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December 22 , 2010

Jennifer Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

Re: [Docket No. R - 1390]; Regulation Z; Truth-in-Lending

Dear Ms. Johnson:

This letter responds to the request by the Board of Governors of the Federal Reserve System (the "Board") for comments on the Board's proposal to revise its Regulation Z, which implements the Truth in Lending Act ("TILA"). This comment letter describes the views of the National Reverse Mortgage Lenders Association ("NRMLA"), the Mortgage Bankers Association ("MBA") and the American Bankers Association ("ABA"), hereafter "the Lender Associations".

NRMLA is the principal nationwide trade association for financial services companies that originate, service, and invest in reverse mortgages. NRMLA was founded to enhance the professionalism of those engaged in reverse mortgage lending. NRMLA is dedicated to assuring quality and integrity in reverse mortgage lending. Over 90 percent of reverse mortgages in the United States today are originated, purchased, and/or serviced by NRMLA members. Additionally, at this time over 95 percent of the reverse mortgages originated in the United States are home equity conversion mortgage ("HECM") loans insured by the Federal Housing Administration ("FHA").

MBA is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: [www.mortgagebankers.org](http://www.mortgagebankers.org). Many N R M L A members are also members of the MBA.

The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its two million employees. American Bankers Association's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. Many N R M L A members are also members of the ABA.

### The Board's Proposal

The proposed amendments to Regulation Z (the "Proposed Rule") would revise requirements with respect to reverse mortgage disclosures, add requirements regarding counseling for seniors interested in a reverse mortgage, increase requirements in connection with the offering of other financial services products with reverse mortgages, and add advertising requirements with regard to reverse mortgages. In addition, the Proposed Rule makes other changes to Regulation Z that would have an impact and effect upon reverse mortgages. The Lender Associations comment on these proposals below.

### **Suggested Revisions to Improve the Proposed Rule - Overview**

The Lenders Association appreciate the significance of the issues the Board is attempting to address through its Proposed Rule. We generally support the Board's goals with respect to reverse mortgages as contained in the Proposed Rule, and share the Board's goal of providing borrowers with accurate and straightforward information to facilitate informed decisions. N R M L A leaves it to others to comment on the soundness of the Proposed Rule in addressing certain issues with respect to forward mortgages. In this letter, we provide comments on how the Proposed Rule would affect the origination of FHA-insured and regulated HECM loans, as well as proprietary reverse mortgage products.

The MBA and ABA have filed separate letters on other aspects of the Proposed Rule.

As such, the Lender Associations offer the following comments and suggestions to better achieve the Board's goals of providing borrowers with adequate and accurate information regarding reverse mortgage credit products.

### Comments and Concerns

The Lender Associations support revising the specific disclosures regarding reverse mortgages to make them more informative and meaningful to senior consumers. The Lender Associations, however, not only believe that improvements need to be made to the Board's disclosure proposals in this regard, but that the Board should consider recent requirements included under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and how future studies and rulemaking required thereunder will affect the broader mortgage industry as a whole, and specifically the reverse mortgage industry. In this regard, we note not only other rulemaking efforts by the Board that have or may affect reverse mortgages, but also requirements under the Dodd-Frank Act for RESPA-TILA reform and a study of reverse mortgages with the potential for further rulemaking due to that study. Footnote 1

Indeed, in this Proposed Rule, the Board bases some of its fundamental proposals on other proposed rules yet to be finalized, leaving readers in some instances likely to comment upon proposals based upon proposals. Further, in some instances in this Proposed Rule, the Board requests interested parties to limit the scope of their comments to newly proposed changes. The manner and magnitude of the proposed rule changes promulgated by the Board over the past year, in conjunction with RESPA reform and the Dodd-Frank Act, make it difficult to digest, consider, and effectively comment upon a particular proposed measure given the timeframe, breadth, and uncertainty of future rule making and potential final implementation of currently proposed rules. End of footnote.

In this regard, our requests herein for clarifications of current or finalized rules notwithstanding, our members are not in favor of a quick implementation date of any final rule resulting from the Proposed Rule. Given other regulatory and legislative initiatives, as outlined above, and the current burdens on resources and personnel, especially in the information systems areas, the timing of the final implementation of the Proposed Rule is of utmost importance. We would not favor a final rule based on the Proposed Rule prior to April 1, 2011, and we do not expect a mandatory compliance date with respect to any such final rule on or before October 1, 2011. Indeed, we would hope and expect, as outlined above, that as the regulatory functions of the Board transition to the Bureau of Consumer Financial Protection, that this Proposed Rule, and other related rulemaking, would be placed on a schedule consistent with that of section 1400(c) of the Dodd-Frank Act. In any event, the reverse mortgage industry would need at least twelve (12) months from a final rule date in order to make the necessary operational and systems changes to fully and

properly implement a final rule based on the breadth and scope of the matters addressed in the Proposed Rule. Page 4.

We also support further rulemaking in the area of the offering of other financial services products with reverse mortgages, but also believe that additional safeguards as well as clarification and revisions can be made to the Board's Proposed Rule in this area. We also believe that the Board could coordinate in this area with the FHA to effectuate more harmonized and synchronized rulemaking and guidance in this important area.

We share the Board's concern regarding deceptive mortgage advertising and support the Board's efforts in the Proposed Rule to further clarify rules regarding reverse mortgage advertising and to eliminate deceptive mortgage advertisements from the marketplace. We believe that deceptive advertising is unacceptable and that any action to thwart such deceptive advertising will prove beneficial. In this regard, we note that N R M L A has its own Code of Ethics, with provisions directed specifically at ethical advertising. For these reasons, N R M L A believes that it and the Board have a shared best interest in providing consumers with accurate information to facilitate informed decisions. As stated above, many N R M L A members are also members of the MBA and/or ABA.

Reverse mortgage lenders that are N R M L A members are required to comply with the N R M L A Code of Ethics, which specifically addresses ethical advertising. For example, the Code of Ethics prohibits members from engaging in any "conduct involving dishonesty, fraud, deceit, or misrepresentation, or knowingly making a material false or misleading statement to consumers or others." Note that many reverse mortgage lenders incorporate the N R M L A Code of Ethics into contractual provisions with their business partners, so that the Code can apply directly to the lenders, and contractually to those contracting with lenders.

However, we note that the Federal Financial Institutions Examination Council (FFIEC) issued Guidance, adopted by the federal banking agencies, addressing, among other things, issues regarding reverse mortgage advertising, and that the Federal Trade Commission (the "FTC") published recent proposed rulemaking in the area of mortgage advertising, and we are concerned that advertising rules in the Board's Proposed Rule remain consistent with the FFIEC's Guidance, and the mortgage advertising rules proposed by the FTC.

With regard to the counseling provisions in the Proposed Rule, we also generally support the measures outlined in the Proposed Rule, but believe the Board should take into further consideration issues surrounding the independence of counselors, provide a "safe harbor" with respect to HUD's Website publication of available counselors, as well as state law requirements in the area of reverse mortgage counseling, and also align its final Rule provisions and remain consistent with the Guidance issued by the Federal Financial Institutions Examination Council.

**Preliminary Suggestion - Eliminate Dichotomy between Open-End and Closed-End Credit for Disclosure Purposes of Certain Reverse Mortgage Disclosures**

We believe that continuing to distinguish under Regulation Z between open-end and closed-end credit for certain disclosure purposes for reverse mortgages, no longer serves a meaningful or useful purpose. We urge the Board, for purposes of reverse mortgage disclosures, to consider removing the distinction between open-end and closed-end credit. Moreover, for disclosure purposes, we request that the Board designate a class of reverse mortgage consumer credit transactions secured by a consumer's dwelling with disclosures specified for such transactions in a manner consistent with the forms as proposed by the Board, but explicitly with such disclosure requirements not to be in addition to those required for either open-end or closed-end credit under the general provisions of Regulation Z. As explained in more detail below, this may be accomplished by using one set of early and account opening disclosures, similar to the new model forms in Appendix K proposed by the Board, and by specifying (subject to our comments below on rescission) that open-end rescission forms be used for reverse mortgages that are rescindable. With respect to servicing disclosures, a monthly statement similar to that used for open end credit secured by a consumer's dwelling could be used for such a class of reverse mortgages, with the removal of variable rate information, and corresponding and historical Annual Percentage Rates (APR's), for fixed rate loans. We strongly believe that such a reverse mortgage disclosure regime would be less confusing and more informative to seniors considering and utilizing reverse mortgages.

In this regard, please note that distinguishing between open-end and closed-end reverse mortgages will not work well for early disclosures because, as proposed under § 226.33(d)(1) and (d)(3), at or near application, creditors may not know whether a consumer wishes to obtain an open-end or closed-end reverse mortgage. Further, the forms proposed by the Board in the proposed revisions to Appendix K for both early and account opening disclosures for open-end and closed-end reverse mortgages appear to us to be substantially similar in many respects, with only very slight differences in the APR and the transaction fees.

As explained elsewhere in this comment letter, there are other issues with respect to reverse mortgages that must be addressed by the Board, and the Board could also deal with these other items by following and adopting our suggestion in this regard. For instance, for purposes of the loan originator compensation rule, and calculation of the cost of credit (i.e., the APR), the Board could specify that its open-end credit rules under Regulation Z be applicable to reverse mortgage for these two items. Reverse mortgages also would continue to be excluded from high-cost and higher-priced rules.

**Disclosures/Proposed Model Forms**

226.33(b) - Reverse Mortgage Document Provided on or with the Application

The Board proposes to replace the current open-end home equity lines of credit (HELOC) and closed-end application disclosures with a new two-page document published by the Board entitled, "Key Questions to Ask about Reverse Mortgage Loans" (the "Key Questions" document). In general, the Key Questions document describes how a reverse mortgage works, as well as the loan terms and conditions that are important for consumers to consider when deciding whether to pursue a reverse mortgage.

We support the Board's decision to require a creditor to provide the Key Questions document to consumers in lieu of either the HELOC brochure or the CHARM booklet. We agree that neither the HELOC brochure nor the CHARM booklet are tailored to provide a consumer with information necessary to make an informed decision whether to pursue a reverse mortgage. The Key Questions document is a significant improvement that will provide consumers with simple, straightforward, and concise information regarding how reverse mortgages work as well as important terms and risks to consider when selecting a reverse mortgage.

However, we believe the Key Questions document can be enhanced to provide additional general reverse mortgage information to consumers, as well as better describe the reverse mortgage products currently offered in the marketplace.

First, we suggest enhancing the Key Questions document to describe the types of reverse mortgages available to consumers, including the various HECM and proprietary reverse mortgage products. We further suggest describing to consumer the various payment options available.

Additionally, we suggest amending language in the Key Questions document as currently drafted to more accurately describe the reverse mortgage products currently offered in the marketplace. For example, Question 1 in the Key Questions document describes a reverse mortgage as allowing the consumer to exchange equity in the consumer's home for cash. However, a better description of a reverse mortgage loan is that it allows the consumer to borrow against the equity in the consumer's home. Additionally, Question 4 in the Key Questions document describes a servicing fee as a fee that is "typically" included in a reverse mortgage loan, which may lead a consumer to specifically search for the servicing fee in the consumer's loan documents. However, several reverse mortgage products available to consumers do not include a monthly servicing fee (including some HECM programs offered by lenders who waive such fees). Thus, in this instance, it is probably more accurate to state "if any servicing fee is applicable."

In the Key Questions document, Question 3, the third bullet states that a reverse mortgage costs more than other loan options. However, we believe that the use of the word "may," as in "may cost more than other options," is more appropriate in this instance. With lenders recently paying more and more of the borrower's closing fees, and with the new HECM Saver Program (and perhaps other product developments), the costs of reverse mortgages have substantially decreased.

We suggest additional, minor, technical amendments to the Key Questions document, such as removing the word "Reverse" from the description "Mortgage Insurance Premium." Further, in this same section, in the fourth bullet, the Board should change the statement following Servicing Fee to read "which may be charged each month." Additional clarification should also be made in the description of maturity events. The FHA has a specific non-recourse definition that many proprietary lenders do not apply.

We provide as Exhibit A to this comment letter a revised Key Questions document.

#### 226.33(c) - Content of Disclosures for Reverse Mortgages

The Board proposes to remove the table of total-annual-loan-cost ( " T A L C " ) rates from the reverse mortgage disclosure. In its place, the Board proposes new disclosures (the "Reverse Mortgage Loan Summary" document) to more effectively explain the total cost of a reverse mortgage. Among other reasons for the proposed change, the Board's consumer testing indicated that very few consumers understood the table of T A L C rates.

Subject to our comments below on the distinction between open-end and closed-end credit, we support the Board's decision to replace the T A L C with the Reverse Mortgage Loan Summary document. We generally agree that consumers would have a much easier time understanding a document such as the Reverse Mortgage Loan Summary document, and therefore would be much more likely to use it in evaluating a reverse mortgage.

Regarding the disclosure of the property value in the model forms, footnote 2

Forms K-1 Open-End Reverse Mortgage Early Disclosure Model Form (§ 226.33(d)(1)); K-2 Open-End Reverse Mortgage Account-Opening Disclosure Model Form (§ 226.33(d)(2)); K-3 Closed-End Reverse Mortgage Model Form (§ 226.33(d)(3)); K-4 Open-End Reverse Mortgage Early Disclosure Sample (§

226.33(d)(1)); K-5 Open-End Reverse Mortgage Account-Opening Disclosure Sample (§ 226.33(d)(2)); K-6 Closed-End Reverse Mortgage Sample (§ 226.33(d)(3)). End of footnote., the Board proposed to use the term "Appraised Value" in the property information box. We note that in some reverse mortgage programs, such as purchase money programs, the sales price may also come into play. Moreover, in the prevalent reverse mortgage program, the FHA-insured HECM program, the property value under consideration for lending calculation purposes currently cannot exceed \$625,500. The Board may wish to consider adding to

these disclosed items to make clear that the property value may be other than the appraised value for purposes of reverse mortgage calculations. Page 8.

Regarding the disclosure of mortgage insurance, under the Monthly Fees section in Sample forms K-5 and K-6, references to "Reverse Mortgage Insurance Premium" should simply be to "Mortgage Insurance Premium."

The Board proposes under 226.15(a)(5)(i)(A) to include any APRs that must be disclosed in the proposed account-opening table as material disclosures, which would include the APR disclosed in the Reverse Mortgage Loan Summary document under 226.33(c)(6)(i). However, any APR for fixed-rate and fixed-term advances during the draw period (unless those are the only advances allowed during the draw period) are not included.

Under proposed section 226.33(c)(7)(i)(C), in sub-paragraph (1) thereunder, the Board instructs the creditor to disclose with the "Monthly Interest Charge" for closed-end credit the *interest rate* applicable to the loan. On the other hand, in subparagraph (2) under proposed section 226.33(c)(7)(i)(C), the Board instructs the creditor to disclose with the "Monthly Interest Charge" for open-end credit the *annual percentage rate* applicable to the loan. However, both of the model forms for open-end and closed-end credit appear to reference and require creditors to state an "APR." The difference in the use and calculations of these terms may be misleading and confusing to senior consumers. Thus, we reiterate our suggestion for one disclosure regime for reverse mortgages.

We further suggest imposing a *bona fide* error standard similar to the *bona fide* error standard under 15 U.S.C. § 1640(c). Such a standard would allow creditors to cure unintentional disclosure violations of the Reverse Mortgage Loan Summary document. Under such a standard, a creditor or assignee would not be held liable in any action for a disclosure violation if the creditor or assignee shows by a preponderance of evidence that the violation was not intentional and resulted from a *bona fide* error notwithstanding the maintenance of procedures reasonably adapted to avoid such error. Examples of a *bona fide* error would include, but not be limited to, clerical, calculation, computer malfunction and programming, and printing errors. We believe that establishing a *bona fide* error standard would further reduce the likelihood that rescission claims would arise because of unintentional disclosure violations.

We suggest the use of consistent terms throughout the Reverse Mortgage Loan Summary document. For example, as currently drafted, the document refers to both a "consumer" and a "borrower," as well as an "account" and a "loan." Use of such inconsistent terms may be confusing to the borrower. Further, in the model account

pending disclosures, provisions needs to be made to show other disbursements made on behalf of the senior, such as pay off amounts of prior mortgage liens. Page 9.

Furthermore, the Reverse Mortgage Loan Summary document appears to provide significant discretion to the creditor in drafting the statement sections of the document. For instance, the "About this Loan" section of the document generally describes the statements that must be provided to the borrower, but does not *specifically* provide the verbiage. We believe that unless additional, specific guidance is provided by the Board regarding how the statements should be disclosed and/or drafted, this will result in inconsistent information being provided to the borrower by different creditors. Moreover, the final rule should clearly indicate whether there is any flexibility in the template format. Additionally, under the "Payment of Loan Funds" section, we suggest that the Board provide additional guidance regarding the creditor's ability to differentiate between term and tenure reverse mortgage payment plan options. Also, under the APR section, we suggest that the "Historical Changes to (identification of index) Rate" section should only include the index values, rather than margins.

We support excluding a *bona fide* and reasonable charge imposed by a counselor or counseling agency as a "fee" for purposes of § 226.19(a)(1)(i) when such housing or credit counseling is required by applicable law. Of course, these fees should not be refundable.

We believe, however, that there does not need to be an additional three-day waiting period after counseling before a lender could impose nonrefundable fees for reverse mortgages. We suggest this is not necessary or meaningful, as provisions of the National Housing Act and FHA Regulations and Handbook applicable to HECM reverse mortgages already impose restrictions on fees related to completion of counseling. Moreover, current provisions of Regulation Z impose waiting periods based on issuance of the initial Truth-In-Lending disclosures. Furthermore, RESPA imposes restrictions based on issuance of the Good Faith Estimate.

With regard to counseling on proprietary products, the Board proposes that a creditor must provide a consumer with a list of five counseling agencies. The industry would agree that the list should contain multiple agencies. However, requiring five different agencies prepared to counsel on any specific lender's proprietary product could be very challenging, especially in states with a limited number of available or qualified counseling agencies.

Section 226.33(c)(7)(i)(B), and the related disclosures on the model forms, should be clarified to state that in connection with the FHA-insured HECM program, the creditor does not impose a mortgage insurance premium. Rather, HUD imposes the mortgage insurance premium.

### Use of Estimates in Disclosing Reverse Mortgages

The Board requests comment on whether there are specific terms required to be disclosed for reverse mortgages in § 226.33(c) that a creditor may need to estimate in final closed-end reverse mortgage disclosures.

As indicated above, reverse mortgage creditors have typically utilized estimates in making closed-end credit disclosures due to the fact that most reverse mortgage loans in the market today selected by borrowers are "tenure" based loans (such that the senior may remain in the home as long as he or she is living, maintains the home as his or her principal residence, timely pays associated taxes and insurance, and does not sell the home). While certain disclosures, such as the payment schedule, are being replaced as part of another interim rulemaking by the Board, creditors nonetheless must calculate and disclose an APR in connection with a reverse mortgage, and the term of the loan may affect the calculation of the APR and other material and non-material disclosures. Further, for early or application disclosures, some closing costs in connection with a reverse mortgage are based upon the collateral property value. That value may not be known with certainty until a final appraisal is obtained by the creditor, sometimes merely several days prior to the originally scheduled closing. Nonetheless, a creditor should be allowed to estimate such closing costs based on an estimated preliminary property value obtained, for instance, from the consumer or an AVM.

Further, § 226.33(c)(3) requires that the age of the borrower be provided. Under proposed § 226.33(c)(14), an amount financed and the total of payments must be disclosed. These disclosures will be impacted by the borrower's age and assumed life expectancy. However, the Board proposes to eliminate Appendix L. The HUD HECM software utilized for FHA-insured HECM loans with certain payment plans calculates the borrower's age based on the borrower's nearest birthday (even if that birthday is in the future). The Board should allow creditors to use this methodology (as opposed to using the borrower's last birthday) for consistency purposes for providing the age of the borrower for Regulation Z disclosures and calculations.

Further, in certain reverse mortgages, consumers take all available loan proceeds at closing. As such, no further disbursements will be forthcoming to the consumer. However, the loan can be a tenure-based loan. The Board should make clear in these instances that the loan term can be estimated based on the borrower's life expectancy even though payments to the consumer begin, and end, with the first lump sum disbursal at or shortly after the rescission period expires after consummation.

### Other Requested Comments on Reverse Mortgage Disclosures

The Board requests comment on other approaches for disclosing how much the consumer could receive if the consumer has not chosen a payment type. How much a consumer could receive under a reverse mortgage is primarily a function of the property value of the consumer's home, prevailing interest rates, and the borrower's age. While the election of a payment plan can affect how much the consumer could receive, a payment plan, *per se*, is not as prevalent a factor in determining loan amounts in connection with reverse mortgages as are the other factors (i.e., age, interest rate, and home value). The Board should allow creditors to disclose a principal limit (or available loan proceeds) with a description that the consumer may receive the loan proceeds in one of several plans, as applicable and offered under the loan program (term, tenure, modified term, modified tenure, or a line of credit).

The Board requests comment on whether the proposed reverse mortgage disclosure should show only the range of the index value. We believe that for purposes of proposed provision § 226.33(c)(6)(i)(A), creditors should only be required to show the range of the index value, not the index and margin.

Reverse mortgage creditors do not typically assess fees for early termination of a reverse mortgage. Therefore, even if the rule requires such fees to be disclosed, such disclosure should be required only if applicable.

For purposes of proposed section 226.33(c)(8), the amount owed by the consumer should reflect such limitations on the consumer's liability since the proposed disclosures would not be based on any assumed home value appreciation and thus may overstate the consumer's eventual liability otherwise.

Since the total amount owed by the borrower under a reverse mortgage is typically limited by the appraised value of the home, disclosing costs associated with selling the property does not appear to us to be a necessary or useful disclosure.

With respect to repair set asides, we support treating the entire amount of the set aside as advanced to the consumer at consummation of the reverse mortgage for purposes of disclosures and calculations of the loan amount.

We support basing the loan balance growth table on the initial interest rate in effect at the time the disclosures are provided. The proposed commentary to § 226.33(c)(8)(i), however, further states that the creditor would also have to assume that all closing and other consumer costs are financed by the creditor unless the creditor and consumer have agreed otherwise. With the calculation of T A L C rates, the assumption was that all closing costs (financed or non-financed charges) were part of the cost of credit. Depending upon other proposals by the Board, some closing costs may or may not be treated as finance charges. Moreover, depending upon future rulemaking by the Board, closing costs that may not be classified as finance charges should be included in the loan balance and not the

finance charge-related fees for purposes of the Loan Balance Table. Page 12. Additionally, in instances when the creditor will pay certain closing costs, such costs should be excluded altogether from the Loan Balance Table.

For purposes of proposed section 226.33(c)(8)-10.i i, the Board requests comment on whether the creditor should assume that the consumer draws the entire amount at closing or at account opening in all cases, and whether the creditor should demonstrate a credit line growth feature. We agree with the Board's proposal that, where the consumer has elected to receive an initial advance, periodic payments, or some combination of the two that accounts for 50 percent or more of the principal loan amount available to the consumer, the creditor, for the purpose of the loan balance growth table, must assume that the consumer takes no further advances. We recommend that for purposes of this proposed provision, if the consumer elects to receive an initial advance, periodic payments, or some combination of the two that accounts for less than 50 percent of the principal loan amount available to the consumer, then in lieu of the Board's proposal of assuming 100 percent of the principal loan amount available to the consumer is drawn at loan consummation, the creditor assumes 50 percent of the principal loan amount available to the consumer is drawn at loan consummation for purposes of the loan balance growth table. The assumption should also be that the consumer takes no further advances for purposes of the disclosure calculations. We also believe the Board should state and clarify that the "principal loan amount" is net of financed closing costs.

Given the uncertainty of the timing of the draws, we agree that creditors should not be required to demonstrate a credit line growth feature in TILA application or consummation disclosures. The Board requests comment on whether reverse mortgages may have fixed-rate and term payment plans. Currently such plan types are either not prevalent or not offered by creditors. However, in the future, a reverse mortgage product with an initial advance at a fixed-rate, and future advances assessed on a variable rate, may come into existence.

Credit insurance, debt cancellation, and debt suspension coverage are not offered in connection with reverse mortgages, and need not be taken into account at this time.

### **Cross-Selling/Anti-Tying**

We believe the Board can take further action to provide greater protections and additional safeguards for seniors with regard to the offering of certain other financial services products to seniors in connection with reverse mortgages. As discussed further below, with respect to annuities, currently most, if not all, reverse mortgage creditors utilize application and closing disclosures (not currently mandated by regulation) requiring consumers to specify at or near application, and then again, prior to or at closing, whether the consumer will utilize reverse mortgage proceeds to purchase an annuity.

We believe that language and concepts can be borrowed from such disclosures already put into place and voluntarily utilized by creditors to augment the Key Questions document, particularly with respect to question and answer #5, can be further clarified and revised to make clear that a senior is not required to obtain certain other financial services products, such as an annuity, long term care or life insurance, in order to obtain a reverse mortgage.

We also believe that the early (application) and account opening disclosures can be augmented to include prominent disclosures to make clear that a senior is not required to obtain certain other financial services products, such as an annuity, long term care or life insurance, in order to obtain a reverse mortgage (for instance, see the proposed language in #7 in our revised Key Questions document).

Moreover, N R M L A has adopted, as part of a supplement to its Code of Conduct, an Ethics Advisory Opinion regarding the offering of other financial and insurance products in connection with reverse mortgages. In that Advisory opinion, N R M L A outlined a separate transaction safeguard similar to that outlined in the Board's Proposed Rule. Accordingly, we strongly support the Board's Proposed Rule in this regard. In that Advisory opinion, N R M L A also outlined an alternative "separate originator" safeguard. We also suggest that the Board permit, as a further alternative, creditors to separate those engaged in the offering, marketing and origination of reverse mortgages from those engaged in the offering, marketing and origination of other financial and insurance products (such as annuities, long term care and life insurance), and take reasonable steps to assure that no one engaged in either of such activities receives, directly or indirectly, incentives or compensation for being engaged in the other activity.

Additionally, MBA's Residential Board of Governors has adopted policy that opposes inappropriate cross-selling in an effort to protect both consumers and lenders. The policy supports establishing a clear firewall between those originators who sell reverse mortgages and those who would sell other financial products to the same borrower.

#### 226.40(a)(1) - Financial or Insurance Products

We do note that the proposed comment to this amendment provides examples of the "financial or insurance" products and services that may not be tied to a reverse mortgage, which includes both bank and non-bank products. The comment states that certificates of deposit ( " C D's") are included in the list of covered products and services. Among other reasons for including C D's, the Board notes that any number of traditional bank products could be inappropriate for a reverse mortgage consumer to purchase in connection with obtaining the reverse mortgage, and provides as an example a CD that yields at a lower rate than the rate of interest accruing on the reverse mortgage. A creditor is covered by a safe

harbor if the consumer receives the Key Questions document, and at least 10 calendar days has passed before the consumer becomes obligated to purchase any financial or insurance product. Page 14. The Board solicits views on its proposed prohibition on the tying of time deposit accounts (which includes C D's) to a reverse mortgage.

We suggest that C D's be excluded from the list of financial products that may not be tied to a reverse mortgage. First, many borrowers who apply for a reverse mortgage loan through a depository institution typically already have an established customer relationship with the depository institution. If the borrower obtains a reverse mortgage product that allows for a full draw of reverse mortgage proceeds, the borrower may wish to have other options *immediately* available (or may not wish to wait the requisite 10 calendar days) where the proceeds can be deposited, rather than having the lump sum of the proceeds deposited into a checking or savings account that typically yield no interest or lower interest rate than a CD. As such, allowing the borrower to immediately open a CD enhances options available to the borrower.

Additionally, as noted above, the Board states that any number of traditional bank products could be inappropriate for a reverse mortgage consumer to purchase in connection with obtaining the reverse mortgage, and provides as an example a CD that yields at a lower rate than the rate of interest accruing on the reverse mortgage. However, both savings and checking accounts also yield lower rates than the rate of interest accruing on the reverse mortgage (C D's typically offer higher yields than savings or checking accounts). Therefore, providing the borrower with the option to immediately open a CD where some of the borrower's reverse mortgage proceeds could be deposited would give the borrower the option to immediately start earning a higher yield than what would be available in most savings or checking accounts.

### **Advertising**

We generally support the proposal on advertising issues with respect to reverse mortgages. As noted above, we support the Board's effort to eliminate deceptive mortgage advertising with the Proposed Rule. Additionally, we offer the following suggestions to better achieve the Board's goals of providing consumers with adequate and accurate information regarding mortgage credit products.

As an initial matter, we suggest that the Proposed Rule be revised to require any advertisement relating to a reverse mortgage loan to state that the advertisement relates to a reverse mortgage loan. We believe that this will allow consumers to identify advertisements relating to reverse mortgages at the outset, which is important given that reverse mortgage loans are a unique subset of mortgage credit products. As a result, we

believe that this suggested revision to the Proposed Rule would better prevent deceptive advertising and allow informed decisions by consumers. Page 15.

We also suggest revising the Proposed Rule to require any advertisement offering to make a reverse mortgage loan to state whether the entity making the advertisement is the lender in connection with the loan, and, to the extent that the entity making the advertisement is not the lender, to state the role of the entity making the advertisement and the entity's purpose for collecting information about the prospective borrower. We believe that this modification to the Proposed Rule would allow consumers to better understand the different parties involved with a reverse mortgage loan. Additionally, by allowing consumers to identify the parties involved with an advertised reverse mortgage loan, we believe that the Proposed Rule would protect against deceptive advertising and facilitate informed consumer decisions.

We also suggest making clear that, with respect to the use of symbols or logos that resemble those of a government entity, organization, or program, that such rule except the use of such logos when the use of such logos is required or allowed, such as the use of an Equal Housing Lender logo.

Finally, we suggest revising the Proposed Rule to provide a safe harbor or alternative disclosure mechanism for advertisements delivered by an audio medium. We note that radio is a unique channel for delivering advertisements in that there is only one medium—the spoken word—to deliver content. As a result, any disclosure that may be required to protect against a potential violation of the Proposed Rule would require airtime in addition to that used for the advertisement itself (i.e., unlike a television or Internet advertisement, which can include both audio and written content). Accordingly, we request a safe harbor or alternative disclosure mechanism be provided for advertisements delivered by radio. For example, the Proposed Rule might be revised to allow the party making the advertisement (as long as they are in compliance with all other applicable laws and regulations) to make a brief specified disclosure or refer listeners to a website containing additional information. We believe that this would strike an appropriate balance between protecting consumers and accommodating the characteristics of radio advertisements.

### **Suitability**

We support the Board not undertaking further rulemaking at this time, under its authority with regard to unfair and deceptive acts, with respect to "suitability" in connection with reverse mortgages. We support the Board refraining from further rulemaking at this time for all of the reasons the Board outlines in its Proposed Rule. We further reiterate and note that defining such a standard would be difficult at best, and perhaps impossible to articulate one standard that would be relevant and applicable to each senior. We add that providing civil liability tied to a suitability standard, in most instances, would be judged and assessed in hindsight, perhaps through the eyes of disgruntled heirs with the assistance

of plaintiffs' counsel. Page 16. This type of increased exposure, both difficult to define and, as the Board correctly recognizes, is not needed, would, in our view, have a severe chilling effect on legitimate business activity and further constrain credit that can act as an important financial tool for some seniors.

Further, while we strongly believe that a reverse mortgage should be chosen by a senior only in instances when such a product is appropriate for the senior, we also strongly believe that the choice of whether and which type of reverse mortgage is appropriate for a senior should be made by the senior after disclosure and counseling as augmented by the Board's Proposed Rule, and in current HUD and FFIEC Reverse Mortgage Guidance. To have lenders make such an assessment and judgment on behalf of the senior, replacing the senior's own judgment and choice, not only is patronizing and paternalistic from a policy perspective, but also deprives seniors as a class from the freedom of choice afforded to other consumers in other segments of the financial services sector.

### **Comments on Other Areas of the Rule or Related to the Reverse Mortgages**

#### **Calculating the APR in Connection with Closed-End Reverse Mortgages**

If the Board does not accept our proposal to treat reverse mortgages as a separate class of loans (without regard to the open end or closed end nature of the loan), as outlined above, we urge the Board to clarify the calculation and disclosure of the APR in connection with closed-end reverse mortgages. We are concerned with the Board's Proposed Rule that states, in connection with reverse mortgages, a creditor is not be allowed to use estimates in connection with disclosures under § 226.19(a)(2). We remind the Board that many items of disclosure in connection with closed-end reverse mortgages are not clear under Regulation Z.

First, the loan term in a tenure loan is based on the consumer's life expectancy. How long a consumer will live can never be known at the consummation of a closed-end reverse mortgage, or when disclosures are prepared and provided. Additionally, we are concerned that there is no clear guidance on the manner by which a servicing fee set aside is handled in the calculation of the APR. Finally, the Board should provide guidance regarding the manner in which a repair set aside is handled in the calculation of the amount financed, and thus the APR. The Board should not state that estimates may not be used in connection with closed-end reverse mortgage disclosures without addressing these fundamental issues.

#### **Calculating the Loan Amount in Connection with Reverse Mortgages**

In response to the Board's 2009 closed-end proposed rule, NRMLA commented and requested that the "amount of credit" for reverse mortgages should be the maximum claim amount, as provided under the FHA's HECM provisions, or such similar concept for proprietary reverse mortgages. Importantly, to clarify this issue, the Board should add to

the commentary to 12 C.F.R. § 226.33 to provide that, for purposes of § 226.36(d)(i i) (to be effective April 1, 2011), the "amount of credit" for reverse mortgages means the maximum claim amount or such similar term or concept for proprietary reverse mortgages. Page 17.

We further note, in proposed commentary to the Proposed Rule, the Board states that in a closed-end reverse mortgage, the principal loan amount is the same as the loan amount disclosed for closed-end mortgage transactions under § 226.38(a)(1).Footnote 3

As indicated above, § 226.38(a)(1) has not been issued as a final rule. End of footnote. As provided in that section, the loan amount is the principal amount the consumer will borrow reflected in the loan contract. Thus, the principal loan amount includes all amounts financed as part of the transaction, whether or not they are finance charges.

Further, the Board provides that the net amount of credit extended must be disclosed using the term "amount financed" together with a descriptive statement as required by § 226.33(c)(14)(i i i). Section 226.33(c)(14)(i i i) provides that the amount financed must be disclosed in the closed-end reverse mortgage disclosures, using that term and expressed as a dollar figure, together with a brief statement that the interest and settlement charges and the amount financed are used to calculate the annual percentage rate.

First, with FHA-insured HECM loans, the principal amount the consumer will borrow is not necessarily directly reflected in the loan contract. There is no principal amount disclosed in the model HECM notes, and HECM lenders typically do not populate HECM notes with a principal loan amount. With the FHA-insured HECM, a principal limit is derived from various factors, and deductions are made from that amount to arrive at a net principal limit. Deductions from the principal limit include an origination fee, upfront mortgage insurance premiums, closing fees (e.g., title insurance), pay-offs of prior liens (e.g., mortgage liens), and a subtraction for the servicing fee set aside. Thus, currently deriving an "amount financed" for closed-end reverse mortgages is not a simple process.

Further, the Board's Proposed Rule states that principal loan amount includes all amounts financed as part of the transaction, whether or not they are finance charges. Additionally, the Proposed Rule states that the amount financed must include the interest and settlement charges and the amount financed is used to calculate the annual percentage rate.

The Board should first consider that a principal loan amount is not a readily utilized or identifiable term in HECM reverse mortgage transactions. Secondly, the commentary to Regulation Z currently provides a comment which states that the amount financed does not include finance charges. Thirdly, the Board should consider and further clarify how a servicing fee set aside in connection with a reverse mortgage is handled in the calculation of the amount financed, and thus the APR. Lastly, pending finalization of further proposed or pending rules, to include finance charges in the amount financed appears on its face to

provide for double counting of certain finance charges. We believe the Board should state and clarify that the "principal loan amount" is net of financed closing costs. Page 18.

Further, for these reasons, among others, as we describe elsewhere in our comments herein, we believe the Board should consider treating reverse mortgages as open-end credit for disclosures purposes, or, alternatively, at a minimum, clarify the calculation of the APR with respect to closed-end reverse mortgages.

In addition, in the Preamble to the Loan Originator Compensation rule, the Board states that allowing compensation to vary with loan type, such as loans eligible for consideration under the CRA, would permit unfair compensation practices to persist in loan programs offered to consumers who may be more vulnerable to such practices.

While this language is in the Preamble to the rule, and not the rule itself, some have interpreted this discussion in the Preamble to mean that a creditor could not compensate loan originators differently based on any loan type, such as reverse vs. forward mortgage loans. If this is the Board's current interpretation, for the following reasons, we ask that it make an exception to this interpretation for reverse mortgages when compared to "forward" mortgages.

As we have explained previously, the structure and features of reverse mortgages are significantly different from "forward" mortgages. The origination time line for a reverse mortgage typically is much longer than that of a forward mortgage, and typically requires more effort and assistance by the loan originator on behalf of the loan applicant. Reverse mortgages carry no regular monthly repayment requirements, and thus begin with a lower loan amount based on an advance ratio tied to the value of the property. It is unlikely that the abuses that the Loan Originator Compensation rule was designed to address would be present in a reverse mortgage origination. For instance, it is unlikely that loan originator will attempt to steer a borrower that applies for a forward mortgage to a reverse mortgage. This is particularly apparent because reverse mortgage borrowers are age restricted, and reverse mortgages are not a mass marketed product. For these reasons, creditors with both forward and reverse mortgage channels should be able to compensate differently loan originators that operate in both channels.

#### One Set of Disclosures For Reverse Mortgages

In its Proposed Rule, the Board recognizes the industry's interest in combining reverse mortgage disclosures with general TILA disclosures. The Board notes that some commenters to the 2009 proposed closed-end rule suggested that the Board develop a single disclosure form for reverse mortgages that would combine the disclosures under § 226.33 with those under §§ 226.5b and 226.6 for H E L OC's, or § 226.18 for closed-end credit, as appropriate.

While the Board proposes to combine certain disclosures required under §§ 226.5b and 226.6 for HELOC's, or § 226.18 (or 226.19) for reverse mortgages, it is not clear that the Board has fully adopted the suggestion to combine reverse mortgage disclosures with general TILA disclosures in its Proposed Rule. Page 19. We suggest that the Board indicate and make clear that the use of single reverse mortgage disclosures, as outlined in parts of the Proposed Rule, are sufficient for reverse mortgages, and that creditors need not provide the additional disclosures under §§ 226.5b and 226.6 for HELOC's, or § 226.18 (or 226.19) for closed-end credit in connection with reverse mortgages, except as required and as may be combined with the single reverse mortgage disclosures as provided under revised 226.33. We request this be accomplished with specific clarifying revisions to 12 C.F.R. 226.31(a) and new section 226.33(c) with regard to disclosures in connection with reverse mortgages.

### Rescission

The Board should make clarifications under § 226.15 regarding the lack of rescindability when additional non-purchase loan proceeds may be advanced after consummation in connection with reverse mortgages subject to this section. Further, the Board should offer a model rescission notice that may be used with open-end credit secured by a consumer's dwelling that is initially used, in part, as purchase money proceeds, but when non-purchase loan proceeds may be advanced after consummation in connection with reverse mortgages. We request that creditors be allowed to give combined rescission notices that provide consumers with the right to rescind the non-purchase money proceeds of a plan within the three-day rescission period, and the election by the consumer not to rescind within the three-day period renders the whole plan non-rescindable for the life of the loan.

The Board should further clarify that under § 226.23, future advances for items such as servicing fees and ongoing mortgage insurance premiums (as well as protective advances made by the creditor) are not rescindable events after the three-day rescission period.

Finally, for purposes of 226.15 and 226.23, the Board should clarify that the possibility of an increase in available loan proceeds through a growth rate or factor, pre-established as part of the loan plan prior to consummation, does not give rise to a rescission right with respect to any such increased proceeds post-consummation beyond the three-day rescission period.

### Non-Recourse and Term Loans

The Board proposes to revise the definition of reverse mortgage to include loans that carry recourse to the consumer. The Board should make clear in its commentary that providing the consumer (or the consumer's heirs) with the option to pay off the full loan balance if he or she wishes to retain the home (as opposed to a then lesser fair market value) does not convert the loan into a recourse loan as long as the consumer is not ultimately

liable for any amounts in excess of the home's value at maturity or otherwise, assuming the consumer does not wish to keep the home. Page 20.

Additionally, the commentary provides that an obligation may state a definite maturity date or term of repayment and still meet the definition of a reverse mortgage if the maturity date or term of repayment used would not operate to cause maturity prior to the occurrence of any of the maturity events recognized in the regulation. Some reverse mortgage programs allow a senior to elect a term loan as opposed to a tenure based loan. Note, however, very few (if any) seniors elect a term loan. In any event, the comment should be clarified to state that if a consumer requests a term reverse mortgage loan, the term agreed to by the parties may constitute the termination or maturity of the loan without taking the loan outside the definition of a non-recourse reverse mortgage for Regulation Z purposes (assuming the loan otherwise meets the other criteria of a non-recourse reverse mortgage as defined under Regulation Z).

#### Use of Trusts

We are not certain whether, in connection with reverse mortgages, there is a necessary distinction between revocable and irrevocable trusts for purposes of proposed revised section 226.3. Some seniors utilize property held in a irrevocable trust for reverse mortgage collateral.

#### Use of Indices

With respect to the use of an index beyond the control of the creditor, we submit that a creditor should be able to specify the index as the "floor" without deeming the use of the index or a variable rate to be under the "creditor's control."

#### Disclosure of the Costs of Annuities

With respect to annuities, currently most, if not all, reverse mortgage creditors utilize application and closing disclosures (not mandated by regulation) requiring consumers to specify at or near application, and then again, prior to or at closing, whether the consumer will utilize reverse mortgage proceeds to purchase an annuity. We believe that if a creditor utilizes such disclosures and election forms, and the consumer indicates that he or she will not utilize reverse mortgage proceeds to purchase an annuity, in addition to the safe harbor provided under the Proposed Rule, then no annuity cost should be included within the reverse mortgage disclosures.

#### Modifications

The Board should make clear, under proposed revised section 226.20 regarding exceptions to modifications, that a modification does not occur, and a new credit transaction for disclosure purposes is not effectuated, when a creditor makes protective advances (regarding items such as property hazard insurance and real estate taxes) and the creditor

adds such amounts thus increasing the consumer's loan balance, as specified under pre-established conditions in a security agreement. Page 21.

### Tolerances

We support excluding closed-end reverse mortgages from the material disclosures for rescission purposes of loan amount, loan term, loan features, and payment summary. However, we request that this be made clear in proposed § 226.23(a)(5)(i). As currently drafted, it is not clear that loan amount or loan term are not material disclosures for purposes of closed-end reverse mortgages.

We further support excluding the following items as material disclosures for open-end reverse mortgage rescission purposes: (i) the length of the plan, the draw period, and any repayment period; (ii) an explanation of how the minimum periodic payment will be determined and the timing of payments; (iii) a statement about negative amortization; and (iv) the credit limit applicable to the plan. As stated in the Proposed Rule, debt cancellation or suspension coverage is not used with reverse mortgages, and therefore should not be included as a material disclosure for purposes of open-end reverse mortgage rescission notices.

We suggest the Board increase the tolerance for one-time fees, and settlement charges, particularly for reverse mortgages. Closing costs for reverse mortgages can be based on the maximum claim amount. Closing costs for some reverse mortgages can be higher than traditional refinance forward mortgages. For this reason, in order to assure that creditors will not consistently overdisclose closing fees to remain within tolerance for rescission disclosure purposes, we suggest the Board increase the tolerance for one-time fees for reverse mortgages. In this regard, as the Board's suggests in its Proposed Rule, it could provide an overall percentage tolerance threshold for such one-time fees, similar to that under RESPA for the GFE and HUD-1.

As stated above, we believe it is imperative that the Board provide additional guidance, clarification, and examples with regard to calculating an APR in connection with closed-end reverse mortgages.

### Conclusion

#### Support for Further Rulemaking in the Area of Reverse Mortgages

As noted above, we share the Board's concerns about deceptive mortgage advertising in connection with reverse mortgages and support the Board's efforts to eliminate such deceptive mortgage advertisements. Additionally, we believe it is in the shared best interest of seniors and our members to ensure that consumers are provided with accurate and comprehensible information to allow informed decisions. We also support the proposal in the areas of counseling and the offering of other financial services products in

connection with reverse mortgages, subject to the comments noted above. Page 22. For these reasons, we support many provisions of the Proposed Rule as outlined above. However, we also have concerns, as expressed above, and request that the Board consider our suggested revisions to the Proposed Rule. Additionally, we suggest that the Board classify reverse mortgages without regard to whether such loans are open or closed-end. This would result in disclosure treatment for reverse mortgages that, while similar to the provisions of the Proposed Rule, would be clearer than currently proposed by the Board. If the Board will not accept this suggestion, it is imperative that the Board clarify and provide additional guidance on the manner in which the APR is to be calculated for closed-end reverse mortgages.

We appreciate the Board's consideration of its comments with respect to this important proposal. Should questions about them arise, or additional information be helpful, please do not hesitate to contact us.

Very truly yours,

Peter Bell  
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National Reverse Mortgage  
Lenders Association

John A. Courson  
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cc: James A. Brodsky  
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## **Exhibit A**

### **KEY QUESTIONS TO ASK ABOUT REVERSE MORTGAGE LOANS**

1. **What is a reverse mortgage loan?**

A reverse mortgage is a special type of home loan that is designed to enable elderly homeowners (usually age 62 and older) to convert the equity in their homes to monthly loan disbursements and/or lines of credit. The amount you can borrow depends on a number of factors, including your age, the current interest rate, and the sales price or the appraised value of your home. Generally, the more valuable your home is, the older you are, and the lower the interest, the more you may borrow.

2. **How do I receive my reverse mortgage payments?**

Loan proceeds in a reverse mortgage are paid out to you according to the payment plan you select. One or more of the following payment plans may be available to you under a reverse mortgage loan:

- **Tenure**: Under this payment plan, you can receive equal monthly payments from the lender for as long as you live and continue to occupy the property as your principal residence.
- **Term**: Under this payment plan, you can receive equal monthly payments from the lender for a fixed period of months that you select.
- **Line of Credit**: Under this payment plan, you can receive payments at times and in amounts you choose until the line of credit is exhausted.
- **Modified Tenure**: Under this payment plan, you may combine a line of credit with monthly payments for life, or for as long as you continue to live in the home as a principal residence.
- **Modified Term**: Under this payment plan, you may combine a line of credit with monthly payments for a fixed period of months you select.

3. **What types of reverse mortgage products are available to me?**

There are several types of reverse mortgage products available to you:

- **Home Equity Conversion Mortgage ("HECM") Standard Program**: The HECM is a reverse mortgage program established by the U.S. Department of Housing and Urban Development Federal Housing Administration ("FHA"). To be eligible for a FHA HECM, the FHA requires that you be a homeowner 62 years of age or older, the property must be your primary residence, you must not have delinquencies on any federal debt, and you must complete HECM counseling. There are certain upfront fees included with a HECM, such as upfront and monthly mortgage insurance premiums.
- **HECM Saver Program**: The HECM Saver differs from the HECM Standard Program in that the amount of money available to you is lower. However, you will be charged significantly lower upfront fees. There are no additional eligibility requirements for HECM Saver. You just need to meet existing HECM Standard Program requirements.

- **HECM for Purchase Program:** The HECM for Purchase Program allows you to purchase a new principal residence using loan proceeds from the reverse mortgage. Page 24. The program is designed to allow you to purchase a new principal residence and obtain a reverse mortgage within a single transaction. The program is also designed to enable you to relocate to other geographical areas to be closer to family members or downsize to homes that meets your physical needs.
- **Proprietary Reverse Mortgages:** Proprietary reverse mortgage programs are developed and offered by private lenders. These programs are typically designed for borrowers who live in higher-valued homes.

HECM's generally provide bigger loan advances at a lower total cost compared with proprietary reverse mortgage loans. But if you own a higher-valued home, you may get a bigger loan advance from a proprietary reverse mortgage. So if your home has a higher appraised value and you have a small mortgage, you may qualify for more funds. The type of reverse mortgage product you select will depend on your particular circumstances and needs.

4. **How is a reverse mortgage loan different from a traditional residential mortgage?**

A traditional residential mortgage loan is generally used to buy a home or to borrow against your home equity. As you pay back the loan over time (usually through monthly principal and interest payments), you get that equity back from the lender. Once the traditional residential mortgage is paid off, you own all the equity in your home.

With a reverse mortgage, you don't make monthly principal and interest payments. Instead, the lender pays you according to the payment plan you select. The reverse mortgage loan is repaid in one payment after the death of the borrower, when the borrower no longer occupies the property as a principal residence, or when the borrower fails to meet the obligations of the reverse mortgage (for example, if you allow the property to deteriorate and do not make necessary repairs, you do not pay property taxes, or you violate other obligations). Repaying the loan in full includes the amount of the original loan, plus all interest and any other fees or charges. When the reverse mortgage becomes due and payable, the property will normally be sold by the borrower or the borrower's estate to pay off the reverse mortgage loan.

5. **Is a reverse mortgage loan right for me?**

The advantage of a reverse mortgage loan is that you can convert the equity in your home to a monthly stream of loan disbursements and/or a line of credit. However, if you are considering a reverse mortgage, you should be aware of the following:

- *Loan amount increases over time*  
The amount you owe on a reverse mortgage grows over time. The younger you are when you take out a reverse mortgage, the more time there will be for the interest to grow, thereby increasing the amount you owe.
- *Fewer assets*

Reverse mortgages can use up some or all of the equity in your home, leaving you with fewer options for handling future needs, such as health care, home repairs, or everyday living expenses. Page 25. However, most reverse mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan is repaid.

- *May cost more than other loan options*

Reverse mortgages may be more expensive than other home loans. Therefore, you should consider all options before applying for a reverse mortgage loan. For example, the HECM Saver Program may be a better option for you than the HECM Standard Program if you need to borrow less money, because the upfront fees on the HECM Saver Program are significantly less than the HECM Standard Program.

Reverse mortgages may also have tax consequences or may affect your eligibility for federal or state assistance. Talk with a HUD-approved reverse mortgage counselor or financial advisor to learn more.

6. What fees and charges are added to a reverse mortgage loan?

Fees and charges can vary in amount and type from one reverse mortgage loan to another. 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 proceeds of the reverse mortgage loan you receive. Reverse mortgage loan proceeds typically include:

Closing costs, which may include a one-time origination fee and other costs associated with closing a reverse mortgage loan.

Mortgage insurance premium ( " M I P " ) , which you can finance as part of your loan. You will be charged an upfront M I P at closing. Additionally, over the life of the loan you will be charged an annual M I P.

Interest, which is charged on your outstanding reverse mortgage loan balance each month.

Servicing fee, if any, which may be charged each month.

7. What if my lender wants me to use money from my reverse mortgage to buy an annuity or make another investment?

You cannot be required to purchase another financial services product, such as an annuity, long-term care insurance, or life insurance, as a condition of obtaining your reverse mortgage loan. Also, under federal law, you cannot be required to use your reverse mortgage loan proceeds to purchase any other financial or insurance product (such as an annuity, long-term care insurance, or life insurance). If another product is offered to you, make sure you understand: (1) how the product works and what its benefits are, (2) how much it costs, (3) whether you need it, and (4) how much money the person selling the product makes if you purchase it. Talk with a HUD-approved reverse mortgage counselor or financial advisor before you decide.

8. 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. Page 26.

9. **Can I lose my home while I have a reverse mortgage?**

Yes. Your reverse mortgage loan may become due and payable if you do not pay property taxes, hazard insurance, or if you violate other obligations of your reverse mortgage loan. The reverse mortgage also becomes due and payable if you permanently move to a new principal residence or you allow the property to deteriorate and do not make necessary repairs. Your reverse mortgage loan may also become due and payable if you (or the last borrower), fail to live in the home for 12 months in a row (for example, if you or the last borrower stayed in a nursing home or hospital for longer than 12 months).

10. **What happens at the end of the loan? "What if I owe more than my home is worth when the loan comes due?"**

When the reverse mortgage becomes due and payable, the property will normally be sold by you or your estate to pay off the reverse mortgage loan. Most reverse mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan is repaid. If you obtained a HECM, the mortgage insurance premium you paid guarantees that when you or your heirs sell your home to repay the loan, your total debt can never be greater than the value of your home.

11. **What happens if there is money left over after the home is sold?**

When you sell your home, you or your estate will repay the proceeds you received from the reverse mortgage plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs.