Approved: March 7, 1994
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on February 17, 1994 in Room 527-S of the Capitol.

All members were present except: Representative Phil Kline, Excused

Committee staff present: William Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Jim Scallety, Directors Mortgage Loan Corporation
Judi Stork, Banking Department
Dick Brock, Insurance Department

Others attending: See attached list

HEARING ON HB 2934: Alternative and reverse annuity mortgage loan act

Representative Susan Wagle said this bill is a reverse annuity mortgage loan which is part of a health care reform package suggested by the American Legislative Exchange Council Health Care Task Force (Attachment 1). A possible financial resource that is often overlooked is the home equity of the elderly population. This act would allow persons to meet their financial needs by accessing the equity in this homes through a reverse mortgage.

Bill Wolff of Legislative Research said the idea is to find a mechanism to finance long term care for the elderly who own their own homes.

Jim Scallety, Directors Mortgage Loan Corporation, stated that the plan now being used is a FHA sponsored program that allows persons over 62 years to tap the equity in their home (Attachment 2). No repayment is required until the senior citizen no longer occupies the home as a principal residence. The homeowner has 12 months to return to the home before its sale. Money available depends on the age of the borrower, interest rate charged, and appraised value. It can be cash, line of credit, monthly payments for life or a specified term, or a combination. This plan may not require legislation in Kansas as there is no law forbidding it. The proposed bill does not require that the house be sold when the resident leaves but FHA does require the immediate sale at 95% of the appraised value. With interest rates being low, many elderly are short of spendable income. If a home meets the standards, the usual amount granted to 65 year old homeowners is approximately 40% of appraised value. Interest for the "borrowed" amount would be taken out of the balance value of the property. One of the risks involved is leaving the house too soon and losing money by closing costs. The debt could always be paid off and the property bought back by the owners. There may be a secondary market available through Fannie Mae or Freddie Mae. Iowa has had this law in effect for four years and only one mortgage company has used it and no banks.

A great deal of red tape is involved in this process including the following: certification of counseling on all aspects of the program, inspections, annual certification of ownership, insurance and tax certifications, etc.

HEARING ON HB 2633: Adverse underwriting decisions, health maintenance organizations

Dick Brock, Insurance Department, would resolve the problem of consumers applying for and being denied coverage by a health maintenance organization without being given a specific reason for the denial (Attachment 3). The bill would require an explanation for declining or termination of coverage if written request is made by consumer.

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE, Room 527-S Statehouse, at 3:30 p.m. on February 17, 1994.

ACTION ON HB 2638: Property and casualty insurance, discontinuing certain business, notice

Representative Cox moved to amend the bill to extend the 60 day notice to "not exceeding an additional 60 days." Motion was seconded by Representative Correll. Motion carried.

Representative Helgerson moved that the bill be passed favorably as amended. Motion was seconded by Representative Minor. Motion carried.

The meeting adjourned at 4:30 p.m. The next meeting is scheduled for February 21, 1994.

GUEST LIST

COMMITTEE: House FI&I DATE: 2/17

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATIC
Judi Stork	Topeka	Ks Bkg Dept.
William Grant	"	"
Dick Brock	"	Ins Dept
[illegible]	"	Ks Prop & Casualty [illegible]
Bill Sneed	"	State Farm
George Barber	"	KAFS
Jeff Sonnich	Topeka	KNLSI
Chuck Stones	"	KBA

STATE OF KANSAS

SUSAN WAGLE
99TH DISTRICT
BUTLER/SEDGWICK COUNTIES
14 SANDALWOOD
WICHITA, KANSAS 67230

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
VICE-CHAIR: PUBLIC HEALTH AND WELFARE
MEMBER: FINANCIAL INSTITUTIONS & INSURANCE
TAXATION

Testimony

H.B. 2934

H.B. 2934 is a reverse annuity mortgage loan act that was part of a package of health care reform bills that were suggested by the American Legislative Exchange Council Health Care Task Force as a model program for making health care more accessible and more affordable to the people of America. The state of Kansas and this committee in particular have already passed many of the model ALEC bills such as the Kansas Uninsurable Health Insurance Plan and the Small Employer Health Benefit Act. There is no question that Kansas is a progressive state in the area of health care reform and that we have taken positive steps before the issue became nationalized by the Clinton administration. However, it is my firm belief that we as a state must continue to take additional incremental steps that make health care more available and affordable to the people of Kansas while we wait for possible federal action that directs the State further.

I have included with my testimony charts that indicate what the high cost of health care is doing to our State budget. It is clear that we must as a legislature empower the people of Kansas to be self sufficient for as long as possible before relying on government for nursing home or health care needs. One possible financial resource that is often overlooked is the home equity of the elderly population. Nationwide, home equity is

House FI&I
Attachment 1
Feb. 17, 1994

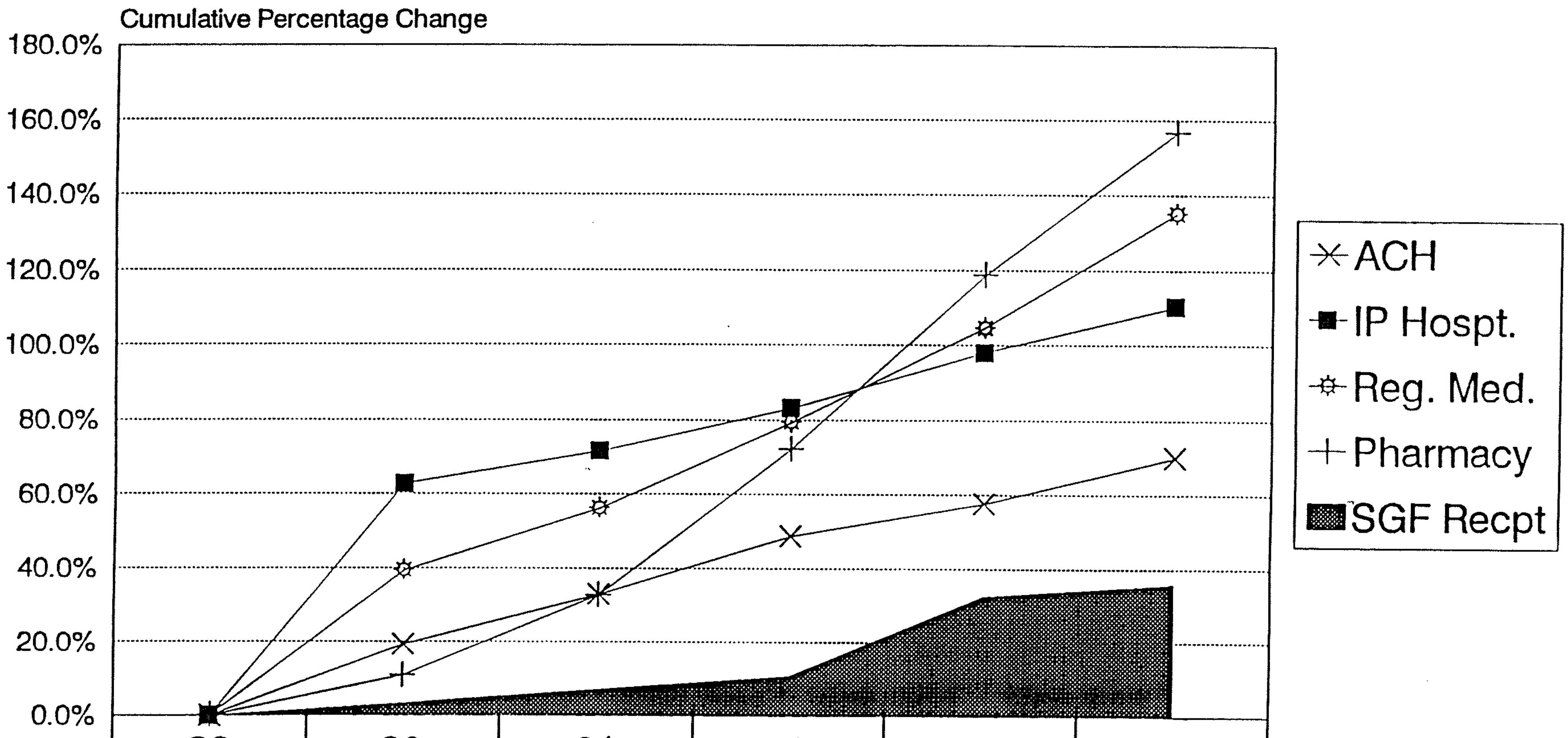
estimated to be worth over $800 billion and could prove to be a vast resource for financing long-term care. In fact, 75 percent of the population over the age of 65 own their own homes.

This act, which is modeled after current Iowa legislation, would allow persons to meet their financial needs by accessing the equity in their home through a reverse mortgage. Monies secured by this means would allow the elderly homeowner to maintain ownership of their home while being able to pay for long term care whether at home or in an institution. These resources could also be used to pay for the premiums for long-term care if needed.

While I'm not a technical expert on banking bills and I believe this bill needs some technical clean up, I do hope that this committee will give H.B. 2934 serious consideration and pass it favorably out of committee.

ATTACHMENT A

Comparison of Percentage Changes In Medicaid Costs
With State General Fund Receipts



	89	90	91	92	93	94
ACH	0.0%	19.2%	33.0%	48.6%	57.6%	70.1%
IP Hospt.	0.0%	62.8%	71.6%	83.3%	98.1%	110.4%
Reg. Med.	0.0%	39.4%	56.1%	79.4%	104.7%	135.0%
Pharmacy	0.0%	10.8%	32.8%	72.2%	118.8%	156.7%
SGF Recpt	0.0%	3.2%	6.9%	10.7%	32.4%	35.9%

Cumulative Change by Year

3
1

Kansas Medicaid Expenditures
Fiscal Year 1989 - Fiscal Year 1994

Medical Assistance	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94 Est.
Regular Medical Assist						
Inpatient Hospital	$78,046,890	$127,054,506	$133,933,091	$143,059,055	$154,589,646	$164,195,839
Outpatient Hospital	$6,392,225	$8,537,570	$10,264,078	$12,468,031	$14,804,998	$17,081,000
Lab & X-Ray	$2,691,462	$3,342,663	$3,838,878	$4,400,920	$4,747,759	$5,395,035
Prescribed Drugs	$26,780,884	$29,684,713	$35,562,450	$46,120,116	$58,588,151	$68,746,415
Physician	$29,828,483	$36,123,967	$41,150,030	$53,624,765	$61,967,361	$71,222,057
Dental	$3,749,707	$4,218,282	$4,719,202	$5,649,714	$7,033,120	$2,957,354
Community MH Center	$8,586,097	$10,139,556	$12,255,594	$13,653,443	$13,973,839	$16,044,510
Supplies	$1,965,946	$2,931,180	$3,311,827	$3,831,915	$4,767,638	$5,773,358
Medicare Buy-In	$8,115,411	$9,634,167	$9,960,700	$11,258,032	$12,970,412	$15,525,373
Other Services	$12,595,480	$17,539,527	$19,015,196	$23,537,500	$29,017,767	$50,788,641
Claims & Adjustments	($909,396)	($1,296,977)	$3,665,852	$1,411,627	$1,565,266	$250,000
Subtotal Reg Med Assist	$177,843,189	$247,909,154	$277,676,898	$319,015,118	$364,025,957	$417,979,582
Adult Care Home						
NF	$111,303,303	$129,254,521	$148,327,207	$166,283,624	$179,383,383	$195,895,191
SNF	$1,951,454	$2,613,960		no longer applicable		
NF-MH	$4,945,693	$5,089,668	$5,352,052	$7,046,079	$4,419,411	$6,001,877
ICF-MR	$19,134,074	$26,066,357	$32,343,811	$33,390,170	$35,910,596	$35,310,593
Audit Adjustments	$1,739,617	$754,554	$0	$0	$0	$0
Other Adjustments	$1,353,512	$3,663,482	$775,272	$2,005,678	$1,628,153	$1,615,633
Subtotal Adult Care Home	$140,427,653	$167,442,542	$186,798,342	$208,725,551	$221,341,543	$238,823,294
Community Based Services						
HCBS	$3,503,656	$4,906,708	$7,582,514	$14,959,315	$25,654,241	$46,564,080
PreScreening	$0	$18,440	$190,447	$122,690	$50,199	$0
Subtotal Comm Based Svcs	$3,503,656	$4,925,148	$7,772,961	$15,082,005	$25,704,440	$46,564,080
Total Medical Assistance	$321,774,498	$420,276,844	$472,248,201	$542,822,674	$611,071,940	$703,366,955

c:\123w\data\misc\COS_HIST.wk3 Worksheet C

Directors
Mortgage Loan
Corporation

James Scaletty

DIRECTORS

Mortgage Bankers

February 17, 1994

TO: MEMBERS OF HOUSE FINANCIAL INSTITUTIONS
AND INSURANCE COMMITTEE

THANK YOU FOR ALLOWING ME TO APPEAR BEFORE THIS COMMITTEE.

MY NAME IS JIM SCALETTY, AND I'M IN CHARGE OF THE REVERSE MORTGAGE DEPARTMENT OF DIRECTORS MORTGAGE LOAN CORPORATION IN OVERLAND PARK. I AM APPEARING TO SUPPORT PASSAGE OF HB NO. 2934 REGARDING REVERSE MORTGAGES.

THE CONCEPT OF A REVERSE MORTGAGE IS RELATIVELY NEW, AND LITTLE UNDERSTOOD. THE PLAN NOW BEING USED IS A FEDERAL HOUSING ADMINISTRATION (FHA) SPONSORED PROGRAM. IT IS A SPECIAL TYPE OF MORTGAGE THAT ALLOWS PERSONS OVER 62 YEARS OF AGE TO TAP THE EQUITY IN THEIR HOME. IT GIVES THEM FLEXIBILITY TO ADDRESS ANY FINANCIAL NEED, BE IT A LUMP SUM OR MONTHLY PAYMENTS TO SUPPLEMENT INCOME. UNLIKE A HOME EQUITY LOAN, NO REPAYMENT IS REQUIRED UNTIL THE SENIOR CITIZEN NO LONGER OCCUPIES THE HOME AS A PRINCIPAL RESIDENCE.

THE AMOUNT OF MONEY AVAILABLE TO THE BORROWER IN A REVERSE MORTGAGE DEPENDS ON THE AGE OF THE YOUNGEST BORROWER, THE INTEREST RATE CHARGED, AND THE APPRAISED VALUE OF THE HOUSE. THE BORROWER CAN CHOOSE TO RECEIVE CASH UP FRONT, A LINE OF CREDIT, MONTHLY PAYMENTS FOR LIFE, OR MONTHLY PAYMENTS FOR A SPECIFIED TERM, OR A COMBINATION OF THESE.

7300 W. 110TH ST.
STE. 570
OVERLAND PARK, KS.
(913) 338-5060

House FI&I
Attachment 2
Feb. 17, 1994

IN THIS PROGRAM, THE BORROWER DOES NOT HAVE TO PAY ANYTHING BACK UNTIL HE OR SHE IS NO LONGER OCCUPYING THE HOME AS A PRINCIPAL RESIDENCE, EITHER BY DEATH OR BY CHOICE. THE HOUSE IS THE ONLY COLLATERAL FOR THE LOAN, AND WHEN IT'S SOLD THE LOAN MUST BE PAID. IF THE HOUSE SELLS FOR MORE THAN THE LOAN BALANCE ,THE BORROWER, OR THE ESTATE ,GETS THE EXCESS. IF THE HOUSE SALE PROCEEDS DO NOT COVER THE LOAN BALANCE, THE FHA PAYS THE DIFFERENCE, THE BORROWER OR BORROWER'S ESTATE OWES NOTHING, AND HAS NO LIABILITY TO PAY.

HB 2934 WILL SERVE TWO PURPOSES, FIRST TO CLARIFY STATUTES REGARDING REVERSE MORTGAGES, AND SECOND, TO PUBLICIZE THE AVAILABILITY OF REVERSE MORTGAGES IN KANSAS. WHEN THE REVERSE MORTGAGE IDEA IS UNDERSTOOD, I BELIEVE THAT MANY, MANY KANSAS SENIOR CITIZENS WILL TAKE ADVANTAGE OF IT.

AS IT IS NOW WRITTEN, HB 2934 CONTAINS SOME CONFLICTS WITH THE FHA PLAN. I WOULD LIKE TO WORK WITH REPRESENTATIVE WAGLE TO PROVIDE LANGUAGE THAT WILL ENABLE THE USE OF THE FHA PROGRAM IN KANSAS.

THANK YOU. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.

7300 W. 110TH ST.
STE. 570
OVERLAND PARK, KS.
(913) 338-5060

AARP BULLETIN

February 1994
Vol. 35, No. 2
Washington, D.C.

A PUBLICATION OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Home is where equity is for elderly

REVERSE MORTGAGES FIND FAVOR

BY LES GAPAY

The fledgling reverse mortgage market for older Americans is shaking out a bit differently from the way experts had expected.

Originally, reverse mortgages were considered mainly as a way for retired persons who owned their homes free and clear (or nearly so) to tap that equity. When they did, it was assumed, they would receive loans that paid them a few hundred dollars a month to supplement Social Security and other income.

That use of equity is by no means being abandoned. But most people are using their equity in a very different way.

Now, with the reverse mortgage market finally having evolved after a few years of slow but steady growth, it turns out that the single biggest type of reverse mortgage is a line of

Information, please

For more information on reverse mortgages, write:

- AARP for a free copy of "Home-Made Money—Consumer's Guide to Home Equity Conversion," stock no. D12894, and "Reverse Mortgage Lenders List," stock no. D13253. Send a postcard to: AARP Fulfillment (EE0597), P.O. Box 22796, Long Beach, Calif. 90801-5796. Please include the stock numbers on your request.
- Federal Trade Commission, Public Reference Branch, 6th St. and Pennsylvania Ave. N.W., Washington, D.C. 20580, for a copy of the brochure "Facts for Consumers—Reverse Mortgages."
- The National Center for Home Equity Conversion, Suite 115, 7373 147th St. West, Apple Valley, Minn. 55124, for a copy of "Reverse Mortgage Locator," with information on lenders. Send $1.00 with self-addressed, stamped envelope. The center also offers a 340-page book on reverse mortgages, "Retirement Income on the House," half price to AARP members at $14.72 postpaid.

2-3

Mortgages

continued from page 1

credit equal to a portion of the value of the house. Older people use the credit as they need to pay off debts, medical bills not covered by insurance, or unexpected car and home repairs.

Reverse mortgages are the opposite of traditional home mortgages, in which homeowners make monthly payments to a bank or other lender.

By contrast, in reverse mortgages banks, savings and loans and other lending institutions either pay money monthly or provide lines of credit to borrowers (which can be withdrawn in one lump sum), based on their home equity and their expected longevity.

"Lines of credit are popular because they give [older persons] the flexibility they want. The money is there anytime they need it," says Roger Reynolds, head of the reverse mortgage department of Director's Mortgage Loan Corp., of Riverside, Calif., a large mortgage banker that has made 400 reverse mortgages in two years.

Such lines of credit—very often amounting to tens of thousands of dollars—account for an estimated half of the reverse mortgages being made, according to mortgage bankers and analysts of the industry.

The average reverse mortgage borrower is a 75-year-old widow who gets most of her modest income from Social Security and has lived for decades in her own house, now fully paid off and worth about $100,000, says Ken Scholen, director of the National Center for Home Equity Conversion at Apple Valley, Minn. He adds that such a person, drawing substantially less income than most people over 65, needs extra money.

Consider 72-year-old Lucille Keller of Lakewood, Colo., who recently was in just such a position. She had nursed her husband at home after he had cancer and a stroke. When he died last March, she had run up $20,000 on her credit cards to help pay his medical bills and her dental expenses not covered by insurance.

Keller couldn't qualify for a conventional mortgage because her only income was Social Security. But she had to find a source of money or sell the house in which she wanted to stay.

Then Keller heard about reverse mortgages and got a $31,000 "line of credit" on her $100,000 house. Keller used $25,000 to pay off the medical and dental bills. She kept $6,000 in a line of credit for emergencies; she may use some of it to repair her 1979 Chrysler.

The reverse mortgage loan "lifted a load like you wouldn't believe," she says. The loan doesn't come due until she moves or dies and there are no monthly payments to the lender.

To meet the needs of older Americans, banks and other lending institutions began to make reverse mortgages in the 1980s. The federal government gave the concept a boost in 1989 when, for the first time, it insured some reverse mortgages through the Federal Housing Administration (FHA).

With the widespread need for extra funds by older persons, lenders have made reverse mortgages much more available in the last couple of years. Now they can be obtained in 47 states.

Scholen says thus far the FHA has insured 5,000 reverse mortgages (2000 in the past year alone); lenders have made an estimated 10,000 more that are outside the federal government program.

Several new variations of reverse mortgage products are now being offered, as more and different types of lenders are entering the market.

In the past eight months two lenders, Transamerica HomeFirst and Freedom Home Equity, have come out with the first reverse mortgages to be linked to annuities. These enable persons to receive lifetime annuity payments even after they sell and leave their houses.

Household International Inc., which includes the HFC finance company, is developing a reverse mortgage, emphasizing lines of credit higher than FHA-backed mortgages, to be sold early this year. It is to be offered initially in 10 to 15 states that have a large proportion of older residents, says Larry Johnson, the company's reverse mortgage project manager.

FHA-insured reverse mortgages currently lend up to $151,725 in high-cost regions (depending on the value of the house). The maximum loan can be as low as $67,500 in rural areas, or the full value of the house, if it is less. Private reverse mortgages have much higher equity limits, up to $600,000 from some companies.

On the other hand, FHA-insured reverse mortgages guarantee that payments to homeowners will continue if the lender goes out of business and they ensure that lenders will get their money back. Private loans lack these government guarantees.

The Federal National Mortgage Association, or "Fannie Mae," is considering introducing its own reverse mortgage in about a year. "This would enormously increase the availability" of such loans, says AARP legislative representative Don Redfoot, because Fannie Mae has hundreds of affiliated lenders across the United States. Further, Fannie Mae's reverse mortgages would have a higher limit on the amount of money that could be loaned than do the FHA-backed mortgages.

Despite their advantages, reverse mortgages are not for everyone. Bronwyn Belling, head of AARP's Home Equity Information Center, cautions that they might be too expensive for persons who plan to stay in their homes only a few years, because of their high up-front fees.

For this and other reasons, the federal government requires applicants for FHA-backed reverse mortgages to obtain third-party counseling—from local aging offices, for example—to learn the pros and cons of the programs.

But to Colorado's Lucille Keller, there is no question that a reverse mortgage was the best solution to her financial worries. Her biggest concern was that she would be reducing the equity on the home her children would inherit. But they told her in no uncertain terms that she should think of her own well-being first.

Says Keller: "My son said, 'I hope you live long enough to use every single dollar.' "

Les Gapay is a Washington-based free-lance writer.

2-4

14+ Billion $ Strong and Growing!

DIRECT0RS

Mortgage Loan Corporation

Home Equity Conversion Mortgage (HECM) FHA Information

Q: What is a HECM?

A: A HECM is a special type of mortgage that enables you, as an older homeowner, to tap the equity you have in your home while giving you the maximum amount of flexibility to address your particular financial needs - - whether it is a lump sum to pay an unexpected hospital bill or a stream of regular monthly payments to supplement your monthly income. Unlike traditional home equity loans, no repayment of the HECM loan is required until you no longer occupy the home as your principal residence. At that time, the lender, with permission of the HUD field office, will declare the mortgage due and payable.

With a HECM, you borrow against the value of your home, and receive loan proceeds according to the payments plan that you select. These plans are described on the following pages. As a borrower, you may change payment plans as many times as you wish.

When you sell your home or vacate it for other reasons, the accrued interest plus what the lender has paid you or on your behalf through the years is due and payable, usually from the proceeds from the sale of your home. Any proceeds in excess of the amount owed the lender belong to you or to your estate.

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Q: How does a HECM differ from a home equity loan?

A: While both HECMs and home equity loans enable you to turn the equity in your home into spendable dollars, there are important differences between the two types of mortgages. With a home equity loan, you must make regular monthly payments to repay the loan. These payments begin as soon as the loan is originated. To qualify for such a loan, you must earn a monthly income great enough to make those payments. If you fail to make the monthly payments, the mortgage lender can foreclose on you, and you could be forced to sell your home. In addition, you may be required to requalify for a home equity loan each year. If you do not requalify, the lender may require you to pay the loan in full immediately.

With a HECM, you do not repay the loan as long as the home remains your principal residence, your income is not considered when qualifing you for the loan, and there is no requirement that you requalify each year.

Q. Who is eligible for a HECM?

You, and any co-borrowers, must be at least 62 years old and either own your home free and clear or have a very low outstanding mortgage balance. You also must agree to accept mortgage counseling from a HUD-approved counseling agency.(Its free of charge.) Family members also are strongly encouraged to attend these counseling sessions.

Q. Must I pay off any loans or liens that are against the property.

All loans or liens must be paid off to get the HECM loan, but they can be paid off with HECM dollars.

Q. What are the minimum and maximum amounts that I can borrow?

A: The maximum amount you can borrow is based on a HUD formula that factors in the age of the youngest borrower, the expected interest rate, and the maximum claim amount. The maximum claim amount is the lesser of the appraised value of your house or the maximum loan amount for a one-family residence that can be insured by FHA in your area. Currently , this maximum ranges between $67,500 and $151,725. There is no minimum borrowing amount. There is no upward limit on the value of the property.

Q: What types of payment plans are available with the HECM loan?

A: A borrower with a HECM may choose among five payment options: Term, Tenure, Modified Term, Modified Tenure, and a line of credit.

Under the term option, you may receive equal monthly payments for a fixed period of time selected by you.

Under the tenure option, you may receive equal monthly payments for as long as you occupy the home as a principal residence.

Under the line of credit option, you may draw up to a maximun amount of cash at times and in amounts of your choosing, as long as you occupy the home as a principal residence.

The Modified term plan allows you to set aside a portion of loan proceeds as a line of credit and receive the rest in the form of equal monthly payments for a fixed period.

Under the modified tenure option, you may set aside a portion of loan proceeds as a line of credit and receive the rest in the form of equal monthly payments as long as you occupy your home as a principal residence.

If you select either of the term plans, you can remain in your home after the end of the loan term without starting repayment. The same is true if you have withdrawn the maximum amount under a line of credit or modified tenure payment plan. Remember, repayment of a HECM does not begin until you no longer occupy your home as your principal residence.

Q: How will the amount of the monthly payment be calculated?

A: How much you can receive in monthly payments depends on the age of the youngest borrower, the interest rate charged by the lender, the maximum claim amount defined above, and the length of time that you will be receiving payments - - for a fixed period or for as long as you live in the house. The older you are, the larger your payments are likely to be.

The following example shows monthly payments available under first the tenure option, then the term option with 10 - year term. Or a lump sum payout.

Tenure Payment Plan

(LIFETIME)

Maximum Claim Amount/Or Property Value whichever is less

Age	$75,000	$100,000	$125,000	$151,725
65	$191 ($28,500)	$269 ($40,200)	$348 ($51,800)	$431 ($65,000)
75	$278 ($37,800)	$386 ($52,500)	$494 ($67,000)	$609 ($83,000)
85	$443 ($48,200)	$609 ($66,100)	$774 ($84,000)	$951 ($103,000)

Term Payment Plan

(10 YEARS)

Maximum Claim Amount/Or Property Value whichever is less

Age	$75,000	$100,000	$125,000	$151,725
65	$336 ($28,500)	$474 ($40,200)	$612 ($51,800)	$760 ($65,000)
75	$446 ($37,800)	$619 ($52,500)	$793 ($67,000)	$979 ($83,000)
85	$568 ($48,200)	$780 ($66,100)	$991 ($84,000)	$1218 ($103,000)

(These figures are approximate and assume an expected 7.00 percent interest rate, financing of closing costs and the initial mortgage insurance premium, and a $25 monthly servicing fee.)

Q: Will HECM payments affect my Social Security, Medicare Supplemental Security Income, or Medicaid benefits?

A: HECM payments do not affect your Social Security or Medicare benefits because those benefits are not based on assets of the recipient.

HECM advances can be added to your liquid assets under some programs if not spent in the month received, and may affect your eligibility for some programs. We suggest you consult the local offices for these programs or any other to determine how HECM payments may affect your particular situation.

Q: Will I have to pay fees to obtain a HECM?

A: Yes, you will have to pay an origination fee, other normal loan closing costs, and a mortgage insurance premium, - - which is divided into two parts: an upfront premium of 2 percent of the maximum claim amount and 1/2 percent per year on your mortgage balance, - - and a servicing fee. You can finance all but $300 of the closing costs, and the upfront 2 percent mortgage insurance premium - - that is, these may be included in your loan balance so that you do not have to pay for them in cash.
You will need to pay $300 up front to start your loan. Both the monthly servicing fee and the yearly insurance premium will be charged to your loan balance as the charges occur.

Q: Can I be forced to sell or vacate my home if the money I owe on the loan exceeds the value of my home?

A: Absolutely not, as long as you continue to occupy the property as a principal residence. You cannot be forced to sell or vacate the property, even if the total of the mortgage payments to you plus interest and mortgage insurance premiums exceeds the value of the property or if the fixed term over which you received your payments has expired. No deficiency judgement may result from your HECM loan. FHA insurance covers any further financial obligatiion to the lender.

Q. Will my heirs owe anything to the mortgage lender if I die?

A: Upon your death, the loan balance, consisting of payments made to you or on your behalf plus accrued interest, becomes due and payable. Your heirs may repay the loan by selling the home or by paying off the HECM loan so that they may keep the home. If the loan exceeds the value of your property, your heirs will owe no more than the value of the property. FHA insurance will cover any balance due the lender. No additional financial claims may be made against your heirs or estate.

Q: If my home appreciates in value during the mortgage term, who will be entitled to that money?

A: Under a HECM you are legally required to pay back to the lender only the outstanding balance. Any money remaining after the mortgage is paid goes to you or, upon your death, to your heirs.

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Q: What if I decide to sell my home?

A: If you choose to sell your home, the outstanding loan balance becomes due and payable to the mortgage lender. You or your estate will receive any proceeds exceeding the loan balance.

Q: Can I sell my home to my children and continue to live in it?

If you sell your home to your children or any other individual, the HECM will be due and payable at settlement. After the loan is repaid, any arrangement for your continued occupancy of the property must be made with the new owners.

Q: Is this a fixed rate loan?

A: <u>There are no fixed rate HECM loans.</u> The adjustable - rate mortgage(ARM) plan features annual rate adjustments with a 2 percent cap on the amount that the interest rate may change at each adjustment and a 5 percent cap on increases or decreases over the life of the loan.

Q: Where can I learn more about home equity conversion mortgages?

A: Jim Scaletty 913-338-5060

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2-10

Testimony on
House Bill No. 2633
by
Dick Brock
Kansas Insurance Department

House Bill No. 2633 proposes to amend K.S.A. 40-2,112 which concerns the duties, rights and obligations of insurers, insureds and applicants in the event of an adverse underwriting decision. Currently, these statutory provisions apply only to insurance companies but this amendment would make such provisions applicable to health maintenance organizations as well.

In the past, the Insurance Department has received complaints from consumers who have applied and been denied coverage by a health maintenance organization but have been unable to ascertain the reasons for the denial. House Bill No. 2633 would resolve this problem by requiring health maintenance organizations to explain to applicants or insureds their reasons for declining or terminating coverage or, at least, advise them they can obtain the reasons upon submission of a written request.

House F&I
Attachment 3
Feb. 17, 1994