The Evolution of Sustainability Reporting: Utilizing the GRI’s Latest Guidelines and Looking to Integrated Reporting
By Denise M. English and Diane K. Schooley

Reporting and Disclosures Using Non-GAAP Financial Measures
By Josef Rashty and John O’Shaughnessy

New York Benefit Corporations: Bringing Social Responsibility to Business
By Douglas E. Singer and James Day

Structuring a Bona Fide Sale of Excess or Slow-Moving Inventory for Tax Purposes: Lessons from Relevant Court Cases
By Mark Wills, Bruce M. Bird, and Michael Sinkey

Minority Interest Discounts: Are They Appropriate in Valuing Noncontrolling Interests in Real Estate Holding Companies?
By Martin Greene

20 Questions about Reverse Mortgages: What CPAs Need to Know
By Thomas Tribunella and Heidi Tribunella

Foreign Currency Matters: New Guidance for Derecognition of Cumulative Translation Adjustments
By Josef Rashty

Improving Stakeholder Value through Sustainability and Integrated Reporting
By Linda Hughen, Ayalew Lulseged, and David R. Upton

Is Integrated Reporting in the Future? Considering the Costs, Benefits, and Role of CPAs
By Harold P. Roth

An Overview of Sustainability Reporting Practices: Results of Related Research and Recommendations for the Future
By Silvia Romero, Beixin (Betsy) Lin, Agatha E. Jeffers, and Laurence A. DeGaetano

Website of the Month: Sustainability Reporting Resources
By Susan B. Anders

A Growing Demand for Assurance in Sustainability Reporting
What Is the Government’s Role?

The only reverse mortgage insured by the U.S. federal government is called a home equity conversion mortgage (HECM), and it is the only product available through a lender approved by the Federal Housing Administration (FHA). The mortgage insurance premium (MIP) protects the government, lender, and homeowner; however, homeowners pay the insurance policy premiums. If the lender goes into bankruptcy, homeowners still receive their annuity from the insurance policy. HECMs, which represent 90% of the market, are the least expensive reverse mortgages. There is one caveat: an HECM must be a first mortgage.

What Are the Eligibility Criteria?

A homeowner must meet the following criteria to receive a reverse mortgage:

- The homeowner must be at least 62 years old.
- The home must be the homeowners’ primary residence; they cannot vacate the property for more than 12 months.
- The homeowner must receive reverse mortgage counseling from an independent third-party advisor.
- Any mortgages or liens on the home must be paid with the reverse mortgage proceeds so that the home is owned free and clear.
- The homeowner must not be excluded from participation in FHA programs, and cannot have delinquencies on any federal debt nor any suspensions or debarments.
- Starting in 2014, there will also be a credit check and income verification of the borrower (homeowner).

Reverse-mortgage properties are also subject to eligibility criteria and FHA approval. Generally, the property types eligible for a reverse mortgage are single-family homes, two- to four-unit properties (if owner occupied), condominiums, townhomes, and some types of manufactured homes.

What Costs Are Associated with an HECM?

Costs associated with a reverse mortgage include third-party fees, such as appraisal, inspection, survey, and lender’s title policy fees. These costs can be significant; the larger the loan, the easier they are to justify. FHA upfront MIPs could equal 2.5% of the property’s appraised value if the homeowner borrows more than 60% of the property’s value. If the borrowing is 60% or less of the property value, the upfront fee is 0.5%. The FHA annual MIP is 1.25% of the annual loan balance. In addition, servicing fees are charged for managing the loan; these range from $30 to $35 per month. There are also loan origination fees, points, and interest expense.

Which Costs Are Charged at Closing or Added to the Settlement?

With a reverse mortgage, homeowners have practically no out-of-pocket expenses. Transaction fees, such as appraisal, inspection, title policy, as well as the FHA upfront MIP, are deducted from the proceeds as closing costs at the inception of the reverse mortgage. Periodic fees, such as the FHA annual MIP and servicing fees, are accumulated and added to the debt and interest at the end of the reverse mortgage, when the borrower or estate must settle the liability.

How Much Can an Individual Borrow?

Government-imposed lending limits determined by the FHA put a $625,500 ceiling on reverse mortgages. The amount that the homeowner can borrow generally depends upon a formula that considers the following four factors:

- The homeowners’ age (older is better)
- Current interest rates (lower is better)
- The appraised value of the home (higher is better)
- The homeowners’ equity in the property (higher is better).

What Is the Role of Government?

The only reverse mortgage insured by the U.S. federal government is called a home equity conversion mortgage (HECM), and it is the only product available through a lender approved by the Federal Housing Administration (FHA). The mortgage insurance premium (MIP) protects the government, lender, and homeowner; however, homeowners pay the insurance policy premiums. If the lender goes into bankruptcy, homeowners still receive their annuity from the insurance policy. HECMs, which represent 90% of the market, are the least expensive reverse mortgages. There is one caveat: an HECM must be a first mortgage.

What Are the Eligibility Criteria?

A homeowner must meet the following criteria to receive a reverse mortgage:

- The homeowner must be at least 62 years old.
- The home must be the homeowners’ primary residence; they cannot vacate the property for more than 12 months.
- The homeowner must receive reverse mortgage counseling from an independent third-party advisor.
- Any mortgages or liens on the home must be paid with the reverse mortgage proceeds so that the home is owned free and clear.
- The homeowner must not be excluded from participation in FHA programs, and cannot have delinquencies on any federal debt nor any suspensions or debarments.
- Starting in 2014, there will also be a credit check and income verification of the borrower (homeowner).

Reverse-mortgage properties are also subject to eligibility criteria and FHA approval. Generally, the property types eligible for a reverse mortgage are single-family homes, two- to four-unit properties (if owner occupied), condominiums, townhomes, and some types of manufactured homes.

What Costs Are Associated with an HECM?

Costs associated with a reverse mortgage include third-party fees, such as appraisal, inspection, survey, and lender’s title policy fees. These costs can be significant; the larger the loan, the easier they are to justify. FHA upfront MIPs could equal 2.5% of the property’s appraised value if the homeowner borrows more than 60% of the property’s value. If the borrowing is 60% or less of the property value, the upfront fee is 0.5%. The FHA annual MIP is 1.25% of the annual loan balance. In addition, servicing fees are charged for managing the loan; these range from $30 to $35 per month. There are also loan origination fees, points, and interest expense.

Which Costs Are Charged at Closing or Added to the Settlement?

With a reverse mortgage, homeowners have practically no out-of-pocket expenses. Transaction fees, such as appraisal, inspection, title policy, as well as the FHA upfront MIP, are deducted from the proceeds as closing costs at the inception of the reverse mortgage. Periodic fees, such as the FHA annual MIP and servicing fees, are accumulated and added to the debt and interest at the end of the reverse mortgage, when the borrower or estate must settle the liability.

How Much Can an Individual Borrow?

Government-imposed lending limits determined by the FHA put a $625,500 ceiling on reverse mortgages. The amount that the homeowner can borrow generally depends upon a formula that considers the following four factors:

- The homeowners’ age (older is better)
- Current interest rates (lower is better)
- The appraised value of the home (higher is better)
- The homeowners’ equity in the property (higher is better).
What Are the Alternatives?

Alternatives to reverse mortgages include home-equity loans or second mortgages. Generally, home-equity loans/home equity lines of credit (HELOC) or second mortgages have restrictive requirements for a homeowner’s income and credit score. In addition, with traditional loans, the homeowner must make monthly payments to repay the loans. A reverse mortgage usually does not have strict requirements for creditworthiness, and rather than making monthly payments, the homeowner receives cash from the reverse mortgage. The homeowner could also consider a sale-leaseback of the home to achieve some of the same goals as a reverse mortgage, such as remaining in the house. If the owners are willing to move, then selling and downsizing is another option.

What Are the Interest Rate Options?

There are two interest rate options on a reverse mortgage: a fixed-rate option or an adjustable-rate mortgage (ARM) option. The fixed-rate programs are specific to each lender and are not indexed to a published interest rate. To determine the currently available fixed-rate options, a prospective reverse mortgage lender is required to calculate a good-faith estimate.

ARMs have interest rates that increase or decrease as a market interest rate index changes. The indexes employed today are the one-year U.S. Constant Maturity Treasury (CMT) rate or the London InterBank Offered Rate (Libor). Libor is a popular alternative to the CMT for some financial institutions, due to its international recognition as an index rate.

Starting in 2013, the HECM fixed-rate option is only available to borrowers who take an upfront lump-sum loan. The long-term income and line-of-credit loans that are currently insured by the U.S. government are all adjustable-rate loans.

How Are Adjustable Interest Rates Calculated?

Interest rates are adjusted periodically to bring the reverse mortgage rate in line with market rates. The total interest rate is calculated by adding an interest rate index, plus a margin determined by the lender (interest rate = index + margin). For example, an HECM CMT 300 ARM refers to an adjustable-rate reverse mortgage product that employs the CMT index, plus a margin of 3.00%. If the CMT index is 1.25%, then the total interest rate is 4.25% (1.25% + 3.00%) until the index changes. ARMs are usually reset every year, but different lenders have different policies (e.g., introductory rates that are reset at a later date, capped rates, capped adjustments, and various reset time periods).

Can the Mortgagor Lose the Real Estate?

Yes, a homeowner can lose the real estate behind a reverse mortgage. According to the FHA, default rates on reverse mortgages due to taxes and insurance range from 6% to 14%. Fixed-rate, lump-sum borrowers default at higher rates (10% to 14%), than ARM annuity borrowers (6% to 10%). Clearly, the lump-sum upfront transaction carries more risk than the long-term annuity. As well as living in the home, homeowners must pay the following four expenses or lose the property:

- Real estate taxes
- Homeowners’ and hazard insurance, such as flood insurance
- Property maintenance
- Homeowners’ association (HOA) fees.

What Are the Benefits?

There are some substantial advantages of a reverse mortgage when used as a long-term financial planning tool. For example, homeowners can convert home equity into cash while remaining in the house, assuming that they can cover the taxes, insurance, and maintenance costs. In addition, homeowners can increase monthly income through an annuity and can possibly increase cash reserves in a retirement account. Finally, a reverse mortgage income and credit check is less rigorous than for a home-equity loan.

What Are the Risks?

A reverse mortgage is not a transaction without risk. Many times, the home-
The homeowner wants to stay in the home. **What Are the Related Income Tax Issues?**

The payments that the homeowner receives during the course of the mortgage are not considered income because they represent proceeds from borrowing.

When the last surviving homeowner passes away, the estate has six months to repay the balance of the reverse mortgage. This includes debt, interest, servicing fees, and annual insurance. The estate can also sell the home to pay off the reverse mortgage balance. Any remaining equity is inherited by the estate. The estate is not liable if the home sells for less than the balance owed on the reverse mortgage—the MIP required by the FHA covers the remaining liability.

**Who Is Liable if a Sale by the Estate Cannot Cover the Debt?**

When the last surviving homeowner passes away, the estate has six months to repay the balance of the reverse mortgage. This includes debt, interest, servicing fees, and annual insurance. The estate can also sell the home to pay off the reverse mortgage balance. Any remaining equity is inherited by the estate. The estate is not liable if the home sells for less than the balance owed on the reverse mortgage—the MIP required by the FHA covers the remaining liability.

**Can a Surviving Spouse Stay in the Home?**

Yes—if the owner passes away and the surviving spouse is listed as an owner on the reverse mortgage. But any dependents must leave the home at the end of the reverse mortgage period if the borrower cannot pay off the loan balance.

**Who Is a Good Candidate for a Reverse Mortgage?**

If the following attributes are present, a homeowner might want to consider a reverse mortgage:

- The homeowner is in need of an annuity during retirement.
- The homeowner is older and has a significant amount of equity in the home.
- The homeowner has no dependents or the dependents do not need the house.
- The homeowner is in danger of losing the home due to expenses such as insurance, taxes, and maintenance costs.
- The homeowner is a healthy person who can live in the house for a long time.
- Inflation is not expected.
- Interest rates are low.
- The homeowner wants to maintain a higher balance in a retirement account.

The homeowner might want to consider a reverse mortgage if:

- The homeowner wants to stay in the home.

**What Are Sources of Additional Information?**

The following websites provide additional material on reverse mortgages:

- National Reverse Mortgage Lenders Association (http://www.reversemortgage.org)
- U.S. Department of Housing and Urban Development (http://www.hud.gov)
- American Association of Retired Persons (http://www.aarp.org)
- National Association of Realtors (http://www.realtor.org)
- AICPA (http://www.aicpa.org)

**Thomas Tribunella, PhD, CPA,** is a professor of accounting in the school of business at the State University of New York at Oswego. **Heidi Tribunella, CPA,** is a clinical associate professor of accounting in the Simon School of Business Administration at the University of Rochester, Rochester, N.Y.