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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Reverse mortgages

A discussion guide

Consumer Financial Protection Bureau

About this discussion guide

This guide gives an overview of many key concepts of reverse mortgages. A qualified reverse mortgage counselor can help you learn more.

If you're interested in considering a reverse mortgage, but haven't spoken with a counselor yet, call (800) 569-4287 to find a Department of Housing and Urban Development (HUD) approved reverse mortgage counselor today.

A detailed discussion with a counselor will give you important information to help you decide whether a reverse mortgage is right for you. HUD-approved reverse mortgage counselors have the latest information on reverse mortgages. In order to get the most out of your counseling session, come prepared to talk about:

- Your financial needs and goals
- Your spouse or partner's future housing and financial needs
- Other family members or dependents living with you and their future housing needs
- The reasons you're considering a reverse mortgage
- The alternatives to a reverse mortgage you may have considered

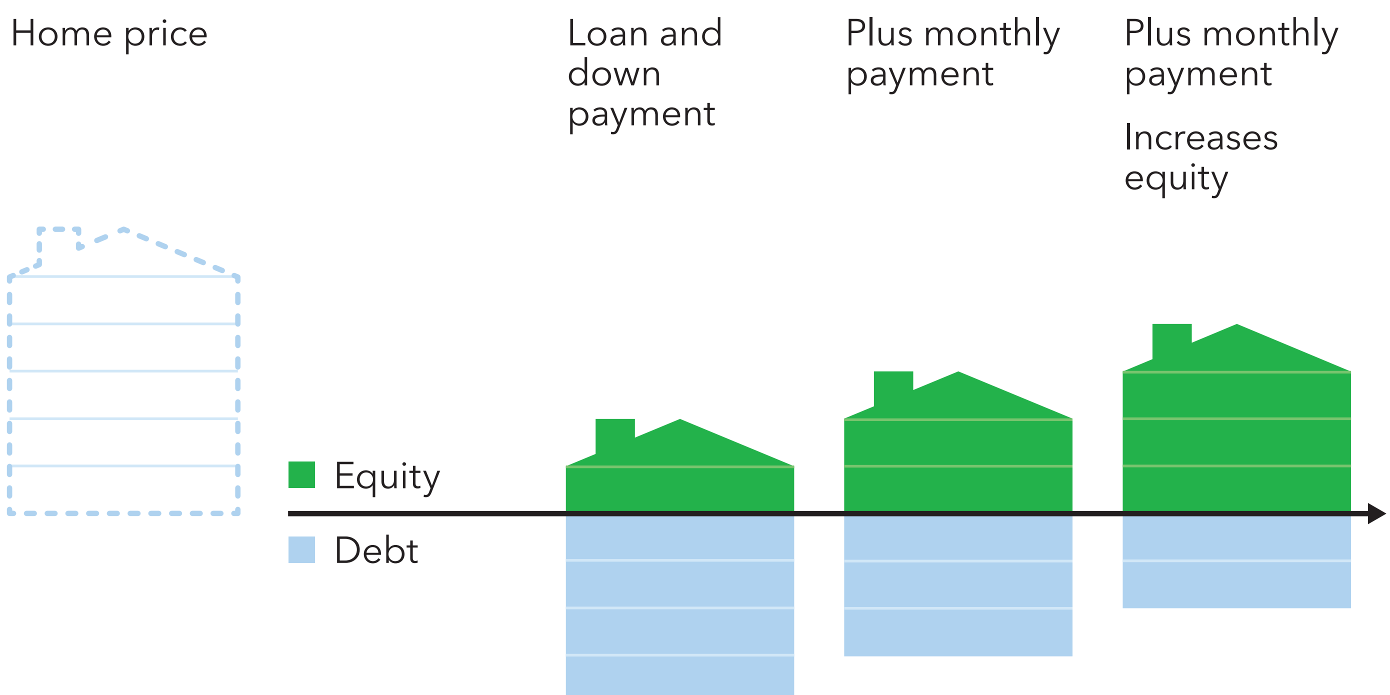
Alert

Most reverse mortgages today are called Home Equity Conversion Mortgages (HECMs). HECMs are federally insured by the Federal Housing Administration (FHA). This guide covers typical features and requirements for HECM reverse mortgages. Non-HECM reverse mortgages may have different requirements and features.

How is a reverse mortgage different from a traditional mortgage?

Traditional mortgages

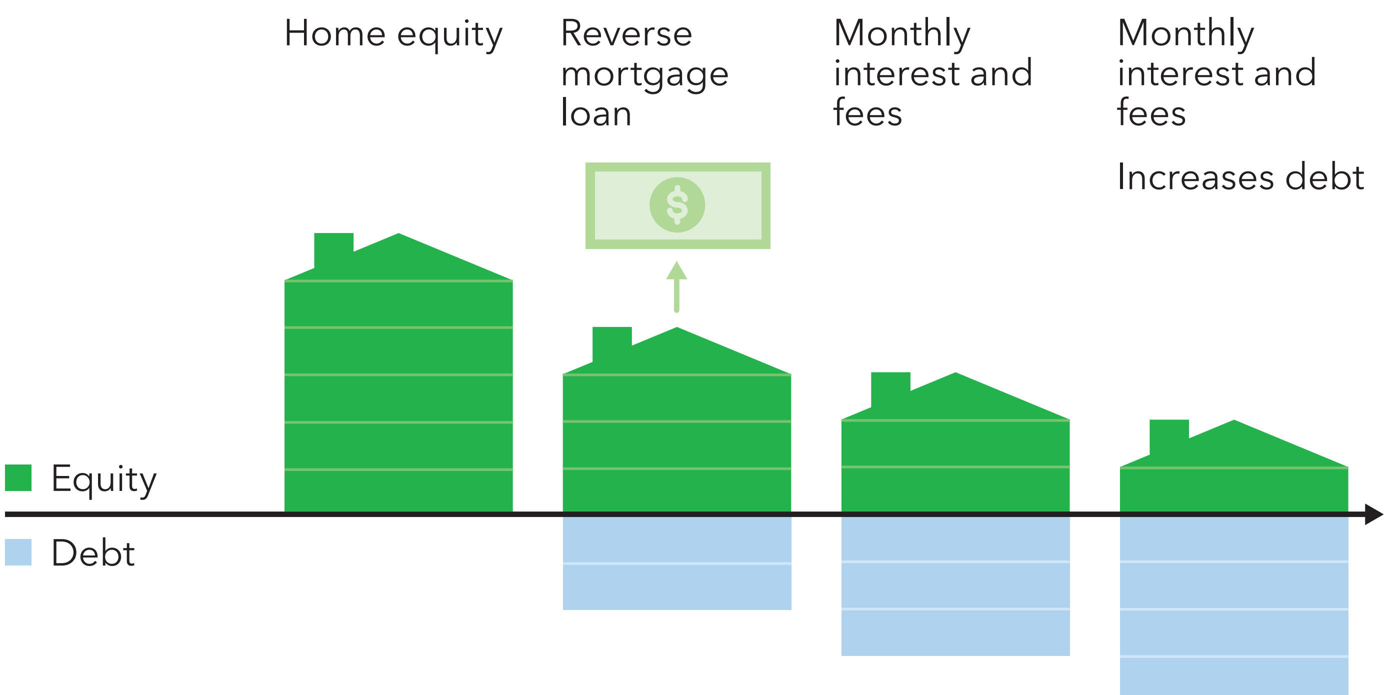
With a traditional mortgage, you usually borrow money to pay for the home at the time of the purchase, and pay it back over time. With each payment, you build your equity and your loan balance goes down.



Reverse mortgages

With a reverse mortgage, you borrow money using your home as a guarantee for the loan, as you would for a traditional mortgage. Unlike a traditional mortgage, a reverse mortgage is repaid when the borrowers no longer live in the home. Although you won't make monthly mortgage payments, you'll need to continue to pay property taxes and homeowner's insurance, and keep your house in good condition. Because interest and fees are added to the loan balance each month, your loan balance goes up—not down—over time. As your loan balance increases, your home equity decreases.

Reverse mortgage borrowers must be age 62 or older. Borrowers usually use the loan to help pay for living expenses.



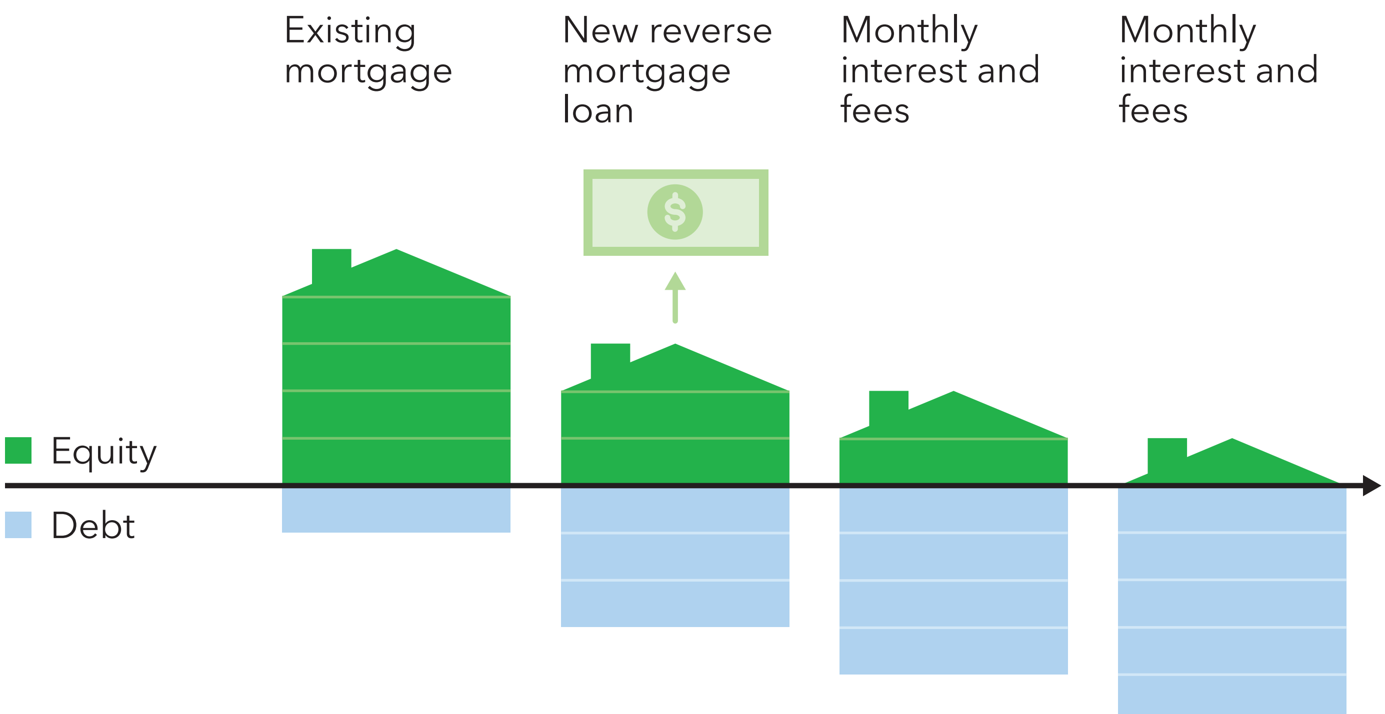
Alert

A reverse mortgage is not free money. It is a loan that you, or your heirs, will eventually have to pay back, usually by selling your home.

Borrowed money + interest + fees each month = rising loan balance.

How does a reverse mortgage work if I still have a traditional mortgage?

Many people interested in a reverse mortgage still owe money on their home. If this is your situation, you will be trading one loan for another, usually a larger one. Some of the money you borrow with the reverse mortgage will be used to pay off your current mortgage. If you owe a lot on your current mortgage, you may not have much money from the reverse mortgage left over to spend on other things. However, a reverse mortgage will free up money you have been using to make monthly mortgage payments.



Alert

If you still owe a lot of money on your existing mortgage, you might not have enough equity to pay off your current mortgage with a reverse mortgage—which means you may not be able to get a reverse mortgage.

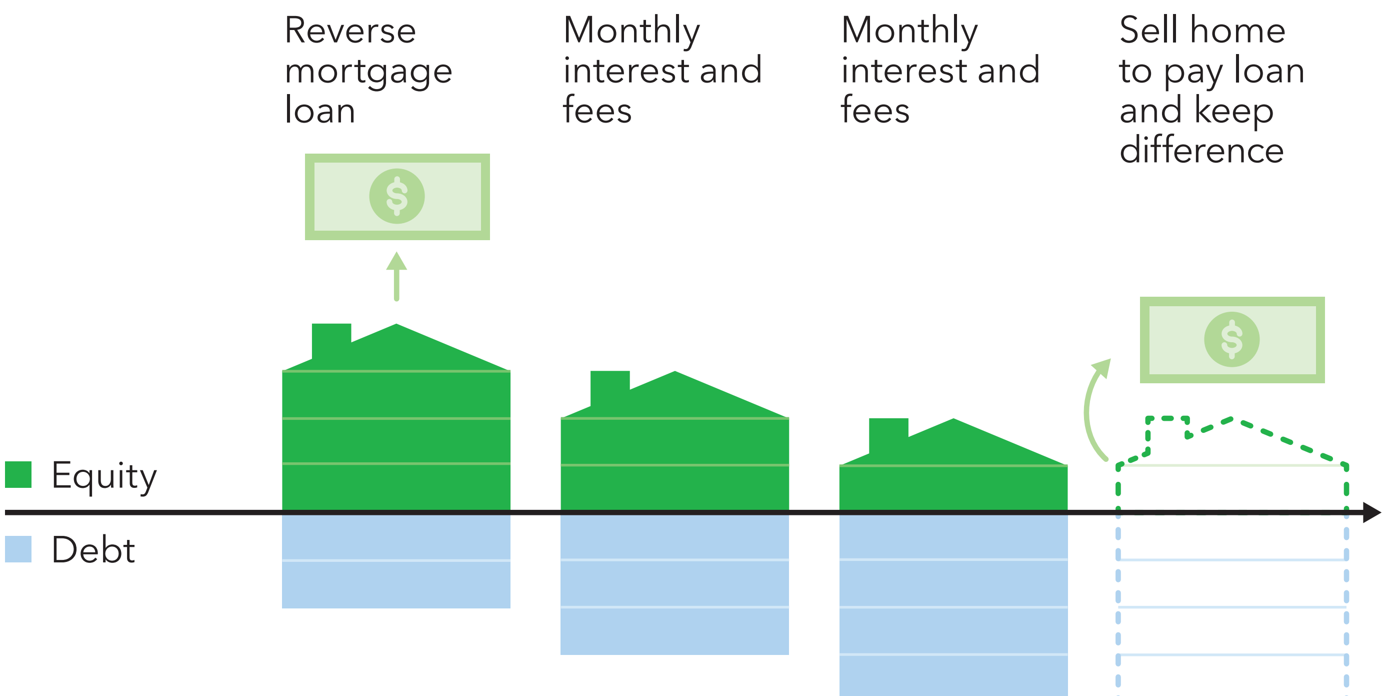
What happens if I want to sell my home?

You might decide to sell your home while you have a reverse mortgage. You may want to downsize, or move closer to family.

With a reverse mortgage, the money you borrow and the interest and fees added to the loan balance shrink your equity. However, if home prices rise, you might gain back some equity. It's hard to predict how much, if any, equity will be left when you sell your home.

What if my reverse mortgage balance is less than my home value?

So long as your reverse mortgage loan balance is less than the value of your home, this works just like selling your house when you have a traditional mortgage:

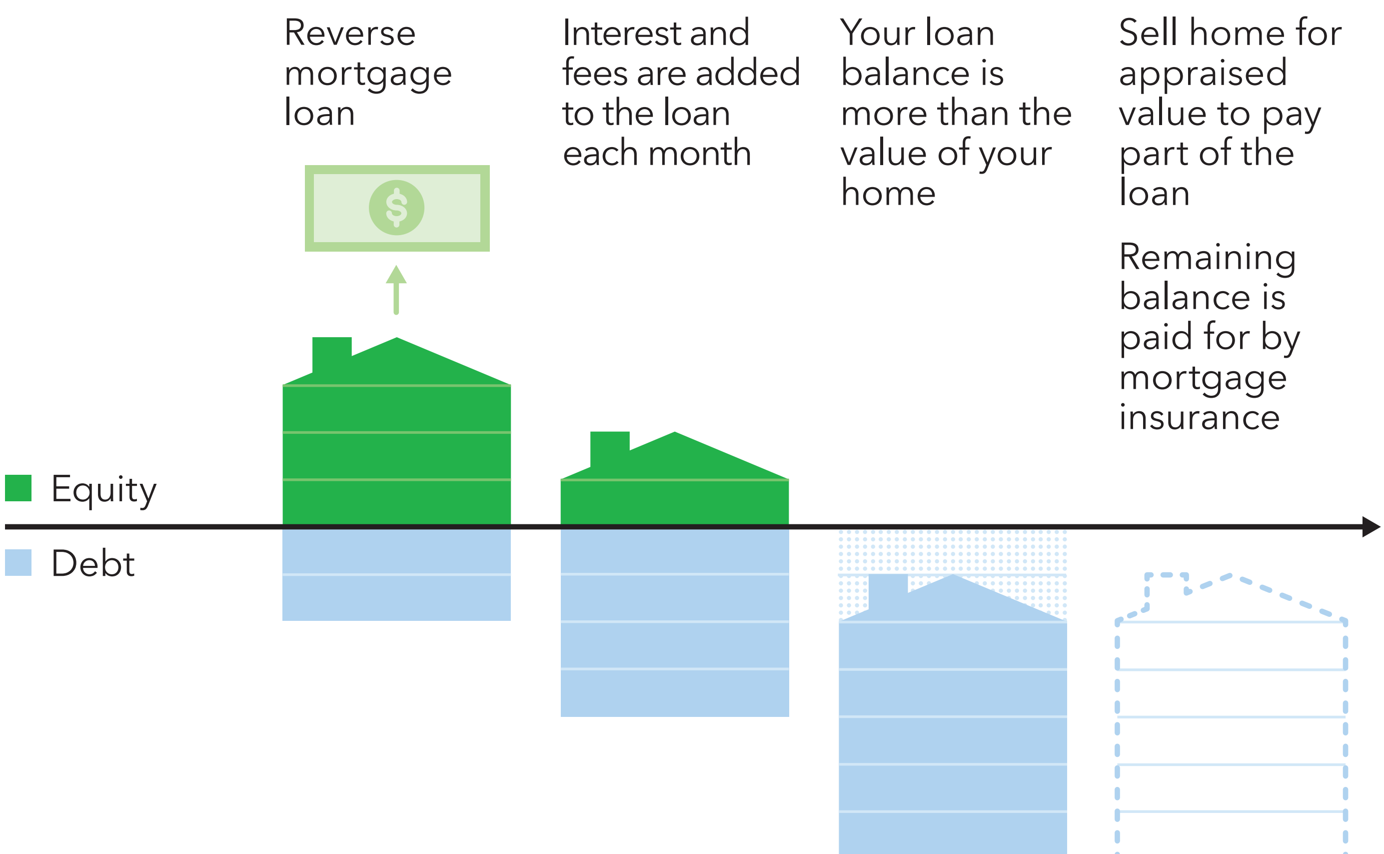


> **Alert**
>
> Home price increases are not guaranteed! During the housing crisis between 2007 and 2012, home prices fell more than 25% overall, and more than 50% in some areas.

What happens if I want to sell my home? (continued)

What if I owe more on my reverse mortgage than my home is worth?

If your loan balance is more than the value of your home, you may not have to pay the difference. When you sell your home for the appraised fair market value, the remaining balance of the loan is paid by mortgage insurance.



Caution

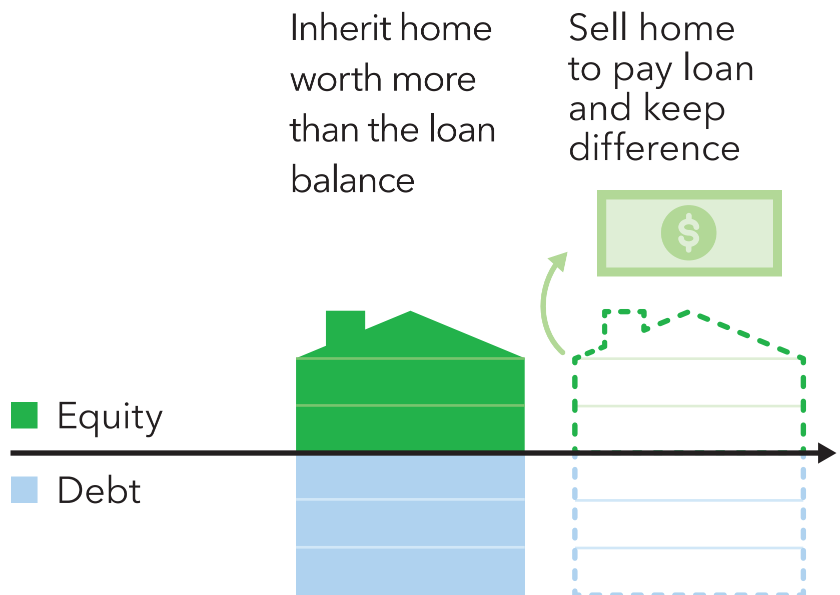
If you don't meet your responsibilities with a reverse mortgage (see pages 16-18), your loan could become due for repayment. In this case, you will usually have to sell your home for the lesser of the loan balance or 95% of its appraised value.

What happens to my home when I pass away?

When the last remaining borrower passes away, the loan has to be repaid. Most heirs will repay the loan by selling the home.

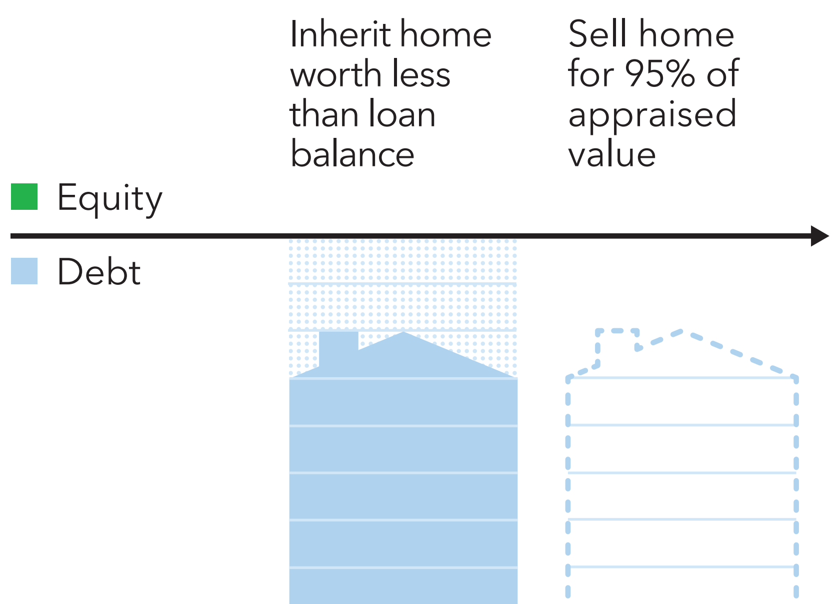
How does it work when the loan balance is less than the home value?

Your heirs will use the loan proceeds to repay the loan and keep the difference.



How does it work when the loan balance is more than the home value?

Your heirs won't have to pay more than 95% of the appraised value. The remaining balance of the loan is covered by mortgage insurance.



Caution

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.

How much can I borrow?

Your “principal limit”

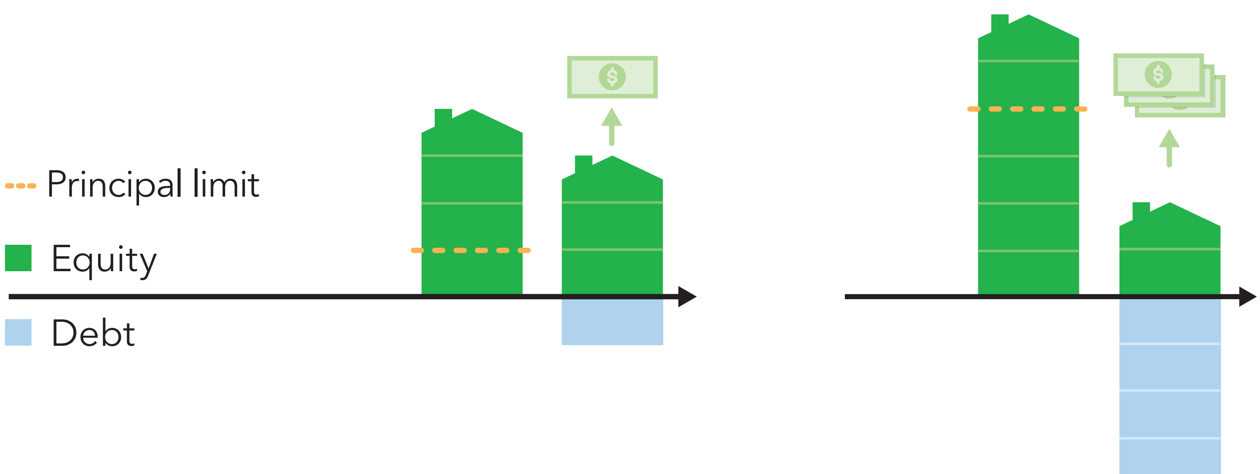
Your borrowing limit is called the "principal limit." It takes into account your age, the interest rate on your loan, and the value of your home. In general, loans with older borrowers, higher-priced homes, and lower interest rates will have higher principal limits than loans with younger borrowers, lower-priced homes, and higher interest rates.

Lower borrowing limit

- Younger borrowers
- Higher interest rates
- Lower-valued homes

Higher borrowing limit

- Older borrowers
- Lower interest rates
- Higher-valued homes



Whose age is used if I am married or have a co-borrower?

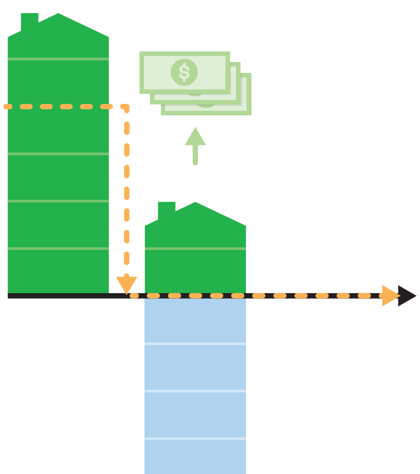
If you are married or co-borrowing with another person, the principal limit is based on the age of the youngest co-borrower, or eligible non-borrowing spouse.

What is a credit line growth feature?

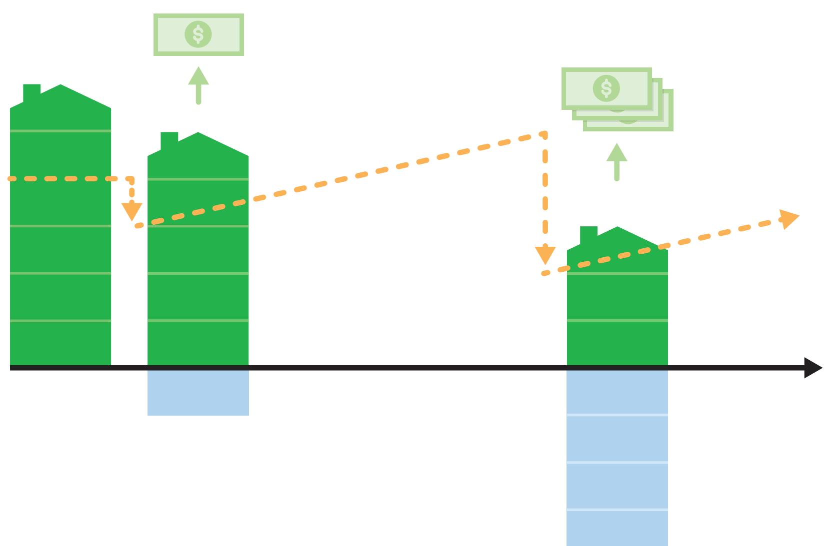
Growing credit line

With the credit line growth feature, the less credit you use today, the more you'll have available for the future. Whatever you don't use in your credit line will keep growing, allowing you to borrow up to a maximum amount stated in your mortgage. The amount of credit line growth is based on the interest rate and mortgage insurance premium. (A credit line growth feature does not apply to the fixed rate payment option).

Example 1: If you max out your credit upfront, you won't be able to borrow more in the future



Example 2: Leaving credit available means your borrowing limit will actually grow over time, helping you keep pace with rising expenses

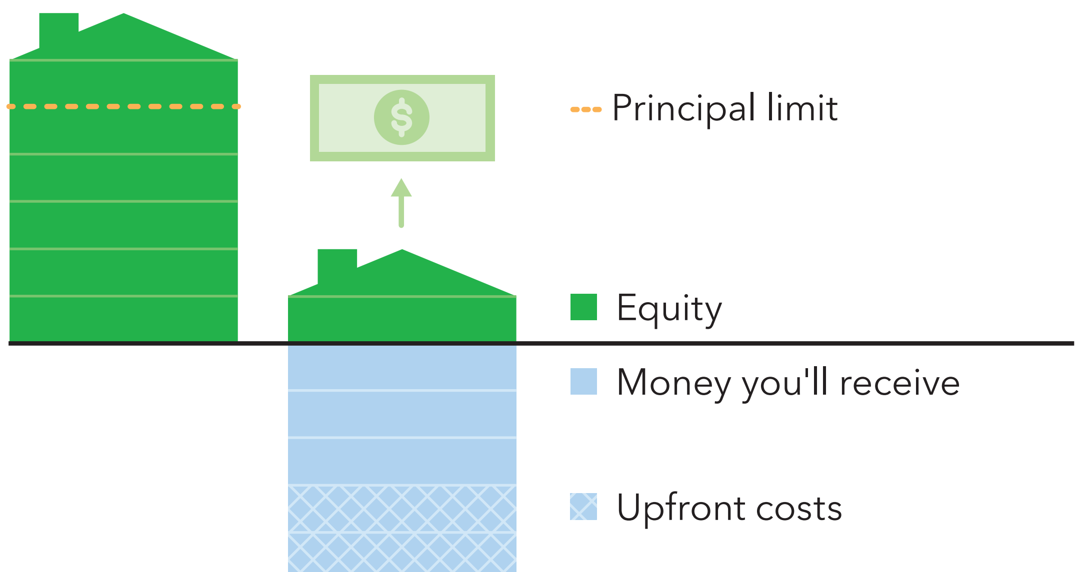


How much will it cost?

Reverse mortgages can be expensive. Like traditional mortgage loans, you will owe not just the money you borrow, but also interest and fees. Unlike traditional mortgage loans, the amount you owe grows over time.

Upfront costs

Like traditional mortgages, borrowers typically pay some one-time upfront costs at the beginning of the loan. While you can pay these costs out of pocket, you can typically choose to pay for them using your loan proceeds. This means that you don't have to bring money to the closing. But it'll reduce the total amount of money you get to use for other things.



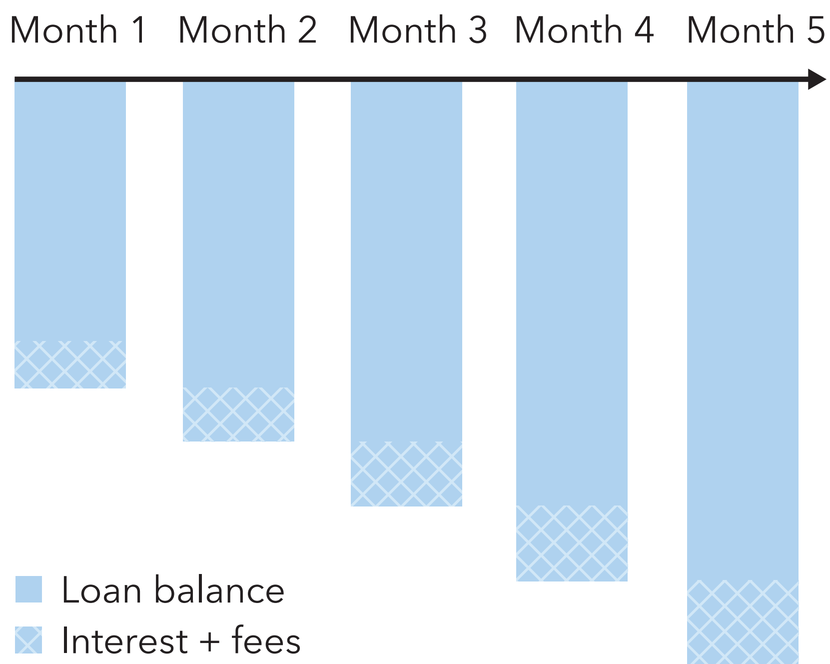
Upfront costs include origination fees paid to the lender, real estate closing costs paid to third-party professionals, and the initial mortgage insurance premium paid to the FHA.

Ongoing costs

Ongoing costs include interest, mortgage insurance premiums (MIP) and servicing fees. These costs are charged each month. Interest and the MIP are calculated as a percentage of your outstanding loan balance.

Ongoing costs are added to your loan balance each month.

These costs compound, meaning each month you are charged interest and fees on the interest and fees that were added to your previous month's loan balance.



❓ Tips and questions

- The best way to keep your ongoing costs low is to borrow only as much money as you need.
- What is mortgage insurance and why do you have to pay for it?

  If you or your heirs sell your home to pay off a reverse mortgage, your loan balance may be more than your home is worth. Mortgage insurance covers the remaining loan balance so you won't owe more than your home is worth. It also protects you in case your lender has financial difficulty and can't make payouts to you as agreed. Borrowers pay for mortgage insurance as a requirement of a HECM loan.

How do I receive my money?

You have three main options for receiving your money:

Line of credit (adjustable interest rate)

- Limits on withdrawals in the first year, remainder in the second year.
- Lower cost: pay interest and fees only on the money you're ready to use.
- Credit line growth feature*: unused credit continues to grow.
- Can be combined with monthly payout.

Monthly payout (adjustable interest rate)

- Limits on withdrawals in the first year, remainder in the second year.
- Get a set monthly payout to supplement income.
- Two choices: Term (fixed monthly payouts for a set number of years) or Tenure (fixed monthly payouts as long as they do not exceed a maximum mortgage amount stated in your loan documents).
- Lower cost: pay interest and fees only on the money you've drawn so far.
- Credit line growth feature* is factored into monthly payout amount.
- Can be combined with a line of credit.

Lump sum (fixed interest rate)

- Withdraw all available funds at once. Amount available is usually lower compared to other options.
- Higher cost: pay interest and fees on entire loan amount.
- No credit line growth feature*.
- Higher risk for younger borrowers of outliving their loan funds.

*See page 9 for information on the credit line growth feature.

How can a reverse mortgage affect the people living with me?

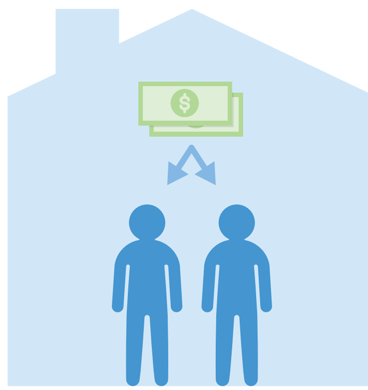
Do you live with a spouse or partner?

It is a good idea to make your spouse or partner a co-borrower.

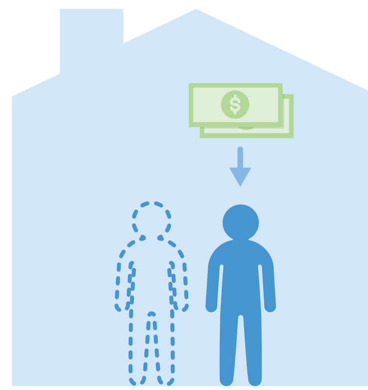
When your spouse or partner is a co-borrower, you are both responsible for the loan and both receive benefits from the reverse mortgage.

- When your spouse or partner is a co-borrower, they will be able to remain in the home after you no longer live in the home.
- A co-borrower will also continue to receive benefits from the reverse mortgage after you no longer live in the home.

You and a co-borrower may live in your home with a reverse mortgage



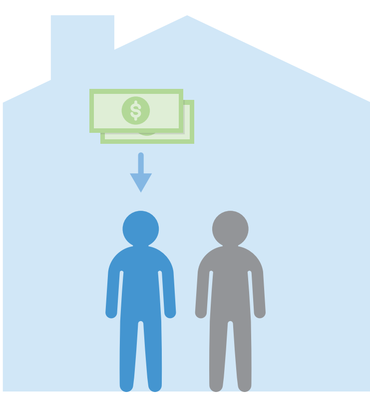
When you pass away or move, the co-borrower may remain in the home and continue to receive money from the reverse mortgage



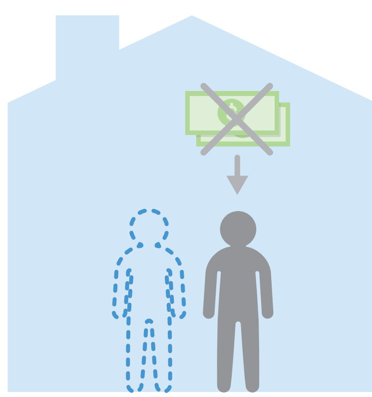
How can a reverse mortgage affect the people living with me? (continued)

What if your spouse isn't a co-borrower on the reverse mortgage?

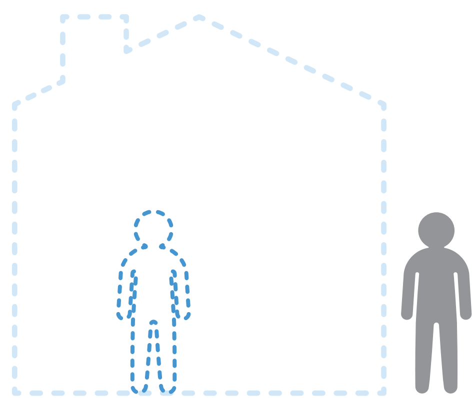
- Only co-borrowers and some non-borrowing spouses have the right to remain in the home after you pass away.
- If your spouse is not on the reverse mortgage, they may be able to remain in the home after you pass away if they qualify under HUD's rules.
- From the time you get a reverse mortgage, your non-borrowing spouse must continue living with you to remain in the home after you pass away.
- If you get married after you already have a reverse mortgage, your new spouse can't stay in the home when you pass away.
- Non-borrowing spouses do not receive money from a reverse mortgage after the borrower dies.



Anyone may live with you in your home with a reverse mortgage



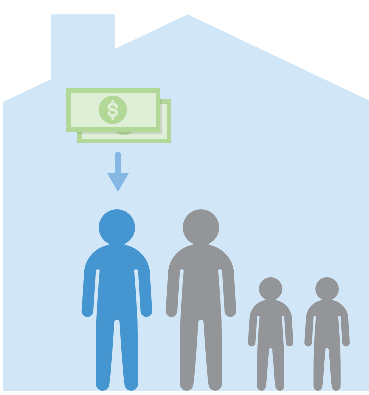
When you die, a non-borrowing spouse may remain in the home under certain conditions, but will not receive money from the reverse mortgage



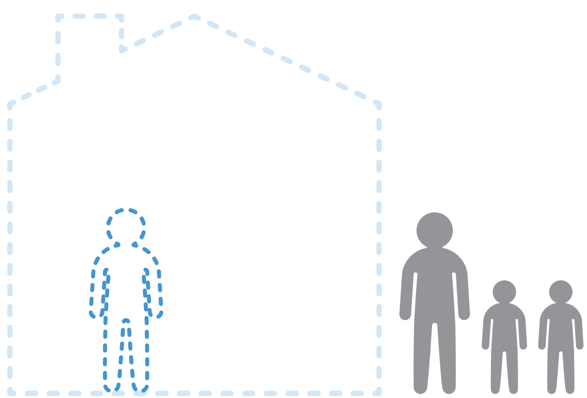
Non-eligible spouses will need to make other living arrangements after you die

Do you live with someone age 62 or older who is not your spouse?

- If this person wishes to remain in the home after you move or pass away, consider making them a co-borrower.
- If the person you live with isn't a co-borrower, he or she will have to move out when you move out or die, unless they are an heir and can either pay the reverse mortgage debt or 95% of the appraised value with cash or a new loan.
- Make plans for the people you live with for where they will move after the last borrower no longer lives in the home.



Anyone can live in your home with you when you have a reverse mortgage



When the last co-borrower or eligible spouse no longer lives in the home, the loan comes due for repayment and others need to move out

❶ What are my responsibilities?

There are several requirements that HECM reverse mortgage borrowers must follow. If you don't meet these requirements, you could lose your home to foreclosure.

1. Property taxes and homeowner's insurance must be paid on time.

With a reverse mortgage, the way you pay your property taxes and homeowner's insurance could change. A lender will do a financial assessment to determine your options for paying your property taxes and homeowner's insurance. Your options may include:

- You make direct payments to the insurance company and tax authority.
- You make direct payment, but have some of your loan set aside to help you with these payments.
- The lender takes care of it for you using your loan proceeds in a set-aside account.

What is a "set-aside"?

A "set-aside" is a portion of your loan that is reserved to pay some repairs, taxes, homeowners insurance, and fees. Set-asides help make sure you'll have the funds to make these payments in the future.

2. Your home must be kept in good repair.

You must make repairs as needed to keep your home well maintained. With a reverse mortgage, your lender will let you know what repairs you may need to make. Which situation applies to you?

Your current mortgage	Reverse mortgage
I routinely maintain my home and make repairs, hiring professionals when necessary.	That's good. This is required with a reverse mortgage.
My roof is missing a couple of shingles, and my water heater is getting old.	These may not be emergency issues, but they may require attention before they become worse and cause damage to your home.
My home is in good condition, but my yard has become overgrown.	You will need to keep your entire property maintained. A neglected yard can eventually damage property.
My home needs major repairs.	You may be required to make repairs as a condition of getting a reverse mortgage. Your lender may withhold some of your loan proceeds to make the required repairs.

Caution

Beware of scams! 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.

3. Your home must be your principal residence.

Every calendar year you will be required to certify in writing that you occupied your home as your principal residence. Which situation applies to you?

Your current mortgage	Reverse mortgage
I live in my home year-round.	You are already meeting this requirement.
I split my time between my home and another location.	OK, but you can only get a reverse mortgage on the home where you spend the majority of the year. Let your lender know if you are going to be away for more than two months.

Caution

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 non-medical reason, or
- You are absent from your home more than twelve consecutive months for healthcare purposes.

Have you explored other borrowing and housing options?

Homeowners interested in a reverse mortgage may find that other loans or housing choices are a better fit for their financial situation or personal needs. Be sure to look at all of your borrowing and housing options before making your final decision. Consider alternatives to a reverse mortgage, such as:

Waiting

If you take out a reverse mortgage 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

By refinancing your current mortgage with a new traditional mortgage, you may be able to lower your monthly mortgage payments. Pay attention to the term of 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 10 or 15 years.

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 provide assistance 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 the Administration for Community Living, www.acl.gov.

About the Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau, or the CFPB, is focused on making markets for consumer financial products and services work for consumers — whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products. We empower consumers to take more control over their financial lives.

The CFPB's Office for Older Americans is the only federal office dedicated exclusively to the financial health of Americans age 62 and over. Along with other agencies, the Office works to support sound financial decision-making and to prevent financial exploitation of older adults.

Website
consumerfinance.gov

General inquiries
Consumer Financial Protection Bureau
1700 G Street NW
Washington DC 20552

Submit a complaint by phone
855-411-CFPB (2372);
TTY/TDD 855-729-CFPB (2372)

Submit a complaint online
consumerfinance.gov/complaint/

cfpb Consumer Financial Protection Bureau

October 2017

Considering a reverse mortgage?

Proceed with caution

1. Don't sign the loan documents unless you understand how a reverse mortgage works.
2. Know your options—you may have a better choice.
3. Have a serious talk with a federally approved housing counselor who specializes in reverse 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.

How does a reverse mortgage work?

After years of paying down your mortgage, you have built up equity (the amount your property is worth today minus the amount you owe on your mortgage and any home equity loan or line of credit) in your home. With a reverse mortgage, you borrow against your equity.

The loan balance grows over time. You don't have to pay back the loan while you or an eligible spouse live in the home, but you still have to pay taxes, insurance, and maintain the home.

When both you and any eligible spouse have passed away or moved out of the home, the loan must be paid off. Most people need to sell their home to pay off the loan. But, neither you nor your heirs will have to pay back more than your home is worth.

Important questions

Are the borrowers the only people who live in the home?

Yes ✓ You can remain in the home until you move out or die, so long as you keep current on your property taxes, insurance, and home repairs. If you are a co-borrower or eligible spouse, you have the same right.

No ✗ Anyone living in the home who is not a co-borrower or eligible spouse will be required to move out or repay the loan when you move or die. If you live with a spouse or partner, it usually makes sense to apply as co-borrowers on the reverse mortgage. That way, if you take out a reverse mortgage, the co-borrower can continue to receive payments from the loan while living in the home after you die or move out.

Can I afford my living expenses, property taxes, and insurance?

Yes ✓ A reverse mortgage can help with these expenses, but it is important to have other retirement resources too.

No ✗ You could face foreclosure if you run out of money to pay property taxes, insurance, or other housing-related expenses in the future.

Do I plan to remain in my home for a long time?

Yes ✓ A reverse mortgage usually makes more sense the longer you live in your home.

No ✗ If a health issue or other event may cause you to move out soon, a reverse mortgage is an expensive way to cover short term cash needs.

Can I wait until I am older?

Yes ✓ It is usually best to wait, especially if you are in your 60s.

No ✗ Borrowing too soon can leave you without resources later in life. Remember to look at all your options first.

Consider alternatives

Wait: If you take out a reverse mortgage when you are too young, you may run out of money when you're older and need it more. The older a borrower is, the more money he or she can borrow.

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. These also depend on your income and credit.

Refinance: By refinancing your current mortgage with a new traditional mortgage, you may be able to lower your monthly mortgage payments.

Lower your expenses: There are state and local programs that may help you defer property taxes, lower your heating costs, or save on other bills. Consider selling your home. Moving to a more affordable home may be your best option to reduce your overall expenses.

If you decide on a reverse mortgage

You can save money by borrowing less, and by borrowing gradually. For example, borrowing a smaller amount in the first year of your loan can help you pay less for mortgage insurance.

Line of credit

With a line of credit, you only pay interest on money you use. The amount of money available to you grows over time.

Monthly payout

This can be a good choice if you need additional monthly income to cover daily living expenses. You can combine a monthly payout with a line of credit.

Single disbursement

Single disbursements typically offer less money than other HECM payout options. With a single disbursement, you will pay interest on your money even when you don't spend it.

No matter what payout option you select, there will be some restrictions on how much money you can access in the first year. Learn more: consumerfinance.gov/askcfpb/233/reverse-mortgage.html.

You can also use a reverse mortgage to help you purchase a new home. With the HECM for Purchase option, you'll need cash or equity from a prior home to put down a relatively large down payment, and you can use the reverse mortgage to finance the rest of the home purchase.

HUD-approved housing counseling is your best source of information on reverse mortgages

Only a serious discussion with a counselor will give you the information you need to make a good decision about your home. HUD-approved reverse mortgage counselors have the latest information on reverse mortgages.

Tell your counselor everything about your situation. This will help you get the most out of your counseling session.

Come to counseling prepared to discuss:

- Your financial needs and goals
- Your spouse or partner's future housing and financial needs
- The circumstances leading you to consider a reverse mortgage
- The alternatives to a reverse mortgage you have considered

If you have quotes from reverse mortgage lenders, bring them to counseling. Your counselor can help you compare them.

Visit HUD's website (http://go.usa.gov/v2H) or call (800-569-4287) to find a qualified reverse mortgage counselor near you.

Submit a complaint

Have an issue with a financial product or service? We'll forward your complaint to the company and work to get a response from them.

Online
consumerfinance.gov/complaint

By phone
(855) 411-CFPB (2372)
(855) 729-CFPB (2372) TTY/TDD

By fax
(855) 237-2392

By mail
Consumer Financial Protection Bureau
P.O. Box 4503
Iowa City, Iowa 52244

Additional information and Resources

Reverse Mortgage Loan Video

https://youtu.be/L89d3faoFGw

Social Security and Reverse Mortgages

We find that borrowing a reverse mortgage loan to get an increased Social Security benefit carries significant costs that generally exceed the additional lifetime amount gained from delaying Social Security. In addition, the amount that a consumer will need to borrow from a reverse mortgage loan to delay claiming Social Security benefits could negatively affect the consumer's ability to move or use their home equity to meet a large expense later in life.

For consumers who have the option, working past age 62 is usually a less costly way to increase their monthly Social Security benefit than borrowing from a reverse mortgage. The extra years of work often provide people more time to save for retirement and pay off debts. The extra years of work may also result in an increase in Social Security benefits—separate from the increase that arises from deferring the start of benefits—by replacing years with low or no earnings from the person's earnings record. Consumers may also consider other options to increase their Social Security benefit, such as coordinating their claiming decision with their spouses.

As consumers consider borrowing a reverse mortgage loan in order to delay claiming Social Security benefits or defer withdrawing funds from retirement savings, it is important for them to be aware of the risks and costs associated with this strategy. This is especially true for consumers whose primary source of income is Social Security and whose main asset is their home. For those consumers, the costs of a reverse mortgage loan will likely exceed the lifetime amount of money gained from an increased Social Security benefit, which in turn may threaten their financial security later in life.

To see the full publication you can refer to the publication Cost and Risk of Social Security. All publications can be found on the Consumer Protection Bureau Website *https://www.consumerfinance.gov/practitioner-resources/resources-for-older-adults/financial-security-as-you-age/*