

# 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 borrower 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, you must 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 live in the home, but you still have to pay taxes, insurance, and maintain the home.



When you move out, sell your home, or die, your loan must be paid off. Most people will need to sell their home to pay off the loan. But, you won't 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, you have the same right.
- No**  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 living in the home even after you die or move out. Anyone living in the home who is not a co-borrower will be required to move out or repay the loan when you move or die.



### 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.

### Refinancing

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

### Know your payout options

#### 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.

#### Lump sum

Borrowing a lot of money at once has risks. If you borrow more than you need, you will pay interest on all of it even if you don't need it.

### Know your product options

#### Standard

This allows you to borrow more, but you pay higher fees and costs. Effective April 1, 2013, this option is only available with an adjustable interest rate.

#### Saver

This reverse mortgage allows you to borrow less, and pay lower fees and costs.

#### HECM for purchase

This reverse mortgage allows you to borrow for the purpose of buying a new home.

## Considering a lump-sum payout reverse mortgage?

### Be sure you need all of the money now

- If you take all the money upfront, you won't be able to get money from your house later in life. You will also be charged interest on all the money, even if you don't need it.
- If you take out a line of credit instead, the amount of money you can borrow will grow over time.
- If you are considering a lump-sum to pay off your current mortgage, make sure you look into refinancing or downsizing first.

**You are required to go to housing counseling before you decide on a federally insured reverse mortgage.**

Counseling before any decision involving your home is a good idea. Tell your counselor everything about your situation. Only a serious discussion with a counselor will give you the information you need to make a good decision about your home.

Visit HUD's website (<http://go.usa.gov/v2H>) or call HUD's housing counselor referral line (1-800-569-4287) to find a qualified reverse mortgage counselor near you.