

Understanding Reverse Mortgages: Do They Make Sense for You?

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K-State Research and Extension and K-State Family Studies and Human Services

Introduction

The recent economic crisis has severely affected many retired individuals' ability to pay for everyday living expenses as well as major unexpected expenses. Because many Americans have put such a high emphasis on home ownership, the majority of their wealth may be tied-up in home equity, limiting their ability to access money to pay expenses. For many individuals in this circumstance, reverse mortgages are attractive because of their ability to provide access to home equity, while retaining the borrower's right to live in their home. However, reverse mortgages are complex financial products that carry significant impacts on the long-term financial well-being of borrowers.

In 2012, the Consumer Financial Protection Bureau (CFPB) published the results of study it conducted on reverse mortgages. They reported that in fiscal year 2011, 46 percent of new reverse mortgage borrowers were younger than age 70. Reverse mortgages are a complex financial product and difficult for consumers to understand. Misleading or deceptive advertising confuses consumers, further complicating the reverse mortgage process. The CFPB reported that 1 in 10 reverse mortgages were in default in fiscal year 2011. Most of these defaults occurred because homeowners did not maintain homeowners insurance or pay property taxes.

Lesson Objectives

As a result of participating in this lesson, learners will:

- understand the three ways to get cash from their homes;
- understand the difference between forward mortgages, reverse mortgages, and home equity loans;



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- know what factors to consider when evaluating a reverse mortgage; and
- become familiar with the product features, eligibility requirements, costs, available loan amounts, and borrower obligations associated with the most common reverse mortgage product, the Home Equity Conversion Mortgage (HECM) from the Federal Housing Administration.

Intended Audiences

Adult homeowners and their families.

Before the Lesson

- Review the *Understanding Reverse Mortgages: Do They Make Sense For You?* fact sheet (MF3163) and leader’s guide (MF3164).
- Obtain copies of the fact sheet for each participant. Make copies of the cards for Activity 2 (if using) and the evaluation for each participant.
- Assemble other supplies you may want to use (e.g. flipchart, markers) and gather materials needed for the activities in the lesson that you choose to do.
- Become familiar with the references and resources for this lesson.
- Discuss the lesson with an HECM approved counselor. Find an HECM counseling agency near you at https://entp.hud.gov/idapp/html/hecm_agency_look.cfm
- Arrange chairs in a circle or semicircle to encourage discussion and participation.

Presenting the Lesson

Share “ground rules” of the session with learners, adapted from *Making Your Money Work*, Purdue University Extension, Trainer’s Guide (CFS-679G).

1. Respect the views of others.
2. Listen to each other.
3. Share feelings/thoughts.
4. Be open to new ideas.
5. Suspend judgment.

Summarize objectives. Ask learners if there are other issues they came to learn about. Make a list of those issues on a whiteboard or flipchart. Address them as time and knowledge allow. Offer to research issues as needed and respond to the participant after the lesson.

Present the lesson using the fact sheet and the information in the resources included there for content. Incorporate one or both of the activities below.

Have learners complete and return evaluations to you. Enter results into K-PICS.

Lesson Activities

Activity 1 – “Stand Up/Sit Down”

After presenting the lesson, this activity seeks to gauge learners’ knowledge and understanding of the differences between forward mortgages, reverse mortgages, and home equity loans.

1. Assign learners to one of three smaller groups representing different financial products. The groups are: A) forward or traditional mortgage, B) reverse mortgage, and C) home equity line of credit or installment loan. You can do this by counting off, drawing, or another method of your choice.
2. Test their understanding by reading the following statements and asking them to stand if the statement applies to their financial product. Have learners return to their seats between statements. Answers are in parentheses.
 - a. Generally available to any adult. (A, C)
 - b. Generally available to anyone 62 or over. (A, B, C)
 - c. Available to only those 62 and over. (B)
 - d. Requires monthly payments. (A, C)
 - e. Over time my equity increases. (A,C)
 - f. Over time my equity decreases. (B)
 - g. Requires loan counseling. (B)
 - h. Retain ownership to my home. (A, B, C)
 - i. Interest and fees accumulate each year. (A, B, C)

Activity 2 – “Does a Reverse Mortgage Make Sense for Me?”

Once learners have a basic understanding of the differences between forward mortgages, reverse mortgages, and home equity lines of credit and installment loans, they can begin to consider whether or not a reverse mortgage makes sense for their situation.

1. Create a set of “Does a Reverse Mortgage Make Sense?” cards making sure to have enough so that each of your learners can have at least one. The cards are on page 4 of this leader’s guide.
2. Distribute the “Does a Reverse Mortgage Make Sense?” cards to the group.
3. Working in groups of two or three learners, ask for a volunteer to read one of the cards.
4. Ask participants in the small groups to respond. In this situation...
 - a. What things would I need to consider?
 - b. What additional information might I want to gather?
 - c. Who might I want to discuss this with?
Refer to the fact sheet for examples.

Community Awareness Activities

- Talk with friends and family members about what you learned from attending a program on reverse mortgages.
- Place copies of the fact sheet in your local library and senior center.
- Work with a local newspaper to sponsor one or more news articles on topics related to the content of the lesson.

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Does a Reverse Mortgage Make Sense for Me? — Case Study Cards

<p>As we grow older, living at home can become difficult. Despite that, it is important to me to stay in my home as I get older.</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>	<p>My husband and I live in the house that he grew up in. It is important to us that the house stays in the family.</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>
<p>Money is tight right now. If I stay in my home, how will I pay for the maintenance and taxes?</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>	<p>I'm not sure if I want to stay in my house as I get older, but money is tight right now. It would be nice if I could use the equity in my home.</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>
<p>My children seem to expect that when I can no longer live on my own, we will sell the house and I will move in with them.</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>	<p>It doesn't really matter to me where I live, but I do want leave something for my children and grandchildren.</p> <p>In this situation...</p> <p>What things would I need to consider?</p> <p>What additional information might I want to gather?</p> <p>Who might I want to discuss this with?</p>

Understanding Reverse Mortgages: Do They Make Sense For You? Evaluation

As a result of participating in this lesson:

I understand that it is important to assess whether my home will allow me to age in place.	Yes	No
I understand that I retain ownership of my home with a HECM.	Yes	No
I understand that while no payments are due, failure to maintain the property and pay property taxes could result in a HECM loan default.	Yes	No
I understand that interest and fees accumulate each year on the HECM loan balance.	Yes	No
I understand that the HECM must be repaid if I move or at my death.	Yes	No
I understand that it is possible that my heirs may be forced to sell my home to pay off the loan balance.	Yes	No
I know how to find a HUD approved HECM housing counselor.	Yes	No
Actions I plan to take as a result of this lesson:		

Why am I asking for contact information? To help us improve this program, we want to know about the behaviors changed or actions taken by participants after participating in this lesson. If you are willing to provide us with follow-up information 30-60 days after your participation, please provide your contact information. Your participation is entirely voluntary and your information will not be used in any other way.

Name:

Phone:

Email:

Address:

City:

ZIP:

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