

## Reverse Mortgages: Is this the answer to solve your financial challenge?

What is a reverse mortgage? It is a cash loan on your home's equity. People use this type of loan to help pay for medical treatment, finance home improvements, buy long-term care insurance, or supplement their income. For many seniors, a reverse mortgage is their saving grace. Reverse mortgages allow older adults to convert their home's equity into cash while retaining their home ownership.

Who qualifies for a reverse mortgage? An individual who is 62 and older and who owns their home (or has a very low outstanding mortgage balance that can be paid off at the loan closing) can qualify. The home must be their "principal residence," meaning they live in it 6 months or more out of a year. To apply for a reverse mortgage they must either have:

- A single-family property.
- A 2-4 unit building.
- A federally approved condominium or planned unit development.
- A manufactured home if it is built on a permanent foundation, classed, and taxed as real estate, and meets other requirements. Mobile homes are not eligible.

There are mainly three types of reverse mortgages:

- **Home Equity Conversion Mortgages (HECM)** are federally insured and administered by the Department of Housing and Urban Development (HUD).
- **Proprietary Reverse Mortgages (PRM)** are offered by private lenders like banks and mortgage companies, and they are backed by the companies that develop them.
- **Single Purpose Reverse Mortgages (SPRM)** are offered by state or local government agencies for specific reasons.

Typically, after the last surviving owner/borrower passes away, heirs pay reverse mortgage loans (plus interest) by selling the home, using other funds from the borrower's estate, using their own funds, or by taking a new "forward" mortgage against the home. A "forward mortgage" is a traditional mortgage consumers take to buy a home. A reverse mortgage may also be paid back after the surviving owner or borrower permanently moves away. The word "permanently" move away means the owner/borrower has not lived in the home for 12 months in a row.

### How Much Can Consumers Borrow with Reverse Mortgages?

- There are many factors that affect the loan amount:
- Age of the borrower(s): As owner's age increases, the amount they can borrow increases.
- Value of the home: As the home equity increases, the amount they can borrow increases.
- Type of reverse mortgage (HECM, PRM, or SPRM).
- Current reverse mortgage interest rates: Lower interest rate usually means more can be borrowed.

### Consumer Awareness

You can obtain more information and advice about reverse mortgages, as well as where to find a list of HUD approved reverse mortgage lenders from the following sources:

- FHA Housing Counseling Agency Listings: Call 1-800-569-4287 or go this Website: <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm?filtersvc=hec&filtermultistate=yes>
- FHA's National HECM Counseling Network: These counselors provide both face-to-face and telephone

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counseling nationwide. <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof18.cfm>.

- National Reverse Mortgage Lenders Association. Call 1-202-939-1760 or go to this Website: (<http://www.reversemortgage.org>).

Consumers should not be pressured to obtain a reverse mortgage by sellers who offer goods or services such as deferred annuities, home improvements, or other financial products. If you don't understand the features of the reverse mortgage or any products related to this, be sure to seek advice from reliable resources such as the U.S. Department of Housing and Urban Development (HUD), Federal Trade Commission (FTC), housing counselors certified by HUD, family and friends, or a lawyer.

## Reverse Mortgage Laws to Protect Consumers

Current laws are in place to protect the consumer borrower when implementing a reverse mortgage:

- Federal Truth in Lending Act (TILA) is the best protection for consumers with a reverse mortgage. This act requires lenders to inform the consumer about the costs, payment terms, and Annual Percentage Rate (APR) of the reverse mortgage. If a consumer chooses the credit line reverse mortgage, then the lender must state the fees to open and use the credit account.
- Anyone applying for a reverse mortgage is mandated to receive counseling based on HUD's counseling and regulation guidelines.
- It takes 20-30 days to process and complete a reverse mortgage providing time for the borrower to review the loan terms, as well as the costs and payoff provisions.
- There is a 3-day rescission period where after signing the closing documents, the borrower can write a letter to the lender to cancel the loan. The lender must receive this cancellation of loan letter by midnight of the third business day. Follow the lenders rules exactly.
- In 2008, there were Federal HUD regulations put into place limiting cross-selling of insurance and other financial products with reverse mortgages in order to protect seniors.

New laws were enacted in 2009 that affected the reverse mortgage borrowing limit. Before July 2008, the reverse mortgage lending limit was \$276,683 for federally insured reverse mortgages. Then, as of July 30, 2008, there was new lending limit of \$417,000. Due to the 2009 "stimulus package," there was a one year opportunity for consumers. Federally insured reverse mortgage loans' lending

limit was raised to \$625,500. This lending limit was temporary and was intended to last through 2009. Check out the Federal Housing Authority's Website (which is under the U.S. Department of Housing and Urban Development) to find out what the reverse mortgage loan lending limit is for the current year: <http://www.hud.gov/offices/hsg/sfh/fharesourcectr.cfm> or call 1-800-CALL-FHA or call 1-800-225-5342, Monday through Friday, 8 a.m.-8 p.m. EST.

**Remember the loan amount is never 100% of the home value or lending limit. The loan amount is a percentage based on the age of the youngest borrower and the expected interest rate.**

## Other Options When Cash is Short

Before opting for a reverse mortgage, consider the following alternatives:

- Meet some of the monthly expenses or meet basic needs for home repairs by checking into other resources such as government or nonprofit agency assistance. Qualified consumers (usually income based) may be able to get help with property tax-relief, utility discounts, fuel assistance programs to help pay for winter energy costs, or even energy efficiency home improvement programs for home repairs and low or no-cost energy efficient appliances.
- Check with this screening Website, [www.benefitscheckup.org](http://www.benefitscheckup.org), to answer questions related to you or an older family member's income and needs to see if you are eligible for various public and private benefit programs that may help reduce expenses.
- Look into a home equity loan or line of credit to help pay real necessities such as home improvements, home care, etc. These loan's closing costs are far cheaper than a reverse mortgage, however the consumer needs to be able to afford monthly payments of interest only or even principal.
- Sell your home to a family member and then lease or rent the home from them.
- Sell your house in the current real estate market other than to family and move to affordable housing such as a less expensive home, rent an apartment, or other housing option. You can bank or invest the leftover money to earn investment income.
- If none of these options are doable, carefully and thoroughly research and educate yourself about reverse mortgages. Obtain counseling from a local HUD-

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approved counseling agency or your county's housing authority department to see if a reverse mortgage is right for you.

## Summary

Before considering a reverse mortgage, ask yourself these questions:

1. How long do you want to live in your home? If you pay back most reverse mortgages a few years after closing, you will find this type of loan most expensive because of the high start-up costs.
2. How important is it for you to leave inheritance such as your home for your family? Remember the loan balance keeps going up as the years go by due to the interest rate being added on. There may not be much or any equity in the home left for heirs.
3. Would it be better to sell my current home and move to a less expensive living arrangement or home? With a reverse mortgage, you will not be able to pull out as much money as you would by selling your home.
4. How much would you make if you sold your home?
5. What would it cost to buy and maintain a new home or even rent one?
6. How much money would you have left after buying a new home?
7. How long would this left over money, from the purchase of a new home, last you?

By asking these questions and researching your alternatives, you will have a better sense of what you want to do: find a different place to live or stay in your home to age in place; utilize other lower cost options to help with your short cash flow and savings; and as a last resort consider applying for a reverse mortgage. It is recommended to approach the reverse mortgage idea cautiously and with a lot of research. Also, it is good to talk with family and friends before making a decision.

**Disclaimer: The information provided in this publication is for educational purposes only. University of Illinois and University of Illinois Extension do not endorse any specific reverse mortgage lenders or products.**

## References Used

### Sources

#### American Association of Retired Persons

601 East Street, NW  
Washington, DC 20049  
General Phone #: 1-800-424-3410  
[http://www.aarp.org/money/personal/reverse\\_mortgages/](http://www.aarp.org/money/personal/reverse_mortgages/)

#### AARP Foundation for Reverse Mortgage Education

**Project** writes resource materials  
<http://www.aarp.org/revmort>

#### Consumer Reports

101 Truman Avenue  
Yonkers, NY 10703-1057  
<http://www.ConsumerReports.org>

#### Federal Trade Commission

Consumer Response Center  
600 Pennsylvania Avenue, NW  
Washington, DC 20580  
1-877-FTC-HELP (1-877-382-4357)  
<http://www.ftc.gov>

#### Money Magazine

[http://money.cnn.com/magazines/moneymag\\_archive/2006/04/01/8373304/index.htm](http://money.cnn.com/magazines/moneymag_archive/2006/04/01/8373304/index.htm)

#### National Reverse Mortgage Lenders Assoc.

1400 16th St., NW – Suite 420  
Washington, DC 20036  
Phone: 1-202-939-1760  
Fax: 1-202-265-4435

#### Office of the Comptroller of the Currency

Administrator of National Banks  
Washington, DC 20219  
Help with My Bank: Phone: 800-613-6743

#### U.S. Department of Housing and Urban Development (HUD)

451 7th Street, SW  
Washington, DC 20410  
1-800-CALL-FHA (1-800-225-5342)  
<http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm>

# Reverse Mortgages: Is this the answer to solve your financial challenge?

## Articles

**Fact Sheet on Reverse Mortgages**, 11/2009.

**Reverse Mortgage Loans: Borrowing Against Your Home**, 2008.

**Scam Alert: Reverse Mortgage** by Sid Kirchheimer, 2/9/2009.

**Questions and Counseling on Reverse Mortgages**

Phone #: 202-434-6082; 800-209-8085

To Order Resource Books on Reverse Mortgages

Phone #: 888-687-2277

**Reversals of Fortune: The Next Financial Fiasco? It Could be Reverse Mortgages**, 9/2009, pgs. 35-40.

**Living on the House: Would A Reverse Mortgage Make Sense for You Someday?**, 4/2008.

**Reverse Mortgages: Get the Facts Before Cashing in on Your Home's Equity**, 4/2009, <http://www.ftc.gov/bcp/edu/pubs/consumer/homes/rea13.shtm>

**Stay Home, Make Money: With a Reverse Mortgage, Seniors Can Cash Out Without Moving Out**, Sarah Max, 4/2006, Volume 35, Number 4, pp.53-57.

**About Reverse Mortgages**, 2008.  
<http://www.reversemortgage.org/>

**OCC Releases Consumer Advisory: Reverse Mortgages: Are They for You?**  
<http://www.occ.gov/ftp/release/2009-115.htm>

**Home Equity Conversion Mortgages for Seniors**

**Top Ten Things to Know if You're Interested in a Reverse Mortgage**

**Reverse Mortgage Calculator**

**HUD-Approved Reverse Mortgage Housing Counselors List**

**HUD-Approved Reverse Mortgage Lenders**

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For educational purposes, consumers can also get approximate estimates for insured reverse mortgage costs by using the AARP helpful resource tool called a "reverse mortgage calculator" which is found at this Website: [http://rmc.ibisreverse.com/rmc\\_pages/rmc\\_aarp/aarp\\_index.aspx](http://rmc.ibisreverse.com/rmc_pages/rmc_aarp/aarp_index.aspx). AARP does not endorse any specific reverse mortgage lenders or products.

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