REVERSE MORTGAGES

Reverse mortgages provide an opportunity for senior citizen homeowners, 62 years of age or older, to obtain money by borrowing against the equity in their home. In the traditional mortgage context, the homeowner makes regular monthly payments to the lender which over time will decrease the loan balance. A reverse mortgage works in the opposite way. Payments flow from the lender to the homeowner, which result in an increase in the amount owed and reduction in equity. With a reverse mortgage, a homeowner is able to convert existing home equity to cash by borrowing money secured by a mortgage against his or her home. In most cases, the loan does not have to be paid back until the homeowner, dies, moves or sells the home. The homeowner can receive lifetime monthly payments, lump sums for certain allowable purposes, a credit line or any combination of these options.

ELIGIBILITY

The homeowner/borrower must be 62 years of age or older. If the home is held in title jointly by husband and wife, both must be at least 62 years of age. The age of the youngest homeowner determines eligibility.

Generally, there are no income or credit restrictions required to qualify for a reverse mortgage. The borrower, however, must own his or her own home and occupy the home as a primary residence. Lenders also may require that existing debt encumbering the home be repaid.

BASIC FEATURES

- The homeowner is the borrower, or mortgagor. They retain title to the home, and remain responsible for paying all costs associated with the home including property taxes, insurance and maintenance costs.
- Loan repayment is typically required when all borrowers have died or moved out for over 12 months or the home has been sold.
- In most instances, the reverse mortgage must be the first mortgage against the property.
- Available proceeds depend on various factors including the value of the home, current interest rates and the borrower's age. The older the borrower the greater the amount that can be borrowed due to life expectancy.
- In most instances, the outstanding loan balance will not exceed the value of the home.
- Typical mortgage fees and closing costs are charged.

LOAN TYPES

There are currently three primary reverse mortgage lenders:

Federal Housing Administration (FHA)/ Department of Housing and Urban Development (HUD) has the majority of the market. The Home Equity Conversion Mortgages ("HECM") are insured by the FHA. With the HECM program, borrowers can choose whether to take the loan proceeds either in a single lump sum or as fixed monthly advances, or as a line of credit, or as a combination of the two. Generally, HECM loans offer the largest loan advances of any reverse mortgage and permit the borrower to use the funds for any purpose. For more information visit:
https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmhome.

- Non Borrowing Spouse- may remain in the home after the borrower's death under certain conditions. Consult with counsel.

- First year disbursement limit

- Financial Assessment required to determine ability to pay taxes and insurance and if an escrow will be required for borrower to make monthly payments to lender for taxes and insurance.

Single-Purpose Lenders, such as state and local governments or nonprofit organizations, provide reverse mortgages that are designated for specific purposes and are income based.

Private Lenders, such as banks, mortgage companies and other private lenders, offer reverse mortgages which are backed by the companies that develop them. These companies decide which lenders may offer the loans unlike HECM loans which may be offered by any lender approved by the FHA.

CONSIDER YOUR OPTIONS

Before you choose a reverse mortgage for your home, examine and compare all alternatives. Important considerations include:

- The rate of interest, which may fluctuate or be fixed depending upon the particular type of mortgage obtained.

- The fees and other closing costs.

- The loan repayment terms.

Proceeds from a reverse mortgage should not generally affect eligibility for retirement, survivor, disability or Medicare benefits, but may affect eligibility for assistance under some federal and state programs such as Medicaid. Keep in mind that you generally will have three days after signing a reverse mortgage agreement to send a written cancellation notice.

Recognize that reverse mortgages are not for everyone.

Reverse mortgages are more costly than conventional mortgages because the interest and the mortgage insurance premium (which the homeowner is not directly paying) are added to the principal balance each month. Interest and mortgage insurance fees will increase over time as they compound and interest is charged on interest.

A reverse mortgage reduces the equity in a home quickly because each payment received by the homeowner is extra debt secured by a mortgage on the house. The homeowner's estate is diminished for future generations. Further, since the home will likely need to be sold to pay back the reverse mortgage, these types of loans may not be a good option if you want to leave your home to your children.

The mortality tables used to calculate the amount of money that you can borrow in reverse mortgage use high life expectancies. As a result, you may not be able to borrow as much money as you might expect.

You should consult an attorney concerning the impact of receiving monthly payments from a reverse mortgage on your eligibility for Medicaid long term care benefits.

THIS PAMPHLET SHOULD NOT BE USED IN PLACE OF LEGAL ASSISTANCE.

Rev. 2/21/2017