

# The Purpose of Counseling

**PROTECTING SENIORS IS  
THE NAME OF THE GAME.**

**BY DARRYL HICKS**

In 1988, officials from Federal Housing Administration and AARP, the nation's preeminent senior advocacy organization, began developing the Home Equity Conversion Mortgage (HECM), which today accounts for nearly all reverse mortgages made to consumers. Given the history of financial exploitation of seniors in our country, the organizations agreed that Seniors needed to be protected and that special safety features would have to be incorporated into the HECM program if it was going to be accepted by the general public.

Of all the safeguards, the most important was mandatory counseling. No other FHA or conventional mortgage product requires this, which separates the HECM from all other financial options.

Before a potential borrower signs an application or incurs any fees, that person must first meet with an independent third-party counselor approved by the Department of Housing and Urban Development.

In many respects, the counselor is the first and last line of defense for the consumer.



It's the counselor's responsibility to make sure the client fully understands the basic facts about reverse mortgages and to be on hand to answer questions right up to the day the loan closes. A counselor is obligated to recommend alternative options to a reverse mortgage that may better suit the client.

If a counselor suspects a client does not fully comprehend what is being said, he or she has the power to withhold the counseling certificate that is necessary for the loan to proceed.

All counselors must follow a protocol strictly enforced by FHA (and in the process of being restructured by HUD). The existing protocol, which NRMLA and other stakeholders helped develop, instructs counselors on what they can say and do during the counseling session. A counselor is prohibited, for example, from "steering" a client to any specific lender and may not interact with a lender at any time while a client is being counseled. Any counselor who fails to follow the protocol risks losing their approved status to counsel seniors.

Arthur "Buz" Zeman, Director of Housing Options Provided for the Elderly (HOPE) in St. Louis, has been counseling seniors on various programs, including reverse mortgages, since the early 1990s. Zeman prefers face-to-face counseling, even though telephonic counseling accounts for almost three-quarters of all counseling sessions. Whenever possible, he meets with clients in their homes, because, he said, "it helps me develop a rapport" with them. Meetings normally last one hour, sometimes two, if the person is having difficulty grasping certain basic facts. If a person calls Zeman afterwards to ask additional questions, he doesn't charge a new fee, no matter how many times the person calls. This policy, he noted, is typical of most counselors.

Prior to each meeting, an information packet is mailed so the senior can prepare. The packet includes background documents and a sample estimate of available loan proceeds based on the person's age and what they think the home is worth. While he is aware that fees and margins may vary from lender to lender, Zeman utilizes loan origination software commonly

found in the industry, so that seniors have at least a rough idea how much loan proceeds they may qualify for.

Most counselors will ask a senior what he or she is hoping to achieve by getting a reverse mortgage. In most cases, a counselor will need to examine a client's complete financial situation. If the potential borrower is "pinching pennies," obtaining an itemized budget is crucial to determine whether the reverse mortgage is going to help that person for only a few months — in which case the reverse mortgage may not be the best option — or for a longer period.

When advising couples, Zeman tries to uncover the financial impact on the household if one spouse dies. If the husband received Social Security and a pension, it's important to understand what percentage of the pension income may go away. "It's surprising how many seniors can't answer those questions," said Zeman.

HUD requires a counselor to ask a senior whether they plan to use any reverse mortgage proceeds to purchase an annuity

Counseling Roster soon. To be placed on the roster, all counselors must pass a special exam. If they don't pass, they won't be able to counsel seniors.

At NRMLA's recent Road Shows. In Boston, Chicago and Orlando, HUD representatives presented some of the content of the new protocol. HUD will impose a minimum time requirement for each counseling session. The protocol will include a list of 20 questions designed to make sure the senior understands the information being provided. The counselor must ask the senior 10 of the questions, and the senior must answer at least five questions correctly to receive the counseling certificate. If the senior doesn't answer five correctly, then the counselor will need to schedule a second counseling session, most likely within seven to ten days. If they stay with the same counselor, they won't need to pay an additional fee. If they go to a different agency, then they may need to pay a new fee.

Sue Hunt, Housing Counseling Manager, at CCCS of Greater Atlanta, clarified that

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or other insurance product. If that is the case, counselors give them a special handout with additional helpful information.

One critical reminder that every counselor raises during the conversation is the importance of paying property taxes and insurance. It is the client's responsibility to pay T&I, unless they submit a request to the loan servicer to set up a special escrow account, which, he said, "most seniors don't bother doing."

In addition to the revised protocol, HUD will be publishing an Approved HECM

the questions should not be construed as a test. Her counselors will be trained to intersperse the questions throughout the session, so as not to alarm the client. HUD agrees that this is an appropriate way to handle this.

The purpose of counseling, after all, is not to make seniors feel uncomfortable with the reverse mortgage process, but rather to make them feel secure that they have a clear enough understanding to determine whether or not it is the right financial move for them.

**RM**