Reverse Mortgages

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DACL DEPARTMENT OF AGING AND COMMUNITY LIVING

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A reverse mortgage is a way of taking money out of your home to pay for current expenses, like home care or medical equipment. This fact sheet covers the most commonly used type of reverse mortgage, a Home Equity Conversion Mortgage (HECM).

HOW CAN I GET AN HECM REVERSE MORTGAGE?

There are some eligibility requirements for an HECM. You must be at least age 62. You must completely own your home, or owe very little on it. Additionally, you can only get an HECM on the home in which you live most of the time. You must meet with a government-approved HECM counselor before applying for HECM. Find an HECM counselor by calling the US Housing & Urban Development Department (HUD) at 1-800-569-4287. HUD also posts counselor lists online: www.hudexchange.info/programs/housing-counseling.

HOW MUCH MONEY CAN I BORROW?

The amount of money you can borrow will be less than the value of your home. The exact amount will depend on:

- Your age
- The interest rate of your reverse mortgage
- Your home's current value

If your home is worth less than $679,650 (as of 2018), your loan amount will be calculated using your home's value as a starting point. If your house is worth more, only $679,650 will be counted as the value.

If you own a more expensive home, you may get bigger loans from Proprietary Reverse Mortgages, which are outlined on the back of this fact sheet. You can get an estimate on the amount you can borrow by using the National Reverse Mortgage Lenders Association's online calculator at www.reversemortgage.org/About/Reverse-Mortgage-Calculator.

REVERSE MORTGAGE VS. TRADITIONAL MORTGAGE

In a traditional mortgage, you borrow money to help you buy a house. As you pay off your loan, you increase your ownership in your home and decrease how much your lender owns.

In a reverse mortgage, you borrow money against your home's value. As you borrow money, you decrease your ownership in your home and increase the share owned by your lender. HECMs are the most commonly used type of reverse mortgage. They also are the only type insured by the federal government.

PAYING TAXES & HOME INSURANCE WITH AN HECM

Your HECM loan is not due until after you pass away or move from your home. However, you must still pay your property taxes and home insurance. You also must keep your home in good repair. Failure to do these things could result in the loss of your home.

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MEETING WITH AN HECM COUNSELOR

The counselor's job is to help you decide if a reverse mortgage is the best way to meet your needs. They also can help you compare lenders and avoid scams (see sidebar). During your meeting, they will talk with you about your needs, and the needs of anyone else who lives with you. They'll also discuss other potential options instead of a reverse mortgage. The counselor may charge you a fee. If you can't afford the fee, you may have it subtracted from your loan amount.

HECM REVERSE MORTGAGE ALTERNATIVES

While HECM reverse mortgages are one way to help meet current expenses, they aren't the only way. If your home's value is more than the HECM cap, you may prefer Proprietary reverse mortgages. These reverse mortgages, sometimes called "Jumbo" reverse mortgages, offer higher loan amounts than HECMs. But unlike HECMs, they aren't insured by the government. Also, fewer lenders offer them. According to the National Reverse Mortgage Lenders Association, only two lenders currently offer this type of reverse mortgage. They are American Advisors Group in Orange, CA and Finance of America Reverse Mortgage in Tulsa, OK.

Even older adults of more modest means may not choose a reverse mortgage. Reverse mortgages are not free. You pay fees to the HECM counselor, and interest is added to loans. You also pay closing costs, mortgage insurance, and fees to service the loan. Payment for some of these fees may be delayed, but some are ongoing.

OTHER RESOURCES

For more information on reverse mortgages and other options, see Reverse Mortgages: A Discussion Guide, available free from the US Consumer Financial Protection Bureau: files.consumerfinance.gov/f/documents/cfpb_reverse-mortgage-discussion-guide.pdf.

TIPS TO AVOID SCAMS

- Meet with a government-approved HECM Counselor.
- Beware of offers that sound too good to be true. For example: "Money for Life" or "You'll never lose your house."
- Avoid lenders who contact you before you contact them.
- Avoid lenders who try to steer you away from an HECM counselor.
- Avoid lenders who try to convince you to spend your reverse mortgage funds on annuities or investments.
- Don't sign anything you don't understand.

Visit iona.org or call
202-895-9448
for other helpful fact sheets.

Adult Day Health Programs

Finding Legal Assistance

Low-Cost Housing Options

Senior Service Network Lead Agencies

Testing for Memory Loss

Transportation for Riders Needing Assistance

Transportation for Independent Riders

Veterans Aid & Attendance