US

Virgin Islands

Office of the Lieutenant Governor

Division of Banking and Insurance

Virgin Islands

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Bulletin 2016-1

Reverse Mortgage

A growing number of homeowners, who are 62 years and older, are considering a reverse mortgage as a means of obtaining additional cash in hand to supplement their income after retirement, pay for healthcare expenses, make home repairs, or for other purposes. This Bulletin is created to provide homeowners information on reverse mortgages and how they work. A reverse mortgage is a type of mortgage in which a homeowner can borrow money against part of the equity or the value of the homeowner's home. Specifically, it allows homeowners to convert part of the equity in their home into cash without having to sell their home or pay additional monthly bills. The cash received is usually tax free. However, repayment of the reverse mortgage loan is required once the borrower dies; permanently vacates the home; or the home is sold.

Due to increasing publicity about reverse mortgages and the potential impact of reverse mortgages on homeowners age 62 and older as well as their families, it is necessary that the Office of the Lieutenant Governor, Division of Banking and Insurance ("Division") address this topic. A reverse mortgage can be complicated. As such, the Division encourages homeowners seeking this type of mortgage to evaluate the different type of reverse mortgages available to them; the implication of reverse mortgages; and whether a reverse mortgage meets their overall financial needs. Prior to obtaining a reverse mortgage the homeowner should comparison shop before he or she decides on a lender. More specifically, the homeowner should compare reverse mortgage options, terms and fees from various lenders.

There are three kinds of reverse mortgages: (1) **single purpose reverse mortgages –** offered by some state and local government agencies, as well as non-profits and are the least expensive reverse mortgages. These reverse mortgages are not offered in every jurisdiction; (2)

proprietary reverse mortgages – are privately insured by the mortgage companies that offer them. They are also known as "jumbo" reverse mortgages because they are generally taken on higher valued homes. Very few proprietary reverse mortgages exist; and (3) **federally- insured reverse mortgages, also known as Home Equity Conversion Mortgages (HECMs)** - are issued by a mortgage lender, but insured by the Federal Housing Administration, which is a part of the U.S. Department of Housing and Urban Development (HUD). At present, most reverse mortgages offered in American are HECMs.

A homeowner who is considering a reverse mortgage should be aware of the following general information:

- The homeowner must occupy the home as a principal residence.
- The homeowner must be age 62 years or older.
- A reverse mortgage gives the homeowner/borrower the opportunity to convert some of the equity in his or her home into cash.
- The homeowner is not required to make any monthly mortgage payments as long as they continue to live in their home.
- With a reverse mortgage, the homeowner will still be responsible for payment of property taxes and homeowner's insurance annually. A lender may require an escrow/set- aside of taxes and insurance.
- No mortgage payment is required; thus interest is added to loan balance each month.
- In order to obtain a reverse mortgage there can be no lien(s) on the property. If a lien exists it must be paid off with proceeds of the reverse mortgage.
- When a loan becomes due, the home must be sold or the borrower (or his estate) must repay the full amount of the loan.
- Once the home is sold, the principal and interest owed on the loan is repaid to the reverse mortgage lender from the sale proceeds.
- Most reverse mortgages have variable rates and the rates may change overtime.
- HUD requires that before applying for a HECM, the homeowner must meet with a counselor from an independent government-approved housing counseling agency. Some lenders offering proprietary reverse mortgages also require counseling.
- You have the right to cancel a reverse mortgage in writing three business days after closing of the loan, also known as "right of rescission". A lender has 20 days to return money paid for financing of a reverse mortgage, should you exercise your right to cancel.

This chart provides a brief overview of the differences between a conventional mortgage and a reverse mortgage.

Conventional Mortgage	Reverse Mortgage
Lower origination fee and other closing costs	Higher origination fee and other closing costs, as well as servicing fees over the life of the mortgage. (Some also charge mortgage insurance premiums for federally-insured HECMs)
Borrower's credit is relevant and checked	Borrower's credit is not relevant and is often unchecked (lenders must conduct financial assessment of borrower)
New purchase or refinance	You borrow against your equity in your home
You make monthly payment	You make no monthly payment. You receive monthly payments. (You may opt to receive a lump sum, monthly payment, or line of credit or a combination of different methods).
Interest paid monthly in mortgage	Interest paid when loan is due (Interest is added on a monthly basis to loan balance)
Interest –tax deductible each year	Interest on reverse mortgages is not deductible on income tax returns until the loan is

	paid off, either partially or in full
Mortgage loan balance decreases	Loan balance increases (homeowner are generally only required to pay up to appraised value)
You have substantial equity in home	You have little equity in your home after obtaining a reverse mortgage
Property passes upon death by intestate, will or trust	Heirs have the option of repaying the mortgage without selling home
Closing costs based on the amount of loan	Closing costs based on appraised value

It is important to note, title to the property is not transferred when the homeowner gets a reverse mortgage. The homeowner still owns the home and has title to the property. When the homeowner dies, the spouse, or the estate has the option to repay the loan. Sometimes that means selling the home to repay the loan. The property is only subject to a transfer to a lender when repayment of the loan becomes due and the loan is not repaid. Most reverse mortgages have something called a "non-recourse" clause. This means that the homeowner or spouse cannot owe more than the value of the home when the loan becomes due and the home is sold. With a HECM, generally, if the homeowner or the homeowner's heirs want to pay off the loan and keep the home rather than sell it, they would not have to pay more than the appraised value of the home. Additionally, where the home is jointly owned, if one spouse signed the reverse mortgage paperwork and the other did not, in certain situations, the non-signing spouse may continue to live in the home even after the signing spouse dies if he or she pays taxes and insurance, and continues to maintain the property. But the non-signing spouse will no longer receive payment since he or she was not part of the loan agreement.

To that end, the Division encourages homeowners to consider the above-mentioned in determining whether to obtain a reverse mortgage. For further information, please contact the Federal Trade Commission (Consumer Information) at www.consumer.ftc.gov *or U.S. Department of Housing and Urban Development at* www.hud.gov .

Reverse mortgage companies licensed to conduct business in the Virgin Islands include:

Northpoint Mortgage, Inc.
559 Main Street, 3rd Floor, Suite 302
Sturbridge, Massachusetts 01518
www.trynorthpoint.com
Telephone: 508-347-0010

Ramber Corporation d/b/a Buccaneer Mortgage
5589 Okeechobee Boulevard, Suite 203
West Palm Beach, Florida 33417
www.thegoodpirates.com
Telephone: 561-471-9622

Reverse Mortgage Solutions, Inc.
14405 Walters Road
Suites 110, 200, 300, 400 and 500
Houston, Texas 77014
www.rmsnav.com
Telephone: 888-918-1110

Sun West Mortgage Company, Inc.
18000 Studebaker Road
Suite 200
Cerritos, California 90703
www.sunwestmortgage.com
Telephone: 866-700-7700

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Osbert E. Potter
Lieutenant Governor/Chairman
of the Virgin Islands Banking Board