National Council on Aging

Reverse Mortgage Facts for Seniors

- A reverse mortgage does not work the same as other home loans.
- Most reverse mortgage borrowers use the funds for paying for basic needs in retirement.
- Reverse mortgages may be less expensive than other home equity loans.
- Reverse mortgages should not be used as a last resort.
- Younger Boomers are increasingly likely to take out a reverse mortgage.
- Anyone considering a reverse mortgage must get counseling.
- Some reverse mortgage borrowers may still face foreclosure.

Are you considering whether a reverse mortgage is right for you or an older homeowner you know? Before considering one of these loans, it pays to know the facts about reverse mortgages.

A reverse mortgage does not work the same as other home loans.

A reverse mortgage, sometimes known as a Home Equity Conversion Mortgage (HECM), is a unique type of loan for homeowners aged 62 and older that lets you convert a portion of the equity in your home into cash. But unlike a traditional home equity loan or second mortgage, you don't have to repay the loan until you either no longer live in the home as your principal residence or you fail to meet the obligations of the mortgage.

Taking out a reverse mortgage is a big decision, since you may not be able to get out of this loan without selling your home to pay off the debt. You also need to carefully consider your options to avoid using up all the equity you have built up in your house.

Learn more about how reverse mortgages work in our free consumer guide *Use Your Home to Stay at Home©*.

Most reverse mortgage borrowers use the funds for paying for basic needs in retirement.

Reverse mortgages generally are not used for vacations or other "fun" things. The truth is that most borrowers use their loans for immediate or pressing financial needs, such as paying off their existing mortgage or other debts. Or they may consider these loans to supplement their monthly income, so they can afford to continue living in their own home longer.

Learn more about ways to improve your budgeting and save money with *Savvy Saving Seniors*® financial education tools.

Reverse mortgages may be less expensive than other home equity loans.

Taking out any home loan can be costly because of origination fees, servicing fees, and third-party closing charges such as an appraisal, title search, and recording costs. You can pay for most of these costs as part of the reverse mortgage loan.

Reverse mortgage borrowers also must pay an upfront FHA mortgage insurance premium. This insurance guarantees that you will receive the expected loan payments. It also ensures that, when the loan does become due and payable, you (or your heirs) don't have to repay more than the value of the home, even if the amount due is greater than the appraised value.

While the closing costs on a reverse mortgage can sometimes be more than the costs of the home equity line of credit (HELOC), you do not have to make monthly payments to the lender with a reverse mortgage. A HELOC requires regular monthly interest or principal and interest payments on the loan.

Reverse mortgages should not be used as a last resort.

It's never a good idea to make a financial decision under stress. Waiting until a small issue becomes a big problem reduces your options.

If you wait until you are in a financial crisis, a little extra income each month probably won't help. Reverse mortgages are best used as part of a sound financial plan, not as a crisis management tool.

If you live on a limited income, there are many public and private benefits that can be an alternative or supplement to a reverse mortgage. Find out if you may qualify for help with expenses such as property taxes, home energy, meals, and medications at BenefitsCheckUp®.

> *Reverse mortgages are best used as part of an overall retirement plan, and not when there is a pending crisis.*

Younger Boomers are increasingly likely to take out a reverse mortgage.

When HECMs were first offered by the Department of Housing and Urban Development (HUD), a large proportion of borrowers were older women looking to supplement their modest incomes. But that has changed.

During the housing boom, many older couples took out reverse mortgages to have a fund for emergencies and extra cash to enjoy life. In today's economic recession, younger borrowers (often Baby Boomers) are turning to these loans to manage their existing mortgage or to help pay down debt.

Reverse mortgages are unique because the age of the youngest borrower determines how much you can borrow. It is important to note that borrowers deplete their home equity as their loan balance grows over time.

Anyone considering a reverse mortgage must get counseling.

Deciding whether to take out a reverse mortgage loan is challenging. It's hard to estimate how long you'll stay in your home and what you'll need to live there over the long term.

Federal law requires that all individuals who are considering a HECM reverse mortgage receive counseling by a HUD-approved counseling agency. A trained and certified counselor can help you understand the costs and features of different types of reverse mortgages, and evaluate the pros and cons of these loans for your situation. They will also discuss other options including public and private benefits that can help you stay independent longer.

It's valuable to meet with a counselor before talking to a lender, so you get unbiased information about the loan. Telephone-based counseling is available nationwide, and face-to-face counseling is available in many communities.

You can get counseling provided through a partnership between NCOA and GreenPath Financial Wellness by calling toll-free 855-899-3778. You can also find a counselor in your area at the HUD HECM Counselor Roster.

Some reverse mortgage borrowers may still face foreclosure.

It is possible for reverse mortgage borrowers to face foreclosure if they do not pay their property taxes or insurance, or maintain their home in good repair. This is especially a risk for older homeowners who take the entire loan as a lump sum and spend it quickly—perhaps as a last-ditch effort to salvage a bad situation. Those who struggle to pay the bills each month can become overwhelmed by health or other large expenses, making it difficult to keep up with borrower obligations.

However, beginning in 2015, new rules require that reverse mortgage applicants undergo a lender financial assessment at the time of application. This is similar to the underwriting process in a traditional mortgage. The lender will look at credit reports, payment history, and household debt before initiating a loan.

That's why reverse mortgage counseling is so critical. The counselor will help you look at the long-term responsibilities of the loan, not just the short-term benefits. They will also look at your financial situation more broadly to help you determine if a HECM is right for you.

Always avoid any unsolicited offers for a reverse mortgage or for help with these loans. If you suspect you or your family have been targeted by a scammer, call 800-347-3735 to file a complaint with HUD.

Melinda Hipp - Branch Manager
Open Mortgage | San Antonio
NMLS #219085
17721 Rogers Ranch Pkwy., Ste. 125
San Antonio, TX 78258
210-493-7332
melindahipp@openmortgage.com
texasreverse.net