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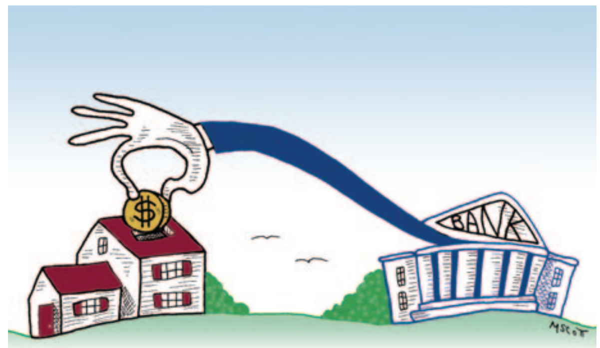
Reverse Mortgages: Would One Be Right For You?

What Is a Reverse Mortgage?



- A reverse mortgage is a way for homeowners to borrow against the equity or value of their homes.
- Called a reverse mortgage because instead of you making payments to a lender (as in traditional mortgage) the lender makes payments to you.
- You retain the title to your home and are not required to make monthly payments to pay the loan back.
- You remain responsible for all home-related expenses — property taxes, maintenance, repairs and insurance.
- The loan must be repaid when you (or your surviving spouse or partner if a co-borrower) moves out of the home or dies.

Who Can Take Out a Reverse Mortgage?

- You must be at least 62 years old, and
- Own the property outright or have paid-down a considerable amount of the mortgage. In addition, you must:
    - Apply for the reverse mortgage and complete the paperwork.
    - Occupy the property as your principal residence – i.e., you live in your home for most of the year
    - Complete a "financial assessment" test – lenders are required to review credit scores, income and tax forms, documents of assets and payment history for any debt for at the least the past 24 months to prove that the borrower/s are financially stable.
    - Receive counseling, required by federal law, from a Qualified Reverse Mortgage counselor to apply for a reverse mortgage.
- Single home properties are eligible. Some programs will provide reverse mortgages on condominiums and two- to four-unit properties, if you live in one unit. Mobile homes and cooperative apartments are not eligible.

How Much Can You Receive?

- The reverse mortgage is based on your age and the value of your home.
  - The older you are when you take out the reverse mortgage, the more you can receive in each payment.
  - The more your home is worth, the more you can receive (up to certain limits).
  - The mortgage interest rate and the cost of the loan will also influence the amount you receive. The lower the interest rate, the more you will receive.
- There are limits on the amount you can receive. The limits are determined by the agency through which you take your reverse mortgage and are based on the value of your home and where you live.

How Can I Receive the Money?

- You can choose to receive the money:
  - as a line of credit to be accessed as needed (this is the most popular),
  - in a lump sum, or
  - in regular monthly payment.
- You can also receive a combination, for example, one payment up front plus a series of monthly payments.

Are There Fees/Costs Associated with Reverse Mortgages?

- The upfront costs of a reverse mortgage will depend on the type of loan you choose, how much money you take out upfront, and the lender that you choose.
- Reverse mortgages are usually more expensive than other home loans.
- Upfront costs include an origination fee, mortgage insurance premium and real estate closing costs.
- Costs over time include interest and ongoing mortgage insurance premiums. The interest rate you pay depends on what lender you choose.

What Are the Different Types of Reverse Mortgages?

There are three main types of reverse mortgages: single purpose reverse mortgages, federally-insured reverse mortgages, and proprietary reverse mortgages. Their descriptions are below:

- **Single-purpose reverse** mortgages are offered by various state and local governments and by some nonprofits. These are the cheapest, but are less widely available than the other mortgages and can only be used for a specified purpose, which is decided by the lender. For example, the loan could only be used for home repairs. They are not federally insured.
- **Federally-insured reverse mortgages**, are also known as Home Equity Conversion Mortgages (HECM) and are the most common reverse mortgages. They carry the guaranty that, if you receive

monthly payments and live longer than expected, you (or your estate) will only owe the amount originally agreed to. HECM if not a federal loan but is insured by Federal Housing Administration which is part of the US Department of Housing and Urban Development (HUD). A reverse mortgage through the HECM program is generally the least expensive. The limit on the HECM FHA mortgage amount is $765,600.

- **Proprietary reverse** mortgages are private loans provided by the private sector. These loans are typically the most expensive and are not widely available. Sometimes called "jumbo" reverse mortgages, because they are taken on higher-valued homes, generally $750,000 or more. Proprietary reverse mortgages are not insured by the federal government.

Do I Remain the Owner of the Home?

- You own your home, just like you did before you got a reverse mortgage.
- You still have to pay property taxes, homeowner's insurance, and pay for any repairs.
- You will have to pay financing fees, similar to those you paid when you got your mortgage. You can use money from the reverse mortgage to pay those fees.

How Is the Reverse Mortgage Repaid?

- When the loan period is over—that is, when you sell or move out of your home, or when you die, you or your heirs must repay all your cash advances.
- Reputable lenders don't want your house; they want repayment—often from the sale of your home.
- Your estate can repay the reverse mortgage when you die with proceeds from the sale of your home or from any other source of funds.
- After repayment of the loan, any equity left in your house, belongs to you or your heirs. Any debt will never be passed along to the estate or heirs.

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What Are the Alternatives to a Reverse Mortgage?

- Sell your home and move to a smaller home or apartment.
- Look into a home equity loan, if you believe you would qualify and be able to repay it. Unlike a reverse mortgage, lenders will consider whether you have sufficient income to repay it. With most home equity loans, if you miss your monthly repayments, you could risk losing your home.
- Visit your Area Agency on Aging office to see if you are eligible for any public assistance. To locate a local office, contact The National Association of Area Agencies on Aging **www.n4a.org**. Their elder care locator number is 1-800-677-1116 or **www.eldercare.org**

Important Tips on the Reverse Mortgage Process:

- ❀ Include your spouse as co-borrower.
- ❀ Involve family members in reverse mortgage meetings.
- ❀ Make sure your heirs understand the process for paying off the reverse mortgage loan after you (and the surviving co-borrower) move out of the home or die.
- ❀ Involve trusted professionals – make sure your attorney, accountant or financial advisor can review the terms of the transaction before signing documents.
- ❀ Make sure you have enough funds available to pay property taxes, mortgage insurance and maintain the home.
- ❀ Never give out personal information to an unsolicited caller. Ask for a package to be mailed to you.
- ❀ Check that the mortgage professional belongs to the National Reverse Mortgage Lenders Association, **www.NLRMA.org**

For More Information

AARP's website **www.aarp.org/money/credit-loans-debt/reverse_mortgages** has useful information on reverse mortgages as well as a loan calculator that will give you an idea of how much you can get in a reverse mortgage.

National Council on Aging – *Use Your Home to Stay at Home Guide*
www.ncoa.org/economic-security/home-equity/housing-options/use-your-home-to-stay-at-home/

Department of Housing and Urban Development – Reverse Mortgages: **www.hud.gov**