



## Reverse Mortgage Suitability Self-Evaluation Worksheet

### Why use the Suitability Self-Evaluation Worksheet?

The suitability of a reverse mortgage should be evaluated based on a number of factors. Suitability is subjective and specific to the individual borrower. Seniors considering a reverse mortgage need to determine whether this type of loan is right for them.

In 2014, CANHR wrote legislation (AB 1700) that created a reverse mortgage worksheet and a seven-day waiting period between the date the borrower receives loan counseling and the point at which a lender may accept a final and complete application for a reverse mortgage loan.

Study and complete this worksheet before attending the mandatory HUD-approved reverse mortgage counseling session. No borrower should move forward in purchasing a reverse mortgage loan unless he or she completes this self-evaluation and clearly understands whether a reverse mortgage is suitable for his or her needs.

### Self Determination

- You can contemplate the suitability of a reverse mortgage at your leisure.
- The suitability worksheet is designed to help you with the various issues that might come up and help you prepare for the mandatory counseling session.
- Complete and bring the worksheet to the counseling session so that you can ask the counselor questions to help clarify whether having a reverse mortgage is ultimately a suitable proposition.
- Having a completed worksheet will promote an efficient counseling session by keeping the session focused on issues that you have pre-identified as being important or in need of further clarification.

# The Pre-Counseling Self-Evaluation Suitability Worksheet

Directions: Carefully read through each of the suitability questions and make notes on a separate piece of paper on questions you have about suitability. Bring these questions with you when you have your reverse mortgage counseling session. The purpose of the counseling session is for you to have an opportunity to speak openly and candidly with a neutral professional whose purpose is to help you understand what it means to become involved with this particular loan.

## **Eight Questions to Help You Decide: Is a Reverse Mortgage Right For Me?**

### **1. What happens to others in your home after you die or move out?**

Rule: When the borrower dies, moves, or is absent from the home for 12 consecutive months, the loan becomes due.

Considerations: Having a reverse mortgage affects the future of all those living with you. If the loan cannot be paid off, then the home will have to be sold in order to satisfy the lender.

- Who is currently living in the home with you?
- What will they do when you die or permanently move from the home?
- Have you discussed this with all those living with you or any family members?
- Who will pay off the loan, and have you discussed this with them?
- If your heirs do not have enough money to pay off the loan, the home will pass into foreclosure.

Do you need to discuss this with your counselor?

**Yes or No**

## 2. Do you know that you can default on a reverse mortgage?

Rule: There are three continuous financial obligations. If you fail to keep up with your insurance, property taxes, and home maintenance, you will go into default. Uncured defaults lead to foreclosures.

Considerations: Will you have adequate resources and income to support your financial needs and obligations once you have removed all of your available equity with a reverse mortgage?

- Are you contemplating a lump-sum withdrawal?
- What other resources will you have once you have reached your equity withdrawal limit?
- Will you have funds to pay for unexpected medical expenses?
- Will you have the ability to finance alternative living accommodations, such as independent living, assisted living, or a long-term care nursing home?
- Will you have the ability to finance routine or catastrophic home repairs, especially if maintenance is a factor that may determine when the mortgage becomes payable?

Do you need to discuss this with your counselor?

**Yes or No**

## 3. Have you fully explored other options?

Rule: Less costly options may exist.

Consideration: Reverse mortgages are compounding loans, and the debt to the lender accelerates as time goes on. You may want to consider using less expensive alternatives or other assets you may have before you commit to a reverse mortgage.

- Alternative financial options for seniors may include, but not be limited to, less costly home equity lines of credit, property tax deferral programs, or governmental aid programs.

- With peer-to-peer lending or other contractual arrangements, you can use your home equity to secure loans from family members, friends, or would-be heirs.

Do you need to discuss this with your counselor?

**Yes or No**

#### **4. Are you intending to use the reverse mortgage to purchase a financial product?**

Rule: Reverse mortgages are interest-accruing loans.

Considerations: Due to the high cost and accelerating debt incurred by reverse mortgages, using home equity to finance investments is not suitable in most instances.

- The cost of the reverse mortgage loan may exceed any financial gain from any product purchased.
- Will the financial product you are considering freeze or otherwise tie up your money?
- There may be high surrender fees, service charges or undisclosed costs on the financial products purchased with the proceeds of a reverse mortgage.
- Has the sales agent offering the financial product discussed suitability with you, and has the agent given you a written suitability evaluation?

Do you need to discuss this with your counselor?

**Yes or No**

#### **5. The impact of reverse mortgages on your eligibility for government assistance programs.**

Rule: Income received from investments will count against individuals seeking government assistance.

Considerations: Converting your home equity into investments may create non-exempt asset statuses.

- There are state and federal taxes on the income investments financed through home equity.
- If you go into a nursing home for an extended period of time, the reverse mortgage loan will become due, the home may be sold, and any proceeds from the sale of the home may make you ineligible for government benefits.
- If the homeowner is a Medi-Cal beneficiary, a reverse mortgage may stymie the ability to transfer the home, thus, resulting in Medi-Cal recovery.

Do you need to discuss this with your counselor?

**Yes or No**

**6. Do you know that if your spouse is not named as a Borrower on the reverse mortgage, he or she has no automatic right to remain in the property after the Borrower dies or permanently moves away from the home?**

Rule: An eligible Surviving, Non-Borrowing Spouse may continue to live in the mortgaged property after the death of the Borrower only if certain conditions are met.

Considerations: A Non-Borrowing Spouse often will not know of the requirements for remaining in the property after the death of the Borrower.

- The Non-Borrowing Spouse must be named in the loan document as a “Non-Borrowing Spouse.”
- The Borrower and Non-Borrowing Spouse had to be legally married when the loan was made and remain married until the death of the Borrower.
- The Non-Borrowing Spouse has to live in the property at the loan closing and continue to live in the property as their principal residence.
- The Non-Borrowing Spouse must meet other eligibility rules set by HUD.

Do you need to discuss this with your counselor?

**Yes or No**

## 7. Do you have an adequate estate plan in place?

Rule: If the Borrower becomes incapacitated, the reverse mortgage servicer may not talk to anyone who cannot demonstrate written legal authority to represent the Borrower. Additionally, after the death of the Borrower, any heirs need to be able to demonstrate their rights to ownership in the property.

Consideration: The Borrower needs to understand how a reverse mortgage may complicate their estate plan, and ensure that the property rights for heirs are clear.

- If the Borrower becomes incapacitated, the reverse mortgage servicers may not talk to anyone (including the Non-Borrowing Spouse, heirs, or interested parties) unless they have written legal authority to represent the Borrower's interests.
- After the Borrower dies, the reverse mortgage servicers may not talk to anyone who does not have documented ownership rights to the property.
- The Borrower's home may end up in probate if disputes arise amongst the heirs, and the Borrower does not have an adequate estate plan.
- Probate can be very expensive for a Non-Borrowing Spouse, heirs, or beneficiaries.

Do you need to discuss this with your counselor?

**Yes or No**

## 8. Do you understand how home improvement projects or voluntary assessment contracts to finance home improvements can increase the risk of a reverse mortgage loan default and foreclosure?

Rule: Failure to promptly pay your property taxes in full triggers a default on a reverse mortgage loan.

Consideration: This is a matter that the Borrower needs to fully understand and appreciate to avoid ending up in default and foreclosure.

- Making certain home improvements will add value to your home.
- Added value from home improvements can increase your property taxes.
- Financing property improvements through voluntary assessment contracts will increase your property taxes.
- If the reverse mortgage Borrower cannot keep up with the increased property taxes, he or she will go into a loan default that will result in a foreclosure.

Do you need to discuss this with your counselor?

**Yes or No**

*Questions? Call CANHR at (800) 474-1116 or visit CANHR's website at [www.canhr.org](http://www.canhr.org).*