# Benspectrum reprint articles – July 2012

## Beware of This Utility Bill Assistance Scam

Thousands of Americans have fallen victim to a fast-moving scam that claims to be part of an Obama administration program to help pay utility bills in the midst of a scorching summer.

The scheme has spread quickly across the nation in recent weeks with help from victims who unwittingly shared it on social media sites before realizing they had been conned out of personal information such as Social Security, credit card and checking account numbers.

People from all corners of the country report being duped, from New Jersey to California, Wisconsin to Florida, and all parts in between. The scam benefits from being cleverly executed and coming at a time when air conditioners in much of the country are running around the clock to tame record-high temperatures.

The Madison Water Utility issued a warning for its customers about the scam. The scam claims the Obama administration will provide credits or apply a payment of $1,000 to utility bills through a new stimulus program. The scam tells customers a new federal program will pay their utility bills, if they give their personal information, including their Social Security numbers. The victims are given fake bank information to use when they pay their bills online.

Wisconsin's Department of Agriculture, Trade and Consumer Protection reported several calls Thursday.

"Earlier this summer, late spring, we heard about this for the first time," said Sandy Chalmers, of DATCP. "They're becoming more and more complex and they involved more money, and people have a lot to lose."

Utility officials said they do not make unsolicited phone calls, texts or emails asking for customers' personal information. Payments using the fraudulent bank routing number will not be accepted by the Madison Water Utility and payments cannot be applied to customers' bills.

Consumer Protection officials said they adamantly advise consumers to keep their Social Security numbers and other person information private. If customers have fallen victim to this scam, they should call the Wisconsin Consumer Protection hotline at (608) 224-4953.

*Reprinted from Channel3000.com*

## Is a Reverse Mortgage for You?

A reverse mortgage is a way of generating monthly income from the equity and value of one's home, without having to sell the home or repay a loan each month. This type of loan is typically available to seniors 62 and older that own and live in their home. A reverse mortgage can pay out income in several ways:

- all at once, in a single lump sum of cash;
- as a regular monthly cash advance;
- as a "credit-line" account that lets the senior decide when and how much of his or her available cash is paid to him or her; or
- any combination of these payment methods.

No matter how the loan is paid out, the loan typically does not have to be paid back until the owner dies, sells the home, or permanently moves out of the home. A move to an assisted living or nursing home will usually trigger repayment of the loan. Additionally, a lender can also require repayment if a borrower fails to pay property taxes, fails to repair the home, or fails to keep the home insured.

**Rising Debt, Falling Equity**

Reverse mortgages have a different purpose than forward mortgages do. With a forward mortgage, a borrower uses his or her income to repay debt, and this builds up equity in the home. But with a reverse mortgage, the borrower is taking the equity out in cash. So with a reverse mortgage the borrower's debt increases, and the borrower's home equity decreases.

**Common Features:**

Although there are different types of reverse mortgages, all of them are similar in certain ways. Here are the features that most of them have in common:

Homeownership: With a reverse mortgage, the senior remains the owner of the home just like when the senior had a forward mortgage. The homeowner is still responsible for paying property taxes and homeowner insurance, and for making property repairs.

Financing Fees: A borrower can use the money from a reverse mortgage to pay the various fees that are charged on the loan. This is called "financing" the loan costs. The costs are added to the loan balance and the borrower pays them back plus interest when the loan is over.

Loan Amounts: The amount of money a senior can borrow depends most on the specific reverse mortgage plan that is selected. It also depends on the kind of cash advances a senior chooses. Some reverse mortgages cost a lot more than others, and this reduces the amount of cash one can get from

them. Within each loan program, the cash amounts a borrower can get generally depend on the borrower's age and the home's value:

• the older you are, the more cash you can get; and

• the more you home is worth, the more cash you can get

Debt payoff: Reverse mortgages generally must be "first" mortgages. So, if a senior owes any money on his or her property, he or she generally must do one of two things: pay off the old debt before he or she gets the reverse mortgage or pay off the old debt with the money he or she gets from a reverse mortgage.

Debt Limit: The debt a borrower owes on a reverse mortgage equals all the loan advances the borrower receives (including any used to finance loan costs or pay off prior debt), plus all the interest that is added to the loan balance. If that amount is less than a borrower's home is worth when the loan is repaid, then the borrower (or the borrower's estate) keeps whatever amount is left over.

But if the rising loan balance ever grows to equal the value of the borrower's home, then the total debt is limited by the value of the home. A borrower can never owe more than what the borrower's home is worth at the time the loan is repaid. This overall cap on the loan balance is called a non-recourse limit. It means that the lender, when seeking repayment of the loan, does not have legal recourse to anything other than the home's value. The lender may not seek repayment from a borrower's income, other assets, or heirs.A home equity conversion mortgage (HECM) is the only reverse mortgage that is federally insured and over 90 percent of reverse mortgages are HECMs. The federal housing administration tells HECM lenders how much they can lend a Home Equity Conversion Mortgage borrower, based on his or her age and home value. Typically the older the borrower and the larger the value of his or her home, the larger the loan amount will be. The HECM program limits a borrower's loan costs and the FHA guarantees that lenders will meet their obligations. Furthermore, HECM loans generally provide the largest loan advances of any available reverse mortgage. The HECM reverse mortgage is also generally less expensive than other private sector reverse mortgages.

In general to be eligible for a HECM reverse mortgage, the owner(s) of the home must be 62 or older and live in the home as a principal residence. Additionally, the home must be at least one year old and meet HUD's minimum property standards, but the HECM loan may be used to pay for repairs necessary to qualify. Also the borrower(s) must discuss the program with a counselor from a HUD approved counseling agency and the home must be a single-family residence in a 1 to 4 unit-dwelling or part of a planned unit development (PUD) or a HUD approved condominium. Some manufactured housing is eligible, but cooperatives and most mobile homes are not.

Previous to October, 2010, there was only one type of HECM reverse mortgage available; now there is also the option of the HECM Saver reverse mortgage. The HECM Saver allows the individual to borrow

less than with the HECM Standard but the tradeoff is that the costs associated with the Saver will be less than the Standard. The upfront insurance premium is substantially less than what's charged for a HECM Standard, .01% of the home's value vs. 2%. The HECM Saver may make more sense for borrowers who need a relatively small loan, or if they expect to remain in the home for only a short amount of time. For borrowers who want or need to borrow the most possible, the HECM Standard may be the better option.

**AARP publishes two excellent, consumer friendly guides on reverse mortgages available on the internet:**

Home Made Money: A Consumer's Guide to Reverse Mortgages
http://assets.aarp.org/www.aarp.org_/articles/revmort/homeMadeMoney.pdf

Reverse Mortgage Loans: Borrowing Against Your Home
http://assets.aarp.org/www.aarp.org_/articles/money/financial_pdfs/hmm_hires_nocrops.pdf