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Reverse mortgage counseling is a casualty of budget deal

President Obama and Congressional Republicans cut a last minute budget deal recently to prevent a government shutdown. The deal cuts $38 billion in spending; the agreement was recently signed into law. However, according the Elder Law Answers (www.elderlawanswers.com), reverse mortgage counseling is one of the casualties of the budget compromise.

A reverse mortgage allows homeowners aged 62 years and older to convert the equity in their homes to a cash advance, sometimes a lump sum, but more often a credit line. Reverse mortgages do not need to be paid back until the owner moves or dies, and the house is sold (the house must be sold at that point). Some homeowners use such a device to be able to afford to stay in their homes, for instance to pay the taxes, or to pay off outstanding debt. A homeowner's largest asset is often the home, and in this way the accrued equity can work for someone on a fixed income, without increasing the monthly bills.

The aforementioned budget deal cut $88 million from the Department of Housing and Urban Development, including $9 million for reverse mortgage counseling. Nearly all of such loans are made under the Home Equity Conversion Mortgage Program, which is administered by HUD. Since reverse mortgage applicants are required by law to receive counseling a part of the process of applying for a reverse mortgage, prospective applicants will be forced to pay for the counseling out-of-pocket. This is likely to discourage potential applicants for these loans. This is particularly difficult for the reverse mortgage market, because these are the people least able to afford an extra expense.

The purpose of the counseling is to help seniors to make informed decisions about whether or not to obtain a reverse mortgage. The counseling is required by law to be adequate, and administered by an independent third party, not the lender. Congress required this counseling because, although these products appear to be the perfect solution to many, they are complex products with significant "downsides" for some. There are large insurance and origination costs, which significantly decreases the amount of available cash for some borrowers. They are not the best plan for parents who are trying to safeguard an inheritance for their children. Furthermore, such a loan, if not handled properly, may affect public benefits, such as Medicaid, for the applicant or the spouse. It may leave a younger spouse without a home if the older spouse obtains a reverse mortgage and dies.

Counseling funds will stop as of October 1, 2011. Prior to this budget change, advocates for the elderly had been lobbying for better and broader reverse mortgage counseling. Barbara Stucki, vice president for Home Equity Initiatives at the National Council for Aging is quoted in Elder Law Answers as calling the cuts in funding "a major setback and increases the financial vulnerability of all older adults looking to use their home to stay at home." This news underlines the importance of truly understanding the steps and costs of a reverse mortgage. These may be the answer for some, but for others, they are the recipe for disaster.