



Reverse Mortgages

Know the Facts

Reverse mortgages have become an increasingly popular option for seniors who need to supplement their retirement income, pay for unexpected medical expenses, or make needed repairs to their homes. Before entering into a reverse mortgage, however, it is important that you understand what a reverse mortgage is, understand the types of reverse mortgages that are available, know the costs and fees associated with reverse mortgages, and understand the repayment obligations for these mortgages.

What is a Reverse Mortgage?

A reverse mortgage is a special type of home equity loan sold to homeowners aged 62 and older. The loan allows homeowners to access a portion of their home equity as cash. In a reverse mortgage, interest is added to the loan balance each month, and the balance grows.

The loan must be repaid when the last borrower, co-borrower or eligible spouse sells the home, moves out of the home, or dies. Most reverse mortgages today are called Home Equity Conversion Mortgages (HECMs). HECMs are federally insured. If you are interested in a reverse mortgage, first see a HECM counselor.

Did you know?

“A reverse mortgage is more debt and one of the most expensive forms of credit you can get.”

* Carolyn Rosenblatt – Forbes.com

How do I qualify for a Reverse Mortgage?

In order to qualify for most reverse mortgages:

You and any other borrowers on the reverse mortgage must be at least 62 years of age.

The home securing the reverse mortgage must be your primary residence. Eligible property types include single-family homes, 2-4 unit owner-occupied properties, manufactured homes, condominiums, and townhouses.

You must either pay off the old mortgage debt before you get a reverse mortgage, or pay off the old mortgage debt with the money you get from a reverse mortgage.

There are no minimum asset, income, or credit requirements to qualify for most reverse mortgages.

Are there fees associated with Reverse Mortgages?

As with all mortgages, there are costs and fees connected to securing a reverse mortgage. Fees include those associated with loan origination, mortgage insurance premiums, closing costs, and monthly servicing fees. These fees are often higher than the fees associated with traditional mortgages and home equity loans. Make sure you understand all the costs and fees associated with the reverse mortgage.

Be aware that if you choose to finance the costs associated with a reverse mortgage, they will increase your loan balance and accrue interest during the life of the loan.

Important Note:

A reverse mortgage is not free money. It is a loan that you, or your heirs, will eventually have to pay back plus interest and fees, usually by selling your home. If you plan to leave your home to heirs, talk to them about their repayment options. If your heirs want to keep the home, they will have to repay either the full loan balance or 95% of the home's appraised value—whichever is less.

Will I have to repay the Reverse Mortgage?

You generally do not have to repay the reverse mortgage as long as you and any other borrowers continue to live in the home, pay property taxes, maintain homeowners insurance, and keep the property in good repair. Your reverse mortgage lender may include other conditions that will make your reverse mortgage payable, so you should read the loan documents carefully to make certain you understand all the conditions that can cause your loan to become due.

How much will I owe when my Reverse Mortgage becomes due?

The amount you will owe on your reverse mortgage will equal all the loan advances you received (including advances used to finance the loan or to pay off prior debt), plus all the interest that accrued on your loan balance. If this amount is less than your home is worth when you pay back the loan, then you (or your estate) keep whatever amount is left over.

With most reverse mortgages, you can never owe more than your home is worth. The technical term for this cap on your debt is a "non-recourse limit." It means that the lender, when seeking repayment of your loan, generally does not have legal recourse to anything other than your home's value and cannot seek repayment from your heirs.

Be aware that since the home will likely need to be sold to pay back the reverse mortgage, these types of loans may not be a good option if you want to leave your home to your children.

Be careful!

Beware of contractors who approach you about getting a reverse mortgage to pay for repairs to your home. Learn all your options. Do not let yourself be pressured into getting a reverse mortgage.

Pros of reverse mortgages:

- **They're a source of income.** Borrowers can select that the amount of the loan be payable in a lump sum or regular payments.
- **Proceeds are generally tax-free.** Final tax treatment may rely on a variety of personal factors, so check with a tax professional.
- **Generally, they don't impact Social Security or Medicare payments.** Again, important to check personal circumstances, but there are usually no penalties relating to members already receiving payments from any program.
- **You won't owe more than the home is worth.** Most reverse mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan becomes due and the home is sold.
- **Reverse mortgages may be a smarter option for some downsizing seniors.** With proper advice, some borrowers use them to buy new homes.

Cons of reverse mortgages:

- **You may outlive your equity.** Reverse mortgages are viewed as a "last-resort" loan option and certainly not a singular solution to spending problems. They're recommended generally for older seniors as part of a strategic package of financial solutions to allow them to stay in their homes as long as possible.
- **You and your heirs won't get to keep your house unless you repay the loan.** If your children hope to inherit your home outright, try to find some other funding solution (family loans, other conventional loan products) before you go with a reverse mortgage.
- **Application fees can be expensive.** Reverse mortgage lenders typically charge an origination fee and higher closing costs than conventional loans. This adds up to several percentage points of your home's value.
- **Many reverse mortgages are adjustable rate products.** Adjustable rates affect the cost of the loan over time.
- **If you have to move out for any reason, your loan becomes due.** Generally, this is triggered if you or your co-borrower hasn't lived in the home for a continuous year. So health issues provide real risk with this product.

Possible foreclosure risk

You can lose your home to foreclosure if you have a reverse mortgage and:
You are absent from your home for a majority of a year for a nonmedical reason,
or
You are absent from your home more than twelve consecutive months for healthcare purposes.