About Reverse Mortgages

With a traditional home mortgage loan, you pay the lender on a monthly basis and gradually reduce the amount of your debt. Over time, if your home grows more valuable than the amount you still owe for it, you build home equity.

A "reverse mortgage" is a loan designed in the opposite way: instead of paying your lender, your lender pays you. Instead of building home equity, you reduce your home equity by withdrawing it as income.

That last feature—the ability to turn your equity into tax-free income—is what makes reverse mortgages appealing and valuable to many senior homeowners. If you've spent years repaying a mortgage, a reverse mortgage allows you to tap into that investment to achieve goals later in life. You can use these cash advances from your home equity for any purpose you choose—whether traveling, paying medical expenses, improving your home, or just adding a bit of cushion to your monthly budget.

How reverse mortgages work

There are different types of reverse mortgages, but many of them have certain similarities. Here are several features that most of them have in common:

You remain the homeowner

With a reverse mortgage, you remain the owner of your home for as long as you live in your home and you'll never be forced to move. You're still responsible for paying your property taxes and homeowner's insurance and for making property repairs.

How much you can borrow

The amount of money you can borrow depends on the loan terms, including the interest rate and closing costs, of the specific reverse mortgage you select. The amount is likely to vary based on both your age and your home's value: the older you are and the more your home is worth, the higher your borrowing limit is likely to be.

You'll be charged fees

As with almost all loans, your lender will charge you fees. However, you can use money you receive from the reverse mortgage to pay these fees. This is called "financing" the loan costs. The costs are added to your loan balance, and you pay them back plus interest when the loan is over.

How reverse mortgages work (continued)

You or your heirs repay the loan

As you take cash advances over time, the amount of your debt increases. When the loan is over, you or your heirs must repay all of your cash advances plus interest.

When do you repay

All reverse mortgages are due and payable when the last surviving borrower dies, sells the home, or permanently moves out of the home. Lenders may also require repayment at any time for a variety of reasons. For example, if you:

- fail to pay your property taxes;
- fail to repair and maintain your home;
- fail to insure your home;
- declare bankruptcy;
- rent out part or all of your home;
- add a new owner to your home's title; or
- take out new debt against your home.

Make sure you understand all the conditions that can cause your loan to become due.

Your debt is limited to the value of your home

If you decide to sell or move from your home, the outstanding balance of your reverse mortgage will become due, just as it would with a traditional mortgage. If the amount you owe is less than your home is worth, then you (or your estate) keep whatever amount is left over.

One significant feature of reverse mortgages is that, unlike a traditional mortgage, your balance can never exceed the value of your home when you sell it. This means that no matter how much money you receive through your reverse mortgage, you will never owe more than your home is worth. This feature provides peace of mind for senior homeowners. The lender is legally prohibited from seeking repayment from your income, other assets, or from your heirs.

Are you eligible? Speak with an approved counselor

To be eligible for a reverse mortgage, all owners listed on the home's title must be at least 62 years old and occupy the home as their principal residence for the majority of the year. The property must be a single-family or a two-to-four unit dwelling. Townhomes, detached homes, condominium units, planned unit developments (PUDs), and some manufactured homes are eligible.

An important requirement for eligibility is to speak with an approved reverse mortgage counselor. The Department of Housing and Urban Development (HUD) supervises counseling agencies that can work with you in person or over the phone. Ask your bank or other financial service provider for a list of authorized counselors.

How reverse mortgages work (continued)

Shop for your lender and your loan

As with any mortgage loan, it pays to comparison shop. Choose a reputable, experienced lender. Make sure you understand all of the loan's features, costs, and fees. Read the loan documents carefully before you sign! A "reverse mortgage" is a loan designed in the opposite way: instead of paying your lender, your lender pays you. Instead of building home equity, you reduce your home equity by withdrawing it as income.

Cancellation

If for any reason you decide you do not want the loan, you can cancel it within three business days after closing. You must submit your cancellation request in writing using the form provided by the lender.

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