

## What are the related fees and interest?



Reverse mortgage borrowers do not have to make monthly payments like other traditional loans. However, various origination and servicing fees and closing costs are charged and they vary significantly from one type of reverse mortgage to another. The costs are added to your loan balance and you pay them back plus interest when the loan is over. The total cost of a reverse mortgage is extremely difficult to determine, so seniors should only work with an approved lender that provides advanced disclosure of the Total Annual Loan Cost which combines **ALL** of the related costs and fees into a single annual average rate. This makes it easier to compare and contrast the various reverse mortgage products and options that are available.

## What are my alternatives to a reverse mortgage?

Many senior homeowners are interested in reverse mortgages because they want to remain in their homes, have paid off most or all of the home's mortgage, and have other debts or expenses that threaten their financial independence. It is a difficult decision, but one important option to consider is selling the home to either rent or purchase another one. If leaving your home is not an option, then carefully consider alternative loans, such as a traditional home refinance loan or a home equity line of credit. Often they are much less expensive to originate and have fewer implications for those left behind when a borrower dies or has to move from their home.

## Important Resources:

### U.S. Department of Housing and Urban Development

451 7th Street S.W.  
Washington, DC 20410  
San Francisco Regional Office:  
(415) 489-6400  
[www.hud.gov](http://www.hud.gov)  
*To find a HUD approved counseling agency and approved lender in your area call: (800) 569-4287*

### Housing and Economic Rights Advocates (HERA)

P.O. Box 29435  
Oakland, CA 94604-0091  
(510) 271-8443  
[www.heraca.org](http://www.heraca.org)  
*HERA is a California non-profit legal service and advocacy organization that provides counseling on a variety of home lending products, including reverse mortgages.*

### AARP Home Equity Information Center

601 E Street, NW  
Washington DC 20049  
(888) 687-2277  
[www.aarp.org/revmort](http://www.aarp.org/revmort)



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# Reverse Mortgage



**Is it the right choice for you and your family?**

## What is a reverse mortgage?

Homeowners age 62 or older whose homes carry little or no mortgage debt are eligible for a specialized loan called a reverse mortgage. It is a loan against your home that converts a portion of the equity in your home into cash. Generally, you do not have to pay it back for as long as you remain living in your home and keep current on your tax and insurance payments. You can never owe more than your home's value. The amount you can borrow depends on your age, the current interest rate and the current appraised value of your home. In most cases, the more valuable your home and the older you are, the lower the interest rate is and the more money you can borrow.



## What are the problems with reverse mortgages?

Lenders charge homeowners very expensive origination fees to obtain a reverse mortgage. When a borrower dies or moves out, the loan must be repaid. Surviving family and heirs may lose title to the home. For low income seniors who rely on public benefits, a reverse mortgage might make you ineligible for services such as food stamps and Medicaid or Supplemental Social Security Income.



Seniors from all across the country have been cheated by unscrupulous lenders and third-party estate planning firms who lure homeowners with unfair or unlawful contract terms. For example, beware if a mortgage consultant or broker insists that a home needs costly renovations, and requires a specific contractor to do the work.

If you are unable to secure a loan for any reason, you will be left with a huge remodeling bill. Anyone who believes they have been the target of a scam should contact the California Attorney General's Office at **1-800-952-5225**.

## Why do people consider getting reverse mortgages?

There are no limits on how the funds from a reverse mortgage can be spent. Many seniors use the cash to supplement Social Security and retirement payments, to cover medical and health care costs, to pay off credit card debt, or for other expenses.



## What happens if I die or have to move out?

When a person dies or moves from the home the reverse mortgage becomes due and payable. The borrower's family has the option of keeping the home by paying off the balance due, or by selling the home and using the proceeds to pay off the reverse mortgage. If there is no living family or heirs, the lender places a lien on the property in exchange for the cash it provided to the borrower and recoups the loan, fees and interest by selling the home once it is vacated. The most important thing to consider is that ***the loan agreement can reduce or eliminate the inheritance that would have otherwise gone to surviving family and loved ones.***

## How is the money paid to me?

There are several options depending on the type of reverse mortgage. With any of these options, it is extremely important to plan ahead for inflation by considering a yearly cost

of living adjustment. Taxes, insurance, groceries and medications will continue to increase. If the borrower is locked into fixed monthly payments you will live with a lower income standard as the years go by.

- **Tenure:** Monthly payments as long as the borrower lives in the house and continues to use it as a principal residence.
- **Term:** Monthly payments for a fixed period of time.
- **Line of credit:** Unscheduled payments or installments, chosen by the borrower, until the line of credit is exhausted.
- **Modified tenure:** A combination of the line of credit with monthly payments for as long as the borrower remains in the home.
- **Modified term:** A combination of the line of credit with monthly payments, for a fixed period of time.
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## Who should I contact about getting a reverse mortgage?

Seniors considering a reverse mortgage should always consult with family, trusted friends and advisors and **ONLY** use lenders approved by the U.S. Department of Housing and Urban Development (HUD) and that are federally insured. They should also seek the advice of an attorney or financial advisor that specializes in housing and lending issues and that can carefully explain all of the available alternatives to a reverse mortgage. Seniors should be wary of mortgage consultants and brokers who are overly eager to get you a reverse mortgage or who charge fees for referring you to a lender. HUD can provide free information and referrals to HUD-approved lenders in your area.