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Keeping The Mortgage Professional Informed

To pay or not to pay: That is the question

A closer look at repaying reverse mortgages

By Martin Taylor

Indeed, it is a cliché to think about the New Year as the time for reinvention and reclamation. But a little thing like a cliché should never get in the way of a big opportunity to share some insight about how you can look ahead to evolve and become a better reverse mortgage loan officer in the coming year.

The second in a series of articles that will examine the nuances of reverse mortgages and how to best represent them, this article expands on our previous piece ("Reverse psychology," *The Mortgage Press*, September 2007) that discussed the correct function of a reverse mortgage line of credit and how an advisor program can help rookies in the reverse sector gain valuable experience.

As with the line of credit, many new reverse mortgage loan officers can also become confused when attempting to overcome objections of seniors who are opposed to this complex loan.

A large amount of reverse products are Home Equity Conversion Mortgages (HECMs), which are variable loans that negatively amortize. Many seniors view these loans as the type to avoid—until, that is, they are properly educated about the total complexion of the loan.

If you are faced with a situation in which a senior pushes back because of negative amortization, be sure to inform him that he does have the option of paying down the mortgage just like with any traditional forward mortgage. The only difference is there is no monthly payment requirement, and he shouldn't check his mailbox for a bill, as none will ever come.

At the risk of imposing another cliché, we all are familiar with the saying, "If it sounds too good to be true, it probably is." How many times have we heard this from experts? And how many times do you think weary seniors have heard this about reverse mortgages?

Your job as a competent and knowledgeable loan officer is to thoroughly explain the gradations of the loan to put the senior at ease and ultimately assure him that this loan is not too good to be true, but rather it is too good to be missed. This involves walking the prospective client through the optional payment process, which is as follows:

1. The lender will first apply the prepayment to the portion of the principle representing aggregate payments for mortgage insurance premiums and servicing fees.
2. Payments will then be applied to accrued interest.
3. Finally, payments will go toward the principal balance.

Be sure to explain to the senior that should he choose to make any payments on the home, he will not be expected to send in a check on a monthly basis.

One of the attractive features of a reverse mortgage is the flexibility it offers. So, whether a borrower chooses to make a payment every month, every quarter or bi-annually, there is no penalty to do so, and the bonus is that he can take control of the loan balance as it increases over time. What's more, often repayments toward the principal will also increase the line of credit by the exact repayment amount.

You will find that seniors often choose to make payments out of habit (after all, think about how many mortgage payments they have made in their lifetimes). And other seniors will choose to make payments out of insecurity or uncertainty. Whatever the case may be, over time, they will realize there is no reason to make these payments, so long as their insurance and taxes are paid current and that the home is kept in reasonable repair.

Also, you may encounter resistance to the loan because seniors fear there will be nothing left for their heirs or that they could lose their home all together. The reality is, as a HECM, it is government-backed and secured, protecting the senior. And with probable appreciation, there should be plenty of equity for their heirs to enjoy.

To win the confidence of the senior, you want to avoid just selling the loan benefits to close the deal. Rather, you want to extend counsel and educate seniors with full disclosure so that they walk into this loan with eyes wide open and you start looking at a career that is taking off.

Don't forget to be on the lookout for our next installment, which will cover qualifying property types and how to mitigate the dangers of removing a spouse off the title. In the meantime, if you have any questions about any of the topics that have been covered thus far or if you have a reverse mortgage situation you would like us to explore further, feel free to contact me.

Happy New Year!

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