Counseling Script

[**Note to Counselor:** This script should be viewed as a general example for how to conduct a SecureEquity℠ counseling session.

Introduction

Let's get started. Let me tell you a little about our agency. We are a non-profit, independent agency, and we are approved by both your Lender and the U.S. Department of Housing and Urban Development (HUD) to provide counseling to homeowners who are considering a reverse mortgage.

My role as your counselor is to educate you about the features of reverse mortgages and other financial options to meet your financial goals. My role is separate from the lender. I will not advise you on whether to proceed with a reverse mortgage or which product to use. I am here to understand your financial situation and educate you about the features of a reverse mortgage or other options that might meet your needs. I will help you understand your options and impacts as well as provide guidance and resources to enable you to make an informed and smart decision.

At the completion of the session, I will email you and your lender (at your request) a copy of the counseling certificate.

Session Overview

I would like to start by outlining what I will be covering with you today. The first part of the session I will ask you a few questions, so I have a better understanding of what your needs and goals are. Based on the information you provide, we will cover:

- Your unique needs, circumstances, and personal/financial goals, as well as your interest in a reverse mortgage and how a reverse mortgage may impact your financial situation.
- The features of a reverse mortgage.
- The difference between a traditional mortgage and a reverse mortgage.
- The features of the SecureEquity℠ reverse mortgage loan.
    - The costs that are required to obtain an SecureEquity℠ loan.
- The features of a FHA-insured HECM reverse mortgage loan.
- The differences between an SecureEquity℠ and an FHA-insured HECM reverse mortgage loan.
- The loan application and closing process.
- Your responsibilities/obligations under an SecureEquity℠ reverse mortgage.
- Financial/tax implications after closing of a reverse mortgage.
- Other financial or social services alternatives in lieu of doing a reverse mortgage
- Warnings about potential reverse mortgage/insurance fraud schemes and elder abuse
- Your Next Steps.

Please note that any financial figures we review with you are for illustration and general informational purposes only. They are only general estimates of examples of potential loan scenarios. The actual figures for loan options will be provided to you by the lender you choose.

[*Placeholder for Counselor to inquire about client's unique needs, circumstances, and personal/financial goals, as well as the client's interest in a reverse mortgage and how a reverse mortgage may impact the client's financial situation, consistent with HUD's HECM Protocol.*]

[***Placeholder for Counselor to discuss features of a reverse mortgage, consistent with HUD's HECM Protocol.***]

[***Placeholder for Counselor to discuss the differences between a reverse and forward mortgage, consistent with HUD's HECM Protocol.***]

Features of the SecureEquity℠

This SecureEquity℠ counseling session will distinguish the differences from the HECM Program. General requirements of the SecureEquity℠ program require the borrower(s) to be 55 years or older at closing own your own home (all borrowers must be on title), live in the home as a primary residence, maintain your property taxes and homeowner's insurance and all owners on title must receive counseling from a HUD Certified and SecureEquity℠ approved Counseling Agency. In addition, unlike a HECM, borrowers can payoff unsecured debt with the proceeds of the loan.

Other main features of the SecureEquity℠ loan include:

- The property also must be an eligible property. The subject property must be in an eligible state (please check with your loan officer for the most current list of eligible states) Eligible property types include:
  - Single Family Residence (including PUD and Townhomes). 1 ADU allowed (borrowers may reside in ADU)
  - Fannie Mae, FHA or Mutual Approved Condo
  - 1 to 4 units - Refinance (Purchase multi-unit only with landlord experience)
- SecureEquity℠ is either a fixed rate, full draw reverse mortgage loan with no additional funds available after closing OR an open-ended Line of Credit reverse mortgage loan where funds can be drawn for a period of 10 years.
- Non-Borrowing Spouses are allowed, but unlike a HECM there is no deferral period option.
- The SecureEquity℠ product is best suited for borrowers with homes values more than HUD's maximum HECM lending limit, or borrowers with properties not eligible for the FHA HECM product. There are other potential loan scenarios that may also apply but are specific to your loan goals, all of which can be discussed with your lender. The maximum loan amount is $4,000,000.
- There are different factors that will determine the amount of money you can borrow with the SecureEquity℠ loan – known as the "Principal Limit" – including your age, current interest rates and your property value. Generally, older borrowers are usually eligible for higher "principal limit". If there is more than one borrower on the loan, the lender will use the age of the youngest borrower to determine the principal limit.
- The program can be used to refinance your existing home or purchase a new home.
- Applicants interested in a home purchase will have to provide a monetary investment at closing, which is the difference between the principal limit and the sales price of the property, plus any loan-related fees that are not financed, minus any earnest deposit or down payment made prior to closing.
- Repayment requirements mirror those for an FHA-insured HECM loan. There is no early prepayment penalty for voluntary prepayments.

- An applicant must have adequate income to meet the borrower's on-going responsibilities including real estate taxes, property insurance and home maintenance. If an applicant's current income does not meet needs, then a reverse mortgage may be useful tool to help manage those expenses. The lender will look at your credit report and your income to assure that the borrower has enough income to cover the ongoing property charges associated with maintaining the home (these charges include but are not limited to property taxes, Homeowners' Insurance, and any association dues.) Depending on your credit and income, you may be required to have a multiple-year property charge set aside from your proceeds to apply toward future property charges. H**<u>owever, this set aside will not cover any Homeowners' association dues</u>**. If you fail the lender's credit and income analysis, you will receive a fully funded set aside.

(DISCUSS THIS SECTION ONLY IF THERE IS A NON-BORROWING SPOUSE)

If one spouse does not meet the age or ownership requirements, they would be known as a non-borrowing spouse. However, there is no protection for the non-borrowing spouse to retain an interest in the home or to continue to reside in the home past a maturity or default event. An SecureEquity℠ loan is not insured by the Federal Housing Administration (FHA) or governed by the Department of Housing and Urban Development (HUD) rules. In the event of the borrower's death or change of residence or any other maturity or default event, the loan will be due and payable, regardless, if the non-borrowing spouse inherits the house. In those instances, the loan will have to be repaid for the Non-Borrowing Spouse to remain in the home. If ANY default or maturity event occurs, and the loan is not repaid, the lender may foreclose on the property and evict all residents, including the Non-Borrowing Spouse. In Community Property States, to ensure that the non-borrowing spouse is fully aware and understand the potential risk of the events at the time of the maturity or default event, it is required that a borrower and non-borrowing spouse meet with an attorney and provide the lender with an acknowledgment that indicates that they have been made aware of the risks. It also recommended that a borrower and non-borrowing spouse meet a financial planner and tax advisor. **A BORROWER AND NON-BORROWING SPOUSE SHOULD CONSIDER ALL OPTIONS, INCLUDING OBTAINING AN FHA-INSURED HECM LOAN, BEFORE ENTERING INTO AN SECUREEQUITY℠ LOAN.**

If you are considering adding a spouse who meets the age requirement to the title to be eligible, you should seek legal, tax and financial planning advice regarding any potential impacts. Your lender cannot provide legal, tax or financial planning advice.

<u>The costs required to obtain a Reverse Mortgage loan.</u>

Let's talk about Financing Your Fees, the Costs, and your Interest Rate.

You can use the money you receive from a reverse mortgage to pay the various fees that are charged when you obtain the loan. This is called financing your loan costs. The costs are added to your loan balance and then paid back plus interest when the loan is due and payable.

Loan costs may vary from one type of reverse mortgage to another. Not all reverse mortgages include the same loan costs. This is why the Federal Truth and Lending and Real Estate Settlement Procedures Act law requires lenders to disclose what is known as a "Total Annual Loan Cost" or "TALC" and "Good Faith Estimate" for these loans. TALC disclosures illustrate that reverse mortgages may be more costly when you live in your home for only a few years after the closing of your loan. Short term TALC rates are higher than longer term TALC rates because the startup (or closing) costs are usually a large part of the total amount that you owe in the early years of the loan. The longer you live in your home, the lower your TALC rate. The "Good Faith Estimate" will provide you with a good idea of the estimated fees that will apply to your loan. The final fees that are charged will be disclosed at closing on the Settlement Statement.

The interest charged on a reverse mortgage will generally be the largest single cost. If you are considering the SecureEquity℠, depending on the payment option you choose the interest rate may or may not change over the life of the loan.

Almost all of the costs of an SecureEquity℠ can be financed into the loan. This means that the lender can pay the fees directly from the proceeds at closing on your behalf. By financing this cost, you are reducing the net loan amount available to you, but it will also reduce the amount of money that you would have to come out of pocket for. The counseling fee may not be financed, and the applicant must pay the counseling fee directly to the counseling agency.

There are a few costs that are associated with a reverse mortgage loan:

First let's talk about the Origination Fee. This fee may vary based on the loan program, and it is designed to pay for preparing your paperwork and processing the loan. Please refer to your initial loan documents from your lender to see the specific origination fee structure. This fee is paid through loan proceeds at closing and added to your loan balance.

The next cost we will discuss is the Mortgage Insurance Premium. The SecureEquity℠ product requires no mortgage insurance, and there is, therefore, no mortgage insurance premium due (like there is on the HECM). Since the SecureEquity℠ product is not a HUD product, neither an upfront nor an ongoing mortgage insurance premium applies for an SecureEquity℠ loan.

There are additional 3rd party closing costs associated with the loan. This is for a variety of services such as the appraisal, title search and insurance, surveys recording fees, credit reports, and other associated services. The third-party costs on a reverse mortgage loan will vary with the value of the home and from one state to another. Your lender is the best source in giving you the estimate of your closing costs.

[*Placeholder for Counselor to discuss features of a FHA-insured HECM reverse mortgage loan, consistent with HUD's HECM Protocol.*]

<u>The Difference Between an FHA-insured HECM and an SecureEquity℠ loan.</u>

In this section, we will restate some of the differences:

1. Borrower Eligibility (Discuss again the SecureEquity℠ age and credit score requirements compared to the HECM.)
2. Subject Property Eligibility (Discuss again the state limitations and eligible property types associated with SecureEquity℠ compared to the HECM)
3. Loan Limit (Discuss again the loan limit associated with SecureEquity℠ compared to the HECM)
4. Principal Limit Determination (Discuss again the principal limit factors associated with SecureEquity℠ compared to the HECM)

5. Note Rate/Interest Rates and Payment Plan Options (Discuss again the SecureEquity℠ payment options [e.g., lump sum or LOC] compared to the HECM options)
6. Use of Proceeds
   SecureEquity℠ borrowers may use the loan proceeds for a variety of purposes including:
   - Paying off any existing forward mortgage
   - Accessing the home equity of your current primary residence (after satisfying any outstanding mortgage debt on the property) or
   - Refinancing an existing HECM
   - Purchasing a new residence
   - Consolidating non-property liens.
7. Mortgage Insurance and Principal Limits
   SecureEquity℠ reverse mortgages do not have a mortgage insurance premium, and generally include other fees and pricing programs to protect lenders from risk. Therefore, lenders take a conservative approach and set the principal limit factors lower than a HECM. For this reason, the FHA-insured HECM product may give the borrower access to higher principal limits.
8. Repair Set Aside
   Certain repairs that affect the home's habitability and safety may be required for a property to be eligible. In some instances, the loan may be closed before certain required repairs are completed, provided that the estimated cost of repairs does not exceed 15% of the appraised value for SecureEquity℠. Funds equal to 150% of the estimated cost of repairs may be set aside and may not be drawn until the repairs are complete. For SecureEquity℠, the repair set aside is determined by using 150% of contractor bid or appraiser estimate, and the SecureEquity℠ has a minimum $500 set aside requirement. If costs exceed the funds set aside, then the borrower must pay for the repairs directly, or with funds available from the loan. Repairs must be completed within the time stated on the loan documents.
9. Non-Borrowing Spouse (Discuss again the lack of protections and requirements for the non-borrowing spouse associated with SecureEquity℠ compared to the HECM)

Loan application and closing process.

A. The Loan Process

These are the four steps for your reverse mortgage loan:

1. The Loan Application
2. The Processing of your Loan
3. Your Loan Closing
4. Post-Closing

B. Loan Application

When applying for a reverse mortgage, the application process is the first step to review the terms of the loan, receive sample loan documents, and confirm you want to proceed with the loan. You will be required to sign application documents to start the loan process, once you agreed to apply and you have presented your counseling certificate, which you will receive after our session today.

C. The Processing of Your Loan

Your lender will order an appraisal, title search and insurance, any lien payoffs, and any other services needed to complete the loan. For homes valued at or above $2,000,000, the SecureEquity℠ Lender requires two appraisals to be ordered. The Lender will absorb the cost associated with the 2nd appraisal and the charge for the 1st appraisal can be paid through loan closing.

D. Your Loan Closing

After the underwriting department approves your loan, a date for closing will be scheduled. The lender will coordinate this with you and the title company. You will be able to select when you want the closing to occur, as long as all underwriting conditions have been cleared.

After the date of your closing, if your loan is not for the purchase of your home you will have three business days (including Saturdays but not Sundays or legal public holidays) in which to cancel the loan. This is known as the right of rescission period. Purchase loans will not have this rescission period. This is an important measure for your protection. If for any reason, you decide you do not want the loan, you can cancel it within this time-period. This must be done in writing either by fax, letter, or use of the forms provided to you at closing, or other means of written communication. You cannot rescind by phone or in-person. It must be done in writing and sent to the lender before midnight of the third business day following consummation, delivery of the rescission notice, or delivery of all material applicable federal disclosures, whichever occurs last.

Upon consummation of the loan, a lien is then put in place on your home to secure the reverse mortgage.

E. Post-Closing

The loan servicer will then send your monthly loan statements as well as monitor your compliance with your obligations under the loan agreement.

No repayment is due until the last surviving borrower passes away, the property is no longer your primary residence, the last surviving borrower does not occupy the home for more than 12 consecutive months for medical reasons; you fail to occupy the property for a prolonged period without notifying the lender, or you default and fail to perform your obligations under the mortgage-such as not paying your property taxes and hazard insurance. Should you decide to pay off the reverse mortgage at any time, there is no pre-payment penalty.

Check-In Questions:

[**Note to counselor**: If the prospective applicant's answer is incorrect or insufficient, then the counselor should provide an appropriate response and explanation. Based on the session with the prospective applicant, counselor can ask other appropriate questions consistent with the HECM protocols.]

I know I am covering a lot of information. Let's review a few key aspects of the reverse mortgage.

Do you have any specific questions at this time?

Let me ask you a few questions about what we have gone over.

1. What happens if the amount you owe is more than the value of the home?
    a. Answer: Nothing
2. What is the monthly amount that you are required to pay to the lender if you take out a reverse mortgage?
    a. Answer: Nothing
3. Does the loan ever have to be paid back?
    a. Answer: Yes

That's great! Let me teach you a bit more about your responsibilities to maintain the loan.

<u>Your responsibilities under the SecureEquity℠.</u>

Just like any other loan, reverse mortgage lenders can require repayment at any time if you fail to pay your property taxes, maintain and keep your home in good repair, if you fail to keep up with your homeowner's insurance, or if you fail to meet the terms of your loan documents, such as occupying the property as your principal residence.

There are additional conditions that may require you to repay a reverse mortgage as they are in violation of the terms of the loan. You cannot remove yourself from Title, you cannot change your home's zoning classification, and you cannot take out a new loan.

With a reverse mortgage, you will remain the owner of the home provided you meet the terms of your loan. The lender does not take ownership (also known as taking title) of your property when you take out a mortgage.

<u>Check-In Questions:</u>

[**Note to counselor**: If the prospective applicant's answer is incorrect or insufficient, then the counselor should provide an appropriate response and explanation. Based on the session with the prospective applicant, counselor can ask other appropriate questions consistent with the HECM protocols.]

1. To review, what responsibilities do you have to keep your reverse mortgage?
    a. Answer: Pay taxes and homeowners insurance, maintain, and repair my home, pay any additional fees like HOA or condo fees, as well as meet the other terms and conditions of your loan.
2. Who owns your home when you take out a reverse mortgage?
    a. Answer: The homeowner continues to own the home provided the borrower meets the terms and conditions of the loan agreement.
3. At the time when the reverse mortgage must be paid back, will the amount owed be more or less than it was when you first took out the loan?
    a. Answer: More (or potentially less if the borrower makes partial pre-payments)
4. When does the loan have to be paid back?
    a. Answer: When you pass away, sell your home, move permanently out of the home, or violate one of the conditions of the loan agreement.

[*Placeholder for Counselor to discuss financial/tax implications after closing of a reverse mortgage, consistent with HUD's HECM Protocol*.]

[Placeholder for Counselor to discuss other financial or social services alternatives in lieu of doing a reverse mortgage, consistent with HUD's HECM Protocol. In addition to the HECM Protocol, the counselor should state something like the following:

A. ***"****In addition to SecureEquity℠ reverse mortgage loan, your lender should have reviewed the FHA-insured HECM reverse mortgage product with you through a loan comparison to ensure you choose the product best suited to your needs.****"***

B. *"Prior to closing an SecureEquity℠ reverse mortgage loan, it is particularly important that you review how the loan may affect your eligibility for needs-based public benefits, such as supplemental SSI, Medicaid benefits, food stamps or other "needs-based" programs, because the loan requires a certain draw of available proceeds at the time of closing."*

C. "*The SecureEquity℠ reverse mortgage loan does not permit subordination; the superiority of the mortgage lien cannot be jeopardized****."***

[***Placeholder for Counselor to discuss warnings about potential reverse mortgage/insurance fraud schemes and elder abuse, consistent with HUD's HECM Protocol.*****]**

<u>Next Steps</u>

Only you can decide which option best meets your individual needs. The purpose of this counseling session is to provide you with the information to make an educated decision. You should contact your lender to get answers to your questions and to provide you with the information to compare your loan options carefully. You should discuss these options with the people you trust, and who have no financial interest in your decision. Once you have decided to move forward, you can contact the lender to start the application process.

Do you have any additional questions that I can help answer at this time?