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Reverse Mortgages

If you're 62 or older – and want money to pay off your mortgage, supplement your income, or pay for healthcare expenses – you may consider a reverse mortgage. It allows you to convert part of the equity in your home into cash without having to sell it or pay additional monthly bills. But take your time: A reverse mortgage can be complicated and might not be right for you. It can use up the equity in your home, which means fewer assets for you and your heirs. If you do decide to look for one, review the different types of reverse mortgages, and comparison shop.

How Do Reverse Mortgages Work?

When you have a regular mortgage, you pay the lender every month to buy your home over time. In a reverse mortgage, you get a loan in which the lender pays you. Reverse mortgages take part of the equity in your home and convert it into payments to you – a kind of advance payment on your home equity. The money you get usually is tax-free.

Generally, you don't have to pay back the money for as long as you live in your home. When you die, sell your home, or move out, you, your spouse, or your estate would repay the loan—just like any other mortgage. Sometimes that means selling the home to get money to repay the loan.

There are three kinds of reverse mortgages: single purpose reverse mortgages – offered by some state and local government agencies, as well as non-profits; proprietary reverse mortgages – private loans; and federally-insured reverse mortgages, also known as Home Equity Conversion Mortgages (HECMs).

If you get a reverse mortgage of any kind, you get a loan in which you borrow against the equity in your home. You keep the title to your home. Instead of paying monthly mortgage payments, though, you get an advance on part of your home equity. The money you get usually is not taxable, and it generally won't affect your Social Security or Medicare benefits. When the last surviving borrower dies, sells the home, or no longer lives in the home as a principal residence, the loan has to be repaid. In certain situations, a non-borrowing spouse may be able to remain in the home. Here are some things to consider about reverse mortgages:

» **There are fees and other costs.** Reverse mortgage lenders generally charge an origination fee and other closing costs, as well as servicing fees over the life of the mortgage. Some also charge mortgage insurance premiums (for federally-insured HECMs).

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» **You owe more over time.** As you get money through your reverse mortgage, interest is added onto the balance you owe each month. That means the amount you owe grows as the interest on your loan adds up over time.

» **Interest rates may change over time.** Most reverse mortgages have variable rates, which are tied to a financial index and change with the market. Variable rate loans tend to give you more options on how you get your money through the reverse mortgage. Some reverse mortgages – mostly HECMs – offer fixed rates, but they tend to require you to take your loan as a lump sum at closing. Often, the total amount you can borrow is less than you could get with a variable rate loan.

» **Interest is not tax deductible each year.** Interest on reverse mortgages is not deductible on income tax returns – until the loan is paid off, either partially or in full, and assuming you itemize your deductions.

» **You have to pay other costs related to your home.** In a reverse mortgage, you keep the title to your home. That means you are responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. And, if you don't pay your property taxes, keep homeowner's insurance, or maintain your home, the lender might require you to repay your loan. A financial assessment is required when you apply for the mortgage. As a result, your lender may require a "set-aside" amount to pay your taxes and insurance during the loan. The "set-aside" reduces the amount of funds you can get in payments. You are still responsible for maintaining your home.

» **What happens to your spouse?** With HECM loans, if you signed the loan paperwork and your spouse didn't, in certain situations, your spouse may continue to live in the home even after you die if he or she pays taxes and insurance and continues to maintain the property. But your spouse will stop getting money from the HECM, since he or she wasn't part of the loan agreement.

» **What can you leave to your heirs?** Reverse mortgages can use up the equity in your home, which means fewer assets for you and your heirs. Most reverse mortgages have something called a "non-recourse" clause. This means that you, or your estate, can't owe more than the value of your home when the loan becomes due and the home is sold. With a HECM, generally, if you or your heirs want to pay off the loan and keep the home rather than sell it, you would not have to pay more than the appraised value of the home.

Shopping for a Reverse Mortgage

If you're considering a reverse mortgage, shop around. Decide which type of reverse mortgage might be right for you. That might depend on what you want to do with the money. Compare the options, terms, and fees from various lenders. Learn as much as you can about reverse mortgages before you talk to a counselor or lender. And ask lots of questions to make sure a reverse mortgage could work for you – and that you're getting the right kind for you.

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Here are some things to consider:

» **Do you want a reverse mortgage to pay for home repairs or property taxes?** If so, find out if you qualify for any low-cost single purpose loans in your area. Staff at your local area agency on aging may know about the programs in your area. Find the nearest agency on aging at https://eldercare.acl.gov/ or call 1-800-677-1116. Ask about "loan or grant programs for home repairs or improvements," or "property tax deferral" or "property tax postponement" programs, and how to apply.

» **Do you live in a higher-valued home?** You might be able to borrow more money with a proprietary reverse mortgage. But the more you borrow, the higher the fees you'll pay. You also might consider a HECM loan. A HECM counselor or a lender can help you compare these types of loans side by side, to see what you'll get – and what it costs.

» **Compare fees and costs.** This bears repeating: shop around and compare the costs of the loans available to you. While the mortgage insurance premium is usually the same from lender to lender, most loan costs – including origination fees, interest rates, closing costs, and servicing fees – vary among lenders.

» **Understand total costs and loan repayment.** Ask a counselor or lender to explain the Total Annual Loan Cost (TALC) rates: they show the projected annual average cost of a reverse mortgage, including all the itemized costs. And, no matter what type of reverse mortgage you're considering, understand all the reasons why your loan might have to be repaid before you were planning on it.