out a reverse mortgage now, you will have less home equity later when you may need it more, for example, to pay for future emergencies, health care needs, or everyday living expenses. You may also need your home equity to pay for future home repairs or a move to assisted living. If you are not facing a financial emergency now, consider postponing taking out a reverse mortgage. • **Costs more than other loan options**: Reverse mortgages are generally more expensive than other home loans, so consider other options before taking a reverse mortgage. Reverse mortgages may also have tax consequences or may affect your eligibility for assistance from some federal and state programs. Talk with a housing counselor or financial advisor to learn more.

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN NUMBER: 123-12-1234-556
DATE: March 1, 2010

You are applying for a loan against your home that you do not have to repay for as long as you live there. You will have to pay the money back plus interest and fees when you die, sell your home, or permanently move out of your home for 12 months or more. During this loan you will continue to own your home, so you are still responsible for property taxes, insurance, and repairs.

You have no obligation to accept this loan. Confirm that these are the credit terms for which you applied. Know your rights as a borrower; visit *www.frb.gov/reverse_mortgages/.*

Borrower & Property Information

Borrowers' Names and Ages	Property Address	Appraised Value
John Doe (84); Jane Doe (82)	**123 Ward Street, Jingle Bells, TX 12345**	**$275,000**

Loan Amount

The amounts below show how you have chosen to receive your funds. You may have funds paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.

Initial Advance Paid to you when you accept the loan.	**$12,000.00**
Monthly Advance Paid to you each month until the loan is due.	**$1,261.84**
Line of Credit Available to you at any time before the loan is due.	**$15,000.00**

Fees & Charges

One-Time Fees and Charges can be paid in advance *or* added to your loan balance	
Closing Costs	**$6,125.00**
Initial Mortgage Insurance Premium	**$5,500.00**
Monthly Fees and Charges are added to your loan balance each month	
Monthly Service Fee	**$35.00**
Monthly Mortgage Insurance Premium	**.5%** of loan balance annually (.042% per month)
Interest on Loan Balance	**4.9%** of loan balance annually (.41% per month) to start.

Interest Rates *Interest due is added to your loan balance each month until the loan ends.*

Type of rate:	**Variable**	Initial Rate:	**4.9%**
Interest charged:	**Monthly**	Max annual increase:	**2.0%**
Interest due:	**When loan is due**	Maximum Rate:	**9.9%**

Each year your interest rate can increase by up to 2.0%, up to a maximum ever rate of 9.9%.

Paying Off the Loan

The loan becomes due and payable when any of the following events occur:

- The last surviving borrower dies or fails to live in the house for 12 consecutive months;
- The home is sold;
- You allow the property to deteriorate beyond reasonable wear and tear; or
- You fail to pay your property taxes, insurance, or violate any other borrower obligation.

Once the loan becomes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If you choose this option, and your home sells for less than you owe on the loan, you will not be required to pay the difference. If your home sells for more than you owe on the loan, the difference will be given to you or your heirs.

How Your Loan Balance Will Grow

Scenario 1. If I *never* borrow from the Line of Credit, and the interest rate stays at 4.9%…

	After 1 Year	After 5 Years	After 10 Years
How much money will I have received?	$27,142.00	$87,710.00	$163,421.00
How much will I owe for interest + fees?	+ $13,816.00	+ $32,719.00	+ $83,742.00
How much will I owe altogether?	**$40,958.00**	**$120,429.00**	**$247,163.00**

Scenario 2. If I borrow $1,500 from the Line of Credit each year, and the interest rate stays at 4.9%…

	After 1 Year	After 5 Years	After 10 Years
How much money will I have received?	$28,642.00	$95,210.00	$178,421.00
How much will I owe for interest + fees?	+ $13,899.00	+ $34,060.00	+ $89,158.00
How much will I owe altogether?	**$42,541.00**	**$129,270.00**	**$267,579.00**

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN NUMBER: 123-12-1234-556
DATE: March 1, 2010

You are applying for a loan against your home that you do not have to repay for as long as you live there. You will have to pay the money back plus interest and fees when you die, sell your home, or permanently move out of your home for 12 months or more. During this loan you will continue to own your home, so you are still responsible for property taxes, insurance, and repairs.

You have no obligation to accept this loan. Confirm that these are the credit terms for which you applied. Know your rights as a borrower; visit *www.frb.gov/reverse_mortgages/.*

Borrower & Property Information

Borrowers' Names and Ages	Property Address	Appraised Value
John Doe (84); Jane Doe (82)	**123 Ward Street, Jingle Bells, TX 12345**	**$275,000**

Loan Amount

The amounts below show how you have chosen to receive your funds. You may have funds paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.

Initial Advance Paid to you when you accept the loan.	**$12,000.00**
Monthly Advance Paid to you each month until the loan is due.	**$1,261.84**
Line of Credit Available to you at any time before the loan is due.	**$15,000.00**

Fees & Charges

One-Time Fees and Charges can be paid in advance *or* added to your loan balance	
Closing Costs	**$6,125.00**
Initial Mortgage Insurance Premium	**$5,500.00**
Monthly Fees and Charges are added to your loan balance each month	
Monthly Service Fee	**$35.00**
Monthly Mortgage Insurance Premium	**.5%** of loan balance annually (.042% per month)
Interest on Loan Balance	**4.9%** of loan balance annually (.41% per month) to start.

Interest Rates

Interest due is added to your loan balance each month until the loan ends.

Type of rate:	**Variable**	Initial Rate:	**4.9%**
Interest charged:	**Monthly**	Max annual increase:	**2.0%**
Interest due:	**When loan is due**	Maximum Rate:	**9.9%**

Each year your interest rate can increase by up to 2.0%, up to a maximum ever rate of 9.9%.

Paying Off the Loan

The loan becomes due and payable when any of the following events occur:

- The last surviving borrower dies or fails to live in the house for 12 consecutive months;
- The home is sold;
- You allow the property to deteriorate beyond reasonable wear and tear; or
- You fail to pay your property taxes, insurance, or violate any other borrower obligation.

Once the loan becomes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If you choose this option, and your home sells for less than you owe on the loan, you will not be required to pay the difference. If your home sells for more than you owe on the loan, the difference will be given to you or your heirs.

How Your Loan Balance Will Grow

SCENARIO 1. If I *never* borrow from the Line of Credit, and the interest rate stays at 4.9%…

	After 1 Year	After 5 Years	After 10 Years
A. What is the estimated value of my home? *	$280,500.00	$303,622.00	$335,223.00
B. How much money will I have received?	$27,142.00	$87,710.00	$163,421.00
C. How much will I owe for interest + fees?	$13,816.00	$32,719.00	$83,742.00
D. **How much will I owe altogether (B + C)?**	**$40,958.00**	**$120,429.00**	**$247,163.00**
How much equity will I have in my home (A – D)?	**$239,542.00**	**$183,193.00**	**$88,060.00**

** If the value of your home were to increase by 2% per year.*

SCENARIO 2. If I borrow $1,500 from the Line of Credit each year, and the interest rate stays at 4.9%…

	After 1 Year	After 5 Years	After 10 Years
A. What is the estimated value of my home? *	$280,500.00	$303,622.00	$335,223.00
B. How much money will I have received?	$28,642.00	$95,210.00	$178,421.00
C. How much will I owe for interest + fees?	$13,899.00	$34,060.00	$89,158.00
D. **How much will I owe altogether (B + C)?**	**$42,541.00**	**$129,270.00**	**$267,579.00**
How much equity will I have in my home (A – D)?	**$237,959.00**	**$174,352.00**	**$67,644.00**

** If the value of your home were to increase by 2% per year.*

TLC-1

Total Annual Loan Cost Rate

The TALC rate is a summary of all of the costs associated with taking out a reverse mortgage, disclosed as a single annual average rate. These costs typically include principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs (but not disposition costs – costs incurred when you sell the home). This rate is only an estimate as the cost of any reverse mortgage depends on how long you keep the loan and how much your house appreciates in value.

The TALC shows that the loan is less costly if you keep the loan for a longer time. Short-term TALC rates are very high because the start-up costs are usually a very large part of the total amount that you owe in the early years of the loan. But as your loan balance grows larger over time, the start-up costs become a smaller part of your debt. As these costs are spread out over more and more years, the TALC rate declines. **However, even as the TALC decreases over time, the total dollar amount of the fees and charges applied to your balance keeps increasing over time as interest is charged to your outstanding balance and compounded.**

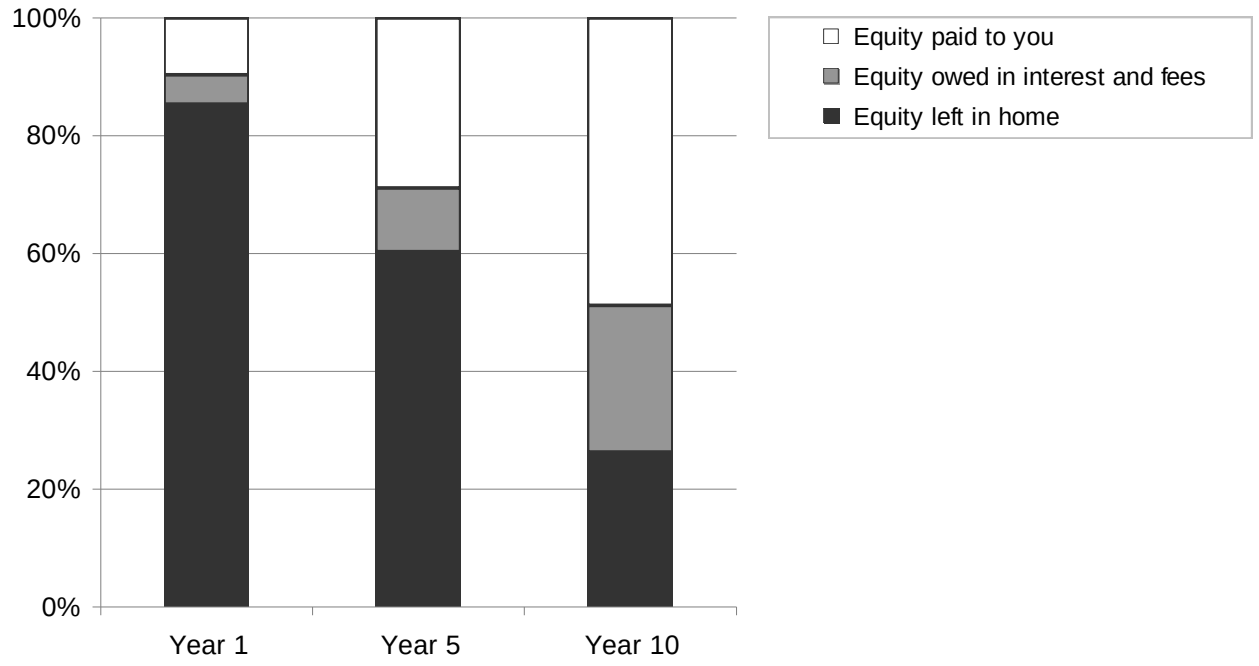
The table illustrates the cost of this loan based on your age. It shows the cost for 2 years, half your life expectancy, your life expectancy, and 1.4 times your life expectancy.

Total Annual Loan Cost Rate

If the value of your home increased …	Duration of the Loan			
	2 years	5 years	9 years	13 years
0% per year	21.14%	11.58%	7.70%	4.98%
4% per year	21.14%	11.58%	7.70%	6.86%
8% per year	21.14%	11.58%	7.70%	6.86%

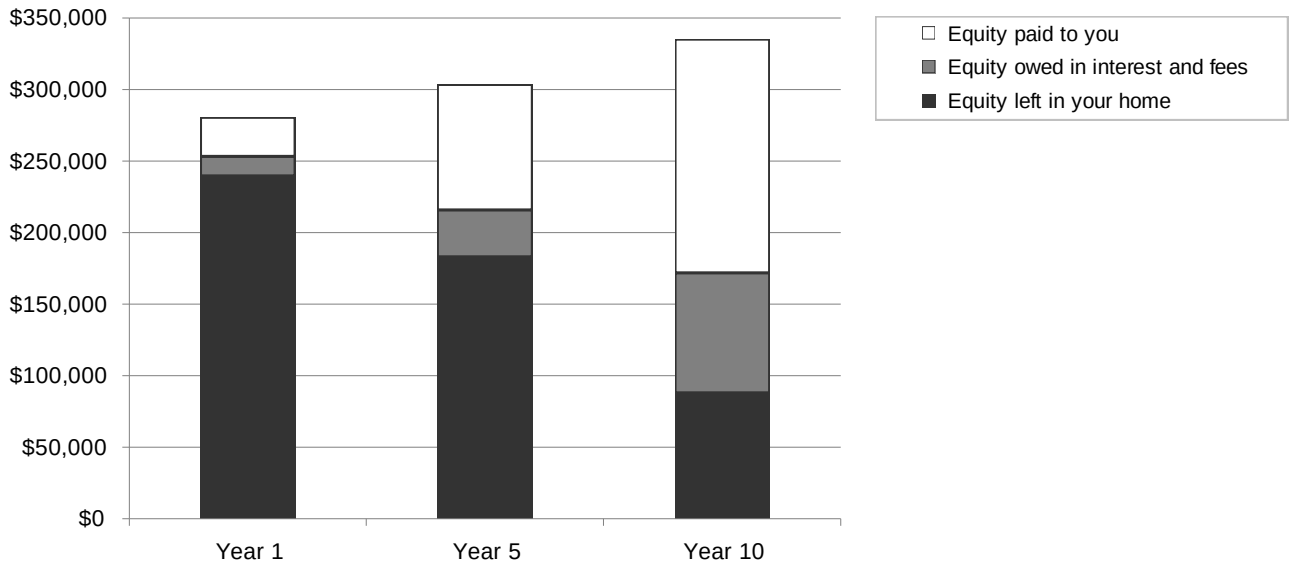
ETP-1

Your Home Equity Over Time



ETD-1

Your Home Equity Over Time



SA-1

Shared Appreciation

This loan includes a Shared Appreciation Agreement, **which means that the lender will be entitled to 25% of any profit you make between when you accept the loan and when you sell or refinance your home**.

For example, if your home were worth $100,000 more when the loan becomes due than it is worth today, you would owe us an additional $25,000 on the loan.

Round 2:

Phoenix, AZ—March 25–26, 2010

Revised Key Questions Disclosure

Revised Disclosure Form (FDA-2)

Revised Disclosure Form (FDB-2)

Revised Disclosure Form (FDC-1)

Revised Total Annual Loan Cost (TLC-2)

Revised Equity Over Time: Dollar Example (ETD-2)

Shared Appreciation (SA-1)

Key Questions to Ask About Reverse Mortgage Loans

When you are shopping for a reverse mortgage loan, consider the questions below. Ask your lender about other loan products, such as a traditional home equity loan or home equity line of credit. For more information, go to: *www.frb.gov*.

1) What is a Reverse Mortgage Loan?

A reverse mortgage loan is available to seniors (usually age 62 and older) who own all or almost all of the equity in their home. This loan allows you to exchange equity in your home for cash. With a reverse mortgage loan, you typically don't pay back the loan for as long as you live in your home. Instead, the loan must be repaid in full when the last living borrower dies, sells the home, or moves out of the home for 12 months or more. Repaying the loan in full includes the amount of the original loan plus all interest and any other fees and charges. Most borrowers (or their heirs) repay a reverse mortgage by selling the home.

2) How is a reverse mortgage loan different from a traditional mortgage?

- **Traditional mortgages** are loans generally used to buy a home or to borrow against your home equity for bills or other expenses. When you take out a traditional mortgage, typically the lender owns most of the equity in your home. As you pay back the loan over time (usually through monthly payments), you get that equity back from the lender. Once the traditional mortgage is paid off, you own all the equity in your home—the lender owns nothing.
- With a **reverse mortgage loan,** you already own all or most of the equity in your home, and you exchange this equity for cash from a lender. Because you do not pay back this money gradually over time, you do not earn equity back from the lender. Instead, the amount you owe to the lender increases as interest and other fees and charges are added to the amount of the original loan.

3) Is a reverse mortgage loan right for me?

The advantage of a reverse mortgage is that you can exchange your home equity for cash and do not have to make monthly payments on the loan. **But reverse mortgages have risks:**

- ***Loan amount increases over time***
  Because you do not pay the lender back over time, the amount you owe increases every month. The younger you are when you take out a reverse mortgage, the more time there will be for the compound interest to grow and the more you will owe.
- ***Less cushion for emergencies***
  By taking out a reverse mortgage now, you will have less home equity later when you may need it more, for example, to pay for future emergencies, health care needs, or everyday living expenses. You may also need your home equity to pay for future home repairs or a move to assisted living. If you are not facing a financial emergency now, consider postponing taking out a reverse mortgage.
- ***Costs more than other loan options***
  Reverse mortgages are generally more expensive than other home loans, so consider other options before taking a reverse mortgage. Reverse mortgages may also have tax consequences or may affect your eligibility for assistance from some federal and state programs. Talk with a housing counselor or financial advisor to learn more.

4) What fees and charges are added to a reverse mortgage loan?

Fees and charges can vary in amount from one reverse mortgage loan to another, and not all reverse mortgages include the same types of fees and charges. Most borrowers choose to have these costs added to their loan balance. If you choose to add these costs to your loan balance, you will be charged interest on these costs each month in addition to the interest charged on the cash you receive. Reverse mortgage loan fees and charges typically include:

- **Closing costs**, which are charged once, at closing
- **Loan insurance premium**, which is charged in two parts: once at closing and each month as a percent of your outstanding loan balance.
- **Interest**, which is charged on your outstanding loan balance each month
- **Servicing fee**, which is charged each month

Ask your lender about the fees and charges that apply to your reverse mortgage.

5) Does the lender take the title to my home while I have a reverse mortgage?

No. You continue to own your home while you have a reverse mortgage loan. This means that you must still pay for property taxes, insurance, and repairs.

6) Can I lose my home while I have a reverse mortgage?

Yes. You could lose your home if you do not pay for property taxes, insurance, and repairs. For example, if you don't pay your taxes, the lender could demand that you repay the loan in full. You may have to sell your home to repay the loan. Or the lender could take your home through foreclosure. Also, if you don't live in your home for 12 straight months or more (for example, if you are in the hospital or a nursing home), the lender could demand that you repay the loan in full, and you may have to sell your home to repay the loan.

7) What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?

A reverse mortgage loan is usually repaid by selling the home. If the money earned through selling the home isn't enough to repay the reverse mortgage, almost all lenders will absorb the difference. These lenders will not be able to sue you or your heirs for more money. If the reverse mortgage is insured by the federal government, the government will absorb the difference instead of the lender. However, if you or your heirs want to keep your home, the loan must be repaid in full when it comes due. Ask your lender if this applies to your loan.

8) What happens if there is money left over after the home is sold?

Almost all reverse mortgage loans let the homeowner (or the homeowner's heirs) keep any money left over after the loan is repaid in full. Ask your lender if this applies to your loan.

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN NUMBER: 123-12-1234-556
DATE: March 1, 2010

The terms of the loan you applied for are summarized on this form. **You have no obligation to accept this loan**. Confirm that these are the credit terms for which you applied. Know your rights as a borrower. To find out more, visit *www.frb.gov/reverse_mortgages/*

Borrower & Property Information

Borrowers' Names and Ages	Property Address	Appraised Value
John Doe (84); Jane Doe (82)	**123 Ward Street, Jingle Bells, TX 12345**	**$275,000**

About this Loan

- You are applying for a loan against your home that you do not have to repay for as long as you live there.
- You may have the funds paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.
- The amount of the loan, plus interest and fees, must be paid back in full when the loan comes due (see the Loan Terms section).
- While you have this loan, you will continue to own your home, so you will still be responsible for property taxes, insurance, and repairs.

Payment of Loan Funds

You have chosen to receive your funds as follows:

Initial Advance Paid to you when you accept the loan	**$12,000.00**
Monthly Advance Paid to you each month until the loan comes due	**$1,261.84**
Line of Credit Available to you at any time before the loan comes due	**$15,000.00**

Fees & Charges

*These **one-time charges** can be **paid in advance** or **added to your loan balance**:*

Closing Costs	**$6,125.00**
Initial Mortgage Insurance Premium	**$5,500.00**

*These **monthly charges** are **added to your loan balance each month** and collected when the loan is due:*

Monthly Service Fee	**$35.00**
Monthly Mortgage Insurance Premium	**.5%** of loan balance annually (.042% per month)
Interest on the Loan Balance	Starts at **4.9%** of loan balance annually (.41% per month) This is a **variable** interest rate. Each year, your interest rate can increase by up to **2.0%**, up to a maximum-ever rate of **9.9%.**

When the Loan is Due

The loan comes due and must be paid in full when any of the following occurs:

- The last surviving borrower dies or does not live in the house for 12 consecutive months;
- You sell your home;
- You allow the property to deteriorate beyond reasonable wear and tear; or
- You fail to pay your property taxes or insurance, or fail to meet any other borrower obligation.

Repayment Options

Once the loan comes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If your home sells for less than you owe, you **will not** be required to pay the difference. If your home sells for more than you owe, the difference will be given to you or your heirs.

How the Loan Balance Grows

The tables below show examples of how your loan balance might grow if the interest rate stays at 4.9%.

Scenario 1. If you ***never*** borrow from the Line of Credit and only receive the initial and monthly advances listed on page 1…

	After 1 Year	After 5 Years	After 10 Years
How much money will you have received?	$27,142.00	$87,710.00	$163,421.00
How much will be owed for interest + fees?	$13,816.00	$32,719.00	$83,742.00
How much will be owed altogether?	**$40,958.00**	**$120,429.00**	**$247,163.00**

Scenario 2. If you ***borrow $1,500*** from the Line of Credit each year and receive the initial and monthly advances listed on page 1…

	After 1 Year	After 5 Years	After 10 Years
How much money will you have received?	$28,642.00	$95,210.00	$178,421.00
How much will be owed for interest + fees?	$13,899.00	$34,060.00	$89,158.00
How much will be owed altogether?	**$42,541.00**	**$129,270.00**	**$267,579.00**

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN NUMBER: 123-12-1234-556
DATE: March 1, 2010

The terms of the loan you applied for are summarized on this form. **You have no obligation to accept this loan**. Confirm that these are the credit terms for which you applied. Know your rights as a borrower. To find out more, visit *www.frb.gov/reverse_mortgages/*

Borrower & Property Information

Borrowers' Names and Ages	Property Address	Appraised Value
John Doe (84); Jane Doe (82)	**123 Ward Street, Jingle Bells, TX 12345**	**$275,000**

About this Loan

- You are applying for a loan against your home that you do not have to repay for as long as you live there.
- You may have the funds paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.
- The amount of the loan, plus interest and fees, must be paid back in full when the loan comes due (see the Loan Terms section).
- While you have this loan, you will continue to own your home, so you will still be responsible for property taxes, insurance, and repairs.

Payment of Loan Funds

You have chosen to receive your funds as follows:

Initial Advance Paid to you when you accept the loan	**$12,000.00**
Monthly Advance Paid to you each month until the loan comes due	**$1,261.84**
Line of Credit Available to you at any time before the loan comes due	**$15,000.00**

Fees & Charges

*These **one-time charges** can be **paid in advance** or **added to your loan balance**:*

Closing Costs	**$6,125.00**
Initial Mortgage Insurance Premium	**$5,500.00**

*These **monthly charges** are **added to your loan balance each month** and collected when the loan is due:*

Monthly Service Fee	**$35.00**
Monthly Mortgage Insurance Premium	**.5%** of loan balance annually (.042% per month)
Interest on the Loan Balance	Starts at **4.9%** of loan balance annually (.41% per month) This is a **variable** interest rate. Each year, your interest rate can increase by up to **2.0%**, up to a maximum-ever rate of **9.9%.**

When the Loan is Due

The loan comes due and must be paid in full when any of the following occurs:

- The last surviving borrower dies or does not live in the house for 12 consecutive months;
- You sell your home;
- You allow the property to deteriorate beyond reasonable wear and tear; or
- You fail to pay your property taxes or insurance, or fail to meet any other borrower obligation.

Repayment Options

Once the loan comes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If your home sells for less than you owe, you **will not** be required to pay the difference. If your home sells for more than you owe, the difference will be given to you or your heirs.

How the Loan Balance Grows

The tables below show examples of how your loan balance might grow if the interest rate stays at 4.9%.

Scenario 1. If you ***never*** borrow from the Line of Credit and only receive the initial and monthly advances listed on page 1…

	After 1 Year	After 5 Years	After 10 Years
A. What is the appraised value of your home?*	$275,000.00	$275,000.00	$275,000.00
B. How much money will you have received?	$27,142.00	$87,710.00	$163,421.00
C. How much will be owed for interest + fees?	$13,816.00	$32,719.00	$83,742.00
D. **How much will be owed altogether (B + C)?**	**$40,958.00**	**$120,429.00**	**$247,163.00**
How much equity will be left in your home (A – D)?	**$234,042.00**	**$154,571.00**	**$27,837.00**

** If the appraised value of your home remains the same.*

Scenario 2. If you ***borrow $1,500*** from the Line of Credit each year and receive the initial and monthly advances listed on page 1…

	After 1 Year	After 5 Years	After 10 Years
A. What is the appraised value of your home?*	$275,000.00	$275,000.00	$275,000.00
B. How much money will you have received?	$28,642.00	$95,210.00	$178,421.00
C. How much will be owed for interest + fees?	$13,899.00	$34,060.00	$89,158.00
D. **How much will be owed altogether (B + C)?**	**$42,541.00**	**$129,270.00**	**$267,579.00**
How much equity will be left in your home (A – D)?	**$232,459.00**	**$145,730.00**	**$7,421.00**

** If the appraised value of your home remains the same.*

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN NUMBER: 123-12-1234-556
DATE: March 1, 2010

The terms of the loan you applied for are summarized on this form. **You have no obligation to accept this loan**. Confirm that these are the credit terms for which you applied. Know your rights as a borrower. To find out more, visit *www.frb.gov/reverse_mortgages/*

Borrower & Property Information

Borrowers' Names and Ages	Property Address	Appraised Value
John Doe (84); Jane Doe (82)	**123 Ward Street, Jingle Bells, TX 12345**	**$275,000**

About this Loan

- You are applying for a loan against your home that you do not have to repay for as long as you live there.
- You may have the funds paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.
- The amount of the loan, plus interest and fees, must be paid back in full when the loan comes due (see the Loan Terms section).
- While you have this loan, you will continue to own your home, so you will still be responsible for property taxes, insurance, and repairs.

Payment of Loan Funds

You have chosen to receive your funds as follows:

Initial Advance Paid to you when you accept the loan	**$12,000.00**
Monthly Advance Paid to you each month until the loan comes due	**$1,261.84**
Line of Credit Available to you at any time before the loan comes due	**$15,000.00**

Fees & Charges

*These **one-time charges** can be **paid in advance** or **added to your loan balance**:*

Closing Costs	**$6,125.00**
Initial Mortgage Insurance Premium	**$5,500.00**

*These **monthly charges** are **added to your loan balance each month** and collected when the loan is due:*

Monthly Service Fee	**$35.00**
Monthly Mortgage Insurance Premium	**.5%** of loan balance annually (.042% per month)
Interest on the Loan Balance	Starts at **4.9%** of loan balance annually (.41% per month) This is a **variable** interest rate. Each year, your interest rate can increase by up to **2.0%**, up to a maximum-ever rate of **9.9%.**

When the Loan is Due

The loan comes due and must be paid in full when any of the following occurs:

- The last surviving borrower dies or does not live in the house for 12 consecutive months;
- You sell your home;
- You allow the property to deteriorate beyond reasonable wear and tear; or
- You fail to pay your property taxes or insurance, or fail to meet any other borrower obligation.

Repayment Options

Once the loan comes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If your home sells for less than you owe, you **will not** be required to pay the difference. If your home sells for more than you owe, the difference will be given to you or your heirs.

How the Loan Balance Grows

The tables below show examples of how your loan balance might grow if the interest rate stays at 4.9% and you borrow $1500 from your Line of Credit each year.

What money will you have received?	After 1 Year	After 5 Years	After 10 Years
Initial Advance (one-time payment of $12,000)	$12,000.00	$12,000.00	$12,000.00
Monthly Advance ($1261.84/month)	$15,142.00	$75,710.00	$151,421.00
Line of Credit ($1500/year)*	+ $1,500.00	+ $7,500.00	+ $15,000.00
TOTAL AMOUNT RECEIVED	**$28,642.00**	**$95,210.00**	**$178,421.00**

** You aren't required to borrow any particular amount from your line of credit in any particular year. $1500 per year is just an example of what you might do.*

How much will be owed?	After 1 Year	After 5 Years	After 10 Years
Total Amount Received	$28,642.00	$95,210.00	$178,421.00
Interest and Fees Charged	+ $13,899.00	+ $34,060.00	+ $89,158.00
TOTAL AMOUNT OWED	**$42,541.00**	**$129,270.00**	**$267,579.00**

TLC-2

Total Annual Loan Cost

The total annual loan cost rate, or TALC rate, is a summary of all the costs related to taking out a reverse mortgage. The TALC is presented as one annual average rate. The costs of taking out a reverse mortgage usually include the principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs. Disposition costs – costs related to selling your home – are not included. Remember, the TALC rate is only an estimate. The TALC of a reverse mortgage depends on how long you keep the loan and how much your house appreciates in value.

In general, TALC rates are highest if the loan comes due after only a few years. This is because the start-up costs (e.g. closing costs and mortgage insurance premium) make up a large part of the amount of the balance to be repaid early in the loan. But over time, as you receive money from the reverse mortgage, the start-up costs related to taking out the mortgage become a smaller part of your debt. As these costs are spread out over more years, the TALC rate decreases.

The table below shows the cost of this loan based on how long you keep the loan before it comes due. It gives the TALC rates for 2 years, half your life expectancy, your life expectancy, and 1.4 times your life expectancy, based on the value of your home.

Total Annual Loan Cost Rate

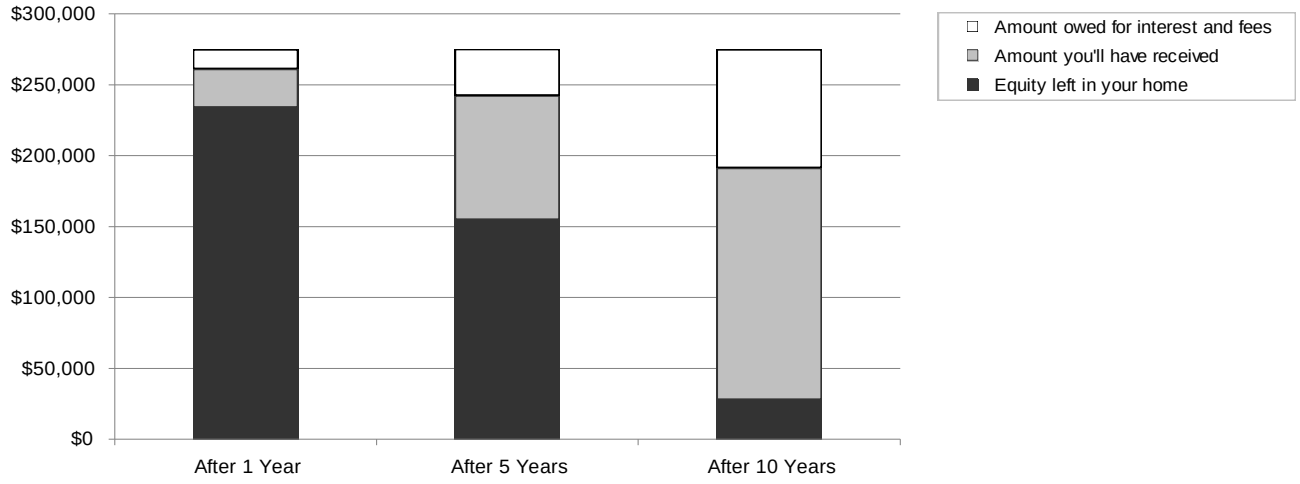
If the value of your home…	**2 Years**	**5 Years** (half your life expectancy)	**9 Years** (Your life expectancy)	**13 Years** (1.4 times your life expectancy)
…remains the same	21.14%	11.58%	7.70%	4.98%
…increases by 4% per year	21.14%	11.58%	7.70%	6.86%
...increases by 8% per year	21.14%	11.58%	7.70%	6.86%

ETD-2

Your Home Equity Over Time

This chart assumes that the value of your home stays at $275,000. If this were true:

- As your loan balance went up, the amount of equity left in your home would go down,
- The portion of your debt that is interest and fees would go up the longer you kept the loan.



SA-1

Shared Appreciation

This loan includes a Shared Appreciation Agreement, **which means that the lender will be entitled to 25% of any profit you make between when you accept the loan and when you sell or refinance your home**.

For example, if your home were worth $100,000 more when the loan becomes due than it is worth today, you would owe us an additional $25,000 on the loan.

Round 3:

Chicago, IL—April 14–15, 2010

Key Questions Disclosure

Revised Disclosure Form (FDA-3)

Revised Disclosure Form (FDA-4)

Revised Total Annual Loan Cost (TLC-3)

Key Questions to Ask About Reverse Mortgage Loans

When you are shopping for a reverse mortgage loan, consider the questions below. Ask your lender about other loan products, such as a traditional home equity loan or home equity line of credit. For more information, go to: *www.frb.gov*.

1) What is a Reverse Mortgage Loan?

A reverse mortgage loan is available to seniors (usually age 62 and older) who own all or almost all of the equity in their home. This loan allows you to exchange equity in your home for cash. With a reverse mortgage loan, you typically don't pay back the loan for as long as you live in your home. Instead, the loan must be repaid in full when the last living borrower dies, sells the home, or moves out of the home for 12 months or more. Repaying the loan in full includes the amount of the original loan plus all interest and any other fees and charges. Most borrowers (or their heirs) repay a reverse mortgage by selling the home.

2) How is a reverse mortgage loan different from a traditional mortgage?

- **Traditional mortgages** are loans generally used to buy a home or to borrow against your home equity for bills or other expenses. When you take out a traditional mortgage, typically the lender owns most of the equity in your home. As you pay back the loan over time (usually through monthly payments), you get that equity back from the lender. Once the traditional mortgage is paid off, you own all the equity in your home—the lender owns nothing.
- With a **reverse mortgage loan,** you already own all or most of the equity in your home, and you exchange this equity for cash from a lender. Because you do not pay back this money gradually over time, you do not earn equity back from the lender. Instead, the amount you owe to the lender increases as interest and other fees and charges are added to the amount of the original loan.

3) Is a reverse mortgage loan right for me?

The advantage of a reverse mortgage is that you can exchange your home equity for cash and do not have to make monthly payments on the loan. **But reverse mortgages have risks:**

- ***Loan amount increases over time***
  Because you do not pay the lender back over time, the amount you owe increases every month. The younger you are when you take out a reverse mortgage, the more time there will be for the compound interest to grow and the more you will owe.
- ***Less cushion for emergencies***
  By taking out a reverse mortgage now, you will have less home equity later when you may need it more, for example, to pay for future emergencies, health care needs, or everyday living expenses. You may also need your home equity to pay for future home repairs or a move to assisted living. If you are not facing a financial emergency now, consider postponing taking out a reverse mortgage.
- ***Costs more than other loan options***
  Reverse mortgages are generally more expensive than other home loans, so consider other options before taking a reverse mortgage. Reverse mortgages may also have tax consequences or may affect your eligibility for assistance from some federal and state programs. Talk with a housing counselor or financial advisor to learn more.

4) What fees and charges are added to a reverse mortgage loan?

Fees and charges can vary in amount from one reverse mortgage loan to another, and not all reverse mortgages include the same types of fees and charges. Most borrowers choose to have these costs added to their loan balance. If you choose to add these costs to your loan balance, you will be charged interest on these costs each month in addition to the interest charged on the cash you receive. Reverse mortgage loan fees and charges typically include:

- **Closing costs**, which are charged once, at closing
- **Reverse mortgage insurance premium**, which is charged in two parts: once at closing and each month as a percent of your outstanding loan balance.
- **Interest**, which is charged on your outstanding loan balance each month
- **Servicing fee**, which is charged each month

Ask your lender about the fees and charges that apply to your reverse mortgage.

5) Does the lender take the title to my home while I have a reverse mortgage?

No. You continue to own your home while you have a reverse mortgage loan. This means that you must still pay for property taxes, insurance, and repairs.

6) Can I lose my home while I have a reverse mortgage?

Yes. You could lose your home if you do not pay for property taxes, insurance, and repairs. For example, if you don't pay your taxes, the lender could demand that you repay the loan in full. You may have to sell your home to repay the loan. Or the lender could take your home through foreclosure. Also, if you don't live in your home for 12 straight months or more (for example, if you are in the hospital or a nursing home), the lender could demand that you repay the loan in full, and you may have to sell your home to repay the loan.

7) What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?

A reverse mortgage loan is usually repaid by selling the home. If the money earned through selling the home isn't enough to repay the reverse mortgage, almost all lenders will absorb the difference. These lenders will not be able to sue you or your heirs for more money. If the reverse mortgage is insured by the federal government, the government will absorb the difference instead of the lender. However, if you or your heirs want to keep your home, the loan must be repaid in full when it comes due. Ask your lender if this applies to your loan.

8) What happens if there is money left over after the home is sold?

Almost all reverse mortgage loans let the homeowner (or the homeowner's heirs) keep any money left over after the loan is repaid in full. Ask your lender if this applies to your loan.

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN OFFICER: 12345 1234
DATE: April 30, 2010

Borrower & Property Information

Borrowers' Names & Ages	John Doe (84); Jane Doe (82)
Property Address	123 Ward Street, Jingle Bells, TX 12345
Appraised Value	$275,000

About this Loan

- You are applying for a reverse mortgage loan against your home that you do not have to repay for as long as you live there.
- You may have the funds from this loan paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.
- The amount of the loan, plus interest and fees, must be paid back in full if the home is sold **or** when the last surviving borrower dies or does not live in the house for 12 consecutive months;
- While you have this loan, you will continue to own your home, so you will still be responsible for property taxes, insurance, and repairs. We may terminate your reverse mortgage loan early and make you pay the outstanding loan balance in one payment if you do not fulfill these responsibilities.

Payment of Loan Funds

You have chosen to receive your funds as follows:

Initial Advance	**$12,000.00**	will be paid to you when you accept the loan
Monthly Advance	**$ 1,286.95**	will be paid to you each month while you remain in your home
Line of Credit	**$15,000.00**	will be available to you at any time while you remain in your home

You may choose to change the way we pay loan funds to you. However, the amount you receive will not be reduced due to changes in the APR or your home's value.

Annual Percentage Rate

Annual Percentage Rate (APR)	**2.93%.** This is a variable rate that will change annually based on the 1-year U. S. Constant Maturity Treasury (CMT) Rate plus 2.5%. Each year, your rate can increase by up to 2.0%.
Maximum APR	**7.93%**
Historical Changes to CMT Rate	Over the past 15 years, the 1-year U. S. Constant Maturity Treasury (CMT) Rate has varied between 0.27% and 6.40%.

Interest charges will be added to your loan balance each month and collected when the loan is due.

Fees	
Account Opening Fees	
• Loan Origination	$ 4,735
• Inspection	$ 500
• Title Search & Title Insurance	$ 595
• Appraisal	$ 295
• Government Insurance	$ 5,500 (paid to the Federal government)
TOTAL Account Opening Fees	**$11,625**
Monthly Fees *(added to your loan balance each month but not collected until the loan is due)*	
• Monthly Servicing Fee	**$35 per month** ($420 annually)
• Monthly Government Insurance	**0.042%** of the monthly loan balance (0.5% annually) paid to the US Government to insure the reverse mortgage
• Monthly Interest Charges	**Starts at 2.93%** of loan balance annually (0.24% per month), but this rate can change.
Other Fees	
Other fees will apply, such as fees to change the type of payments you receive. Ask us for additional information about these fees.	

How the Loan Balance Grows

The table shows an example of how your loan balance might grow assuming the following conditions:

- You receive the *initial* and *monthly* advances listed on page 1, but *never* borrow from the line of credit
- The APR stays at 2.93%

	After 1 Year	After 5 Years	After 10 Years
How much money will you have received?	$27,443.00	$80,208.00	$166,434.00
How much will be owed for interest + fees?	$13,166.00	$23,023.00	$56,300.00
How much will be owed altogether?	**$40,609.00**	**$103,232.00**	**$222,733.00**

Repayment Options

Once the loan comes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If your home sells for less than you owe, you will not be required to pay the difference. If your home sells for more than you owe, the difference will be given to you or your heirs.

Risks

You Could Lose Your Home	Your reverse mortgage loan will be secured by your home. This means you could lose your home if you default by: • Allowing the property to deteriorate beyond reasonable wear and tear, or • Failing to live in the house for 12 consecutive months, or • Failing to meet any other borrower obligation Ask us for more information about reasons you could lose your home.
You May Not Be Able to Borrow Additional Money	Under certain circumstances, we can: • Terminate your reverse mortgage loan, make you pay the outstanding loan balance in one payment, and charge you fees on termination. • Stop making monthly payments to you and not allow you to borrow any more money from your line of credit, even if you have borrowed less than your credit limit; and • Make other changes to the plan. Ask us for more information about when we can take these actions.

Refundability of Fees

We will refund all fees you paid if you tell us that you do not want to open an account:

- for any reason within three business days after you receive this statement; or
- any time before your account is opened if any of these terms (other than the APR) change.

➔ **You have no obligation to accept these terms. These terms could change before we open your account.**

➔ **You may be entitled to a refund of all fees paid if you decide not to open an account.** See "Refundability of Fees" section above for more details.

➔ **Ask questions if you do not understand any part of this form.**

➔ **For more information, go to** *www.frb.gov/reverse_mortgages/***.**

By signing below, I acknowledge receipt of this form.

Borrower's Signature **Date**

REVERSE MORTGAGE LOAN SUMMARY

LENDER: ABC Bank
LOAN OFFICER: 12345 1234
DATE: April 30, 2010

Borrower & Property Information

Borrowers' Names & Ages	John Doe (84); Jane Doe (82)
Property Address	123 Ward Street, Jingle Bells, TX 12345
Appraised Value	$275,000

About this Loan

- You are applying for a reverse mortgage loan against your home that you do not have to repay for as long as you live there.
- You may have the funds from this loan paid to you all at once, as a regular monthly advance, or at times and in amounts that you choose.
- The amount of the loan, plus interest and fees, must be paid back in full if the home is sold **or** when the last surviving borrower dies or does not live in the house for 12 consecutive months;
- While you have this loan, you will continue to own your home, so you will still be responsible for property taxes, insurance, and repairs. We may terminate your reverse mortgage loan early and make you pay the outstanding loan balance in one payment if you do not fulfill these responsibilities.

Payment of Loan Funds

You have chosen to receive your funds as follows:

Initial Advance	**$12,000.00**	will be paid to you when you accept the loan
Monthly Advance	**$ 1,286.95**	will be paid to you each month while you remain in your home
Line of Credit	**$15,000.00**	will be available to you at any time while you remain in your home

You may choose to change the way we pay loan funds to you. However, the amount you receive will not be reduced due to changes in the APR or your home's value.

Annual Percentage Rate

Annual Percentage Rate (APR)	**2.93%.** This is a variable rate that will change annually based on the 1-year U. S. Constant Maturity Treasury (CMT) Rate plus 2.5%. Each year, your rate can increase by up to 2.0%.
Maximum APR	**7.93%**
Historical Changes to CMT Rate	Over the past 15 years, the 1-year U. S. Constant Maturity Treasury (CMT) Rate has varied between 0.27% and 6.40%.

Interest charges will be added to your loan balance each month and collected when the loan is due.

Fees

We will refund all fees you paid if you tell us that you do not want to open an account:

- for any reason within three business days after you receive this statement; or
- any time before your account is opened if any of these terms (other than the APR) change.

Account Opening Fees

Loan Origination	$ 4,735
Inspection	$ 500
Title Search & Title Insurance	$ 595
Appraisal	$ 295
Reverse Mortgage Insurance Premium	$ 5,500
TOTAL Account Opening Fees	**$11,625**

Monthly Fees *(added to your loan balance each month but not collected until the loan is due)*

Monthly Servicing Fee	**$35 per month** ($420 annually)
Monthly Reverse Mortgage Insurance Premium	**0.042%** of the monthly loan balance (0.5% annually)
Monthly Interest Charges	**Starts at 2.93%** of loan balance annually (0.24% per month), but this rate can change.

Other Fees

Other fees will apply, such as fees to change the type of payments you receive. Ask us for additional information about these fees.

How the Loan Balance Grows

The table shows an example of how your loan balance might grow if:

- You never borrow from the Line of Credit, only receiving the *initial* and *monthly* advances listed on page 1, *and*
- The APR stays at 2.93%.

	After 1 Year	After 5 Years	After 10 Years
How much money will you have received?	$27,443.00	$80,208.00	$166,434.00
How much will be owed for interest + fees?	$13,166.00	$23,023.00	$56,300.00
How much will be owed altogether?	**$40,609.00**	**$103,232.00**	**$222,733.00**

Repayment Options

Once the loan comes due, you or your heirs may either:

- Pay the loan balance in full and keep the home, or
- Sell the home and use the proceeds to pay off the loan. If your home sells for less than you owe, you will not be required to pay the difference. If your home sells for more than you owe, the difference will be given to you or your heirs.

Risks

Your reverse mortgage loan will be secured by your home. If you default on your reverse mortgage loan by:

- Allowing the property to deteriorate beyond reasonable wear and tear; or
- Failing to live in the house for 12 consecutive months; or
- Failing to meet any other borrower obligation

…then we may take any or all of the following actions:

• Foreclose On Your Home	We could foreclose on your property and require that you leave the home.
• Stop Sending You Money	We may stop making loan payments to you and not allow you to borrow any more money from your line of credit, even if you have borrowed less than your credit limit.
• Terminate Your Reverse Mortgage Loan	We may terminate your reverse mortgage loan, make you pay the outstanding loan balance in one payment, and charge you fees on termination.
We may also make certain other changes to your loan. Ask us for more information about when we can take any of the actions described above.	

➔ **You have no obligation to accept these terms. These terms could change before we open your account.**

➔ **You may be entitled to a refund of all fees paid if you decide not to open an account.** See "Fees" section above for more details.

➔ **Ask questions if you do not understand any part of this form.**

➔ **For more information, go to** *www.frb.gov/reverse_mortgages/***.**

By signing below, I acknowledge receipt of this form.

_____

Borrower's Signature **Date**

TLC-3

Total Annual Loan Cost

The Total Annual Loan Cost rate, or TALC rate, is a summary of all the costs related to taking out a reverse mortgage. The TALC is presented as one annual average rate. The costs of taking out a reverse mortgage usually include the principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs. Disposition costs – costs related to selling your home – are not included. Remember, the TALC rate is only an estimate. The cost of a reverse mortgage depends on how long you keep the loan and how much your house appreciates in value.

In general, TALC rates are highest if the loan comes due after only a few years. This is because the start-up costs (e.g. closing costs and mortgage insurance premium) make up a large part of the amount of the balance to be repaid early in the loan. But over time, as you receive money from the reverse mortgage, the start-up costs related to taking out the mortgage become a smaller part of your debt. As these costs are spread out over more years, the TALC rate decreases.

The table below shows the cost of this loan based on your age. It gives the TALC rates for 2 years, half your life expectancy, your life expectancy, and 1.4 times your life expectancy, based on the value of your home.

Total Annual Loan Cost Rate

If the value of your home…	After **2 Years**	After **5 Years**	After **9 Years**	After **13 Years**
…remains the same	18.98%	9.48%	5.66%	4.72%
…increases by 4% per year	18.98%	9.48%	5.66%	4.83%
...increases by 8% per year	18.98%	9.48%	5.66%	4.83%

ICF MACRO

an ICF International Company

ICF Macro
11785 Beltsville Drive
Calverton, Maryland 20705
icfmacro.com