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Mortgages

New Rules for Counselors

By **[BOB TEDESCHI](#)**

OLDER homeowners who are considering a reverse mortgage can now get more help in the decision-making process.

The [Federal Housing Administration](#), which insures reverse mortgages, last month instituted new standards for the counselors who, according to federal law, must meet with prospective borrowers before a loan can be approved.

Under the new rules, counselors are required to pass an exam that was used in recent years by the [AARP Foundation](#) to qualify its reverse-mortgage counselors, and they must take part in training every two years. Counselors will also have to follow a set of protocols to help determine whether a reverse mortgage will help a borrower.

“We’ll be weeding out the bad counselors going forward,” said Meg Burns, the director of the F.H.A.’s office of single-family program development.

Reverse mortgages — otherwise known as home equity conversion mortgages — are an increasingly popular way for older people to remain in their homes unencumbered by monthly mortgage payments. Borrowers can receive more than half of the home’s value in an upfront payment or in monthly payments. After the owner’s death, the estate repays the loan, typically by selling the property.

But reverse mortgages can be costly; on a \$400,000 loan, closing costs can reach \$15,000. And some who opt for lump-sum payments may have difficulties managing the money.

The F.H.A.’s changes follow a June report by the [Government Accountability Office](#), which sent investigators,

posing as borrowers, to 15 reverse-mortgage counseling sessions. The report said that none of the counselors covered all the required topics, and that some overstated the length of the sessions in records provided to the government.

Seven of the counselors, meanwhile, did not discuss required information about alternatives to reverse mortgages. “Because of these weaknesses,” the G.A.O. report said, “some prospective borrowers may not be receiving the information necessary to make informed decisions.”

Ms. Burns said she welcomed the G.A.O. investigation. In coming months, the F.H.A. will issue preliminary regulations that would be the first step in developing a method to mathematically determine a borrower’s eligibility for a reverse mortgage.

The most meaningful addition to the new counseling standards, she said, are the new protocols.

Counselors will focus more attention on assessing borrowers’ household budgets and carefully addressing whether a reverse mortgage will help achieve their goals. Sometimes, Ms. Burns said, counselors will suggest social service options like Meals on Wheels to alleviate some of their financial difficulties.

Counselors will also be required to determine whether the consumer actually understands the information. If they cannot make that determination with confidence, they must withhold the counseling certificate, which is needed before a loan can be approved. The counselor can recommend that a borrower bring along a family member or financial counselor to a return visit.

Nina Simon, a lawyer for the [Center for Responsible Lending](#) in Durham, N.C., says the new approach is an improvement, though it contains potential pitfalls.

For example, borrowers will have the option of taking part in the counseling sessions by telephone. “How do you, as the counselor, know if the person you’re actually talking to is the person who is taking out the mortgage?” she asked.

Peter Bell, the executive director of the [National Reverse Mortgage Lenders Association](#), said that counselors would verify borrowers’ identification “by asking for personal information,” and that some might conduct

credit inquiries so they could ask specific financial questions.

Phone-based sessions, he added, are necessary because “counselors are not widely available throughout the country.”

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