Reverse Mortgages-What are they and what do I need to Consider? In the news lately, you see many ads about getting reverse mortgages and money so that you can stay in your home. However, do you really know what that means? The Consumer Protection Bureau has developed some guidelines for us to explore. In this lesson, we will examine:

- What is a Reverse Mortgage?
- What do I need to consider?
- How does this affect my children/grandchildren?
- Talk to a Housing Counselor
- Will this affect my Social Security?

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What is a reverse mortgage?

A Home Equity Conversion Mortgage (HECM), the most common type of reverse mortgage, is a special type of home loan only for homeowners who are 62 and older.

A reverse mortgage loan, like a traditional mortgage, allows homeowners to borrow money using their home as security for the loan. Also like a traditional mortgage, when you take out a reverse mortgage loan, the title to your home remains in your name. However, unlike a traditional mortgage, with a reverse mortgage loan, borrowers don't make monthly mortgage payments. The loan is repaid when the borrower no longer lives in the home. Interest and fees are added to the loan balance each month and the balance grows. With a reverse mortgage loan, homeowners are required to pay property taxes and homeowners insurance, use the property as their principal residence, and keep their house in good condition.

With a reverse mortgage loan, the amount the homeowner owes to the lender goes up–not down–over time. This is because interest and fees are added to the loan balance each month. As your loan balance increases, your home equity decreases.

A reverse mortgage loan is not free money. It is a loan where borrowed money + interest + fees each month = rising loan balance. The homeowners or their heirs will eventually have to pay back the loan, usually by selling the home.

Watch out for scams related to reverse mortgages

Contractor scams

Beware of contractors who approach you about getting a reverse mortgage loan to pay for repairs to your homes. It may be a scam. Don't let yourself be pressured into getting a reverse mortgage loan.

Scams targeting veterans

The Department of Veterans Affairs (VA) does not offer any reverse mortgage loans. Some mortgage ads falsely promise veterans special deals, imply VA approval, or offer a "no-payment" reverse mortgage loan to attract older Americans desperate to stay in their homes.

You have a three-day right to cancel a reverse mortgage

With most reverse mortgages, you have three business days after the loan closing to cancel the deal for any reason, without penalty. This is known as your right of “rescission.” To cancel, you must notify the lender in writing. Send your letter by certified mail, and ask for a return receipt so that you have documentation of when you sent and when the lender received your cancellation notice. Keep copies of any communications between you and your lender. After you cancel, the lender has 20 days to return any money you’ve paid for the financing of the reverse mortgage loan. If you believe there is a reason to cancel the loan after the three-day period, seek legal help to see if you have the right to cancel.

Note: This information only applies to Home Equity Conversion Mortgages (HECMs), which are the most common type of reverse mortgage loans.

Can anyone take out a reverse mortgage loan?

No. Home Equity Conversion Mortgages (HECMs), the most common type of reverse mortgage loan, are a special type of home loan available to homeowners who are 62 and older.

Aside from age, other reverse mortgage requirements include:

- Your home must be your principal residence, meaning you live there the majority of the year.
- You must either own your home outright or have a low mortgage balance. Owning your home outright means you do not have a mortgage on it anymore. If you have a mortgage balance, you must be able to pay it off when you close on the reverse mortgage. You can use your own funds or money from the reverse mortgage to pay off your existing mortgage balance.
- You cannot owe any federal debt, such as federal income taxes or federal student loans. You may, however, use money from the reverse mortgage loan to pay off this debt.
- You must have enough of your own money or agree to set aside part of the reverse mortgage funds at your loan closing to pay ongoing property charges, including taxes and insurance, as well as maintenance and repair costs.
- Your home must be in good shape. If your house does not meet the required property standards, the lender will tell you what repairs need to be made before you can get a reverse mortgage loan.
- You must receive counseling from a HUD-approved reverse mortgage counseling agency to discuss your eligibility, the financial implications of the loan, and other alternatives.

Alternatives to a reverse mortgage

Before taking out a reverse mortgage, make sure you understand this type of loan. You may want to look at other borrowing and housing options such as:

Waiting

If you take out a reverse mortgage loan when you are too young, you may run out of money when you're older and more likely to have less income and higher health care bills.

Other home equity options

A home equity loan or a home equity line of credit might be a cheaper way to borrow cash against your equity. However, these loans carry their own risks and usually have monthly payments. Qualifying for these loans also depends on your income and credit.

Refinancing

Depending on interest rates, refinancing your current mortgage with a new traditional mortgage could lower your monthly mortgage payments. Pay attention to the length of time you'll have to repay your new mortgage as it can affect your retirement plan. For example, taking on a new 30-year mortgage when you are nearing retirement can become a hardship later. Consider choosing a shorter-term mortgage, such as a 10- or 15-year loan.

Downsizing

Consider selling your home. Moving to a more affordable home may be your best option to reduce your overall expenses.

Lowering your expenses

There are state and local programs that may help with utilities and fuel payments as well as home repairs. Many localities also have programs to help with property taxes: check with your county or town tax office. Information about these and other benefit programs is available through benefitscheckup.org.

For more information and resources visit https://www.consumerfinance.gov/consumer-tools/reverse-mortgages/

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