HECM Reverse Mortgage Delinquencies and the Role of the Aging Network

In recent months, a mortgage foreclosure crisis has been unfolding across the United States. Among the mortgagees delinquent in payment have been older homeowners, many of whom have turned to the Aging Network for assistance in understanding their personal circumstances, assistance with financial management, and for resources that may assist them.

It has long been assumed that reverse mortgage borrowers with a Home Equity Conversion Mortgage (HECM) could never face foreclosure because the loan is not due and payable until the borrower ceased to occupy the property. Due to a number of factors, however, some HECM borrowers are having trouble keeping up with other property-related expenses, a situation that could force them to leave their homes.

Home Equity Conversion Mortgages are reverse mortgages insured by the HUD Federal Housing Administration (FHA). Under the HECM program property taxes, insurance and other property charges are the responsibility of the homeowner. Lenders in the past have advanced these property charges to borrowers who were unable to pay them. HUD is now requiring lenders to try to collect these advances and older borrowers who are unable to repay these advances will be in jeopardy of mortgage default or even foreclosure. From late January until early April, 2011, HECM mortgagees who are delinquent will be sent a letter explaining that they are delinquent and advising them of how they can correct the situation. It is anticipated that as many as 30,000 HECM reverse mortgage holders are delinquent and will receive these letters.

The Aging Network will have an important role to play in assisting HECM borrowers who are delinquent. To do so effectively it is important that aging providers fully understand the problem and how they can assist.

HECM Program

The Home Equity Conversion Mortgage (HECM) program is a reverse mortgage insured by the HUD FHA. The program allows homeowners 62 and older to borrow a portion of the equity in their home through a loan. The lender places a mortgage against the property that the borrower has to repay when they no longer live in the property or fail to comply with the terms and conditions of the mortgage. Borrowers are responsible for paying all property costs including taxes, insurance, homeowner association dues, condo fees and others. A HECM reverse mortgage, attractive to older adults whose primary asset is their home, allows a borrower access to funds that can assist them in their efforts to age in place.

Reverse Mortgage Counseling

All potential HECM borrowers are required to complete one-on-one reverse mortgage counseling provided by a HUD-approved agency prior to applying for a loan. Counselors follow an approved HUD HECM Counseling Protocol to educate the client about reverse mortgages and, just as important, to present alternatives to a reverse mortgage that may meet the client's needs. Counselors are required to use a Financial Interview Tool to determine the potential risk factors that may exist for the client. Beginning in the spring of 2010, housing counselors must complete a Benefits CheckUp (BCU) for clients below 200 percent of poverty level or with a disability. BCU is offered to every client but may be declined by those that they do not meet one of these requirements. Before a client can receive a HECM loan, they must have received a HECM Counseling Certificate certifying that the housing counselor has met with them and that they understand the costs and benefits of a HECM reverse mortgage.

HECM Delinquency Counseling

Five HUD housing counseling agencies have been selected and funded to provide free counseling to HECM clients that receive a delinquency letter. HUD and the housing counseling agencies refer to this as property charge loss mitigation counseling. These agencies and their toll free numbers have been included in the letter delinquent borrowers will receive. The housing counselor's responsibility is to:

- resolve the delinquency, if possible
- determine options for additional financial assistance
- explore other housing options
- identify resources to provide transitional housing guidance and refer the borrower to a local Area Agency on Aging (AAA) for additional guidance and counseling to assist with the transition

The five housing counseling agencies are:

• National Council on Aging	(800) 510-0301
• CredAbility	(888) 395-2664
• Money Management International	(866) 765-3328
• National Foundation for Credit Counseling	(866) 363-2227
• NeighborWorks America	(888) 990-4326

Role of the Aging Network

It is anticipated that delinquent borrowers will fall into one of three categories based on their counseling session, including the completion of a budget. Those categories and potential role of the Aging Network are listed below:

- Tier 1 – Borrower will be able to cure their immediate delinquency and assure payment of property charge payments going forward. These borrowers may be referred to local AAAs to ensure they are connected to all available resources that may be useful to them.
- Tier 2 – Borrower will be able to cure their immediate delinquency but not assure payment of property charges going forward. Additional assistance will be required to identify other resources, including referral to a local AAA to assist with them in applying for benefits and to provide additional referrals and case management to assist the client in maximizing their income security and housing stability. These borrowers may also need assistance to transition to other housing options including those available through family, friends or local resources.

- Tier 3 – Borrower will not able to cure their immediate delinquency or assure payment of property charges going forward. Borrower will require extensive support from other resources such as the aging network, legal aide, or other agencies that can provide on-going assistance in order to help the borrower transition to alternative housing. Counselor will refer borrower to a local AAA to assist with a safe transition out of the home and provide other assistance to maximize the borrower's income and resources to assist them in remaining as independently as possible in the community.