Reverse mortgages

A discussion guide

cfpb Consumer Financial Protection Bureau

About this discussion guide

This guide gives an overview of many key concepts of reverse mortgages. A qualified reverse mortgage counselor can help you learn more.

If you're interested in considering a reverse mortgage, but haven't spoken with a counselor yet, call (800) 569-4287 to find a U.S. Department of Housing and Urban Development (HUD), hud.gov approved reverse mortgage counselor today.

A detailed discussion with a counselor will give you important information to help you decide whether a reverse mortgage is right for you. HUD-approved reverse mortgage counselors have the latest information on reverse mortgages. In order to get the most out of your counseling session, come prepared to talk about:

- Your financial needs and goals
- Your spouse or partner's future housing and financial needs
- Other family members or dependents living with you and their future housing needs
- The reasons you're considering a reverse mortgage
- The alternatives to a reverse mortgage you may have considered

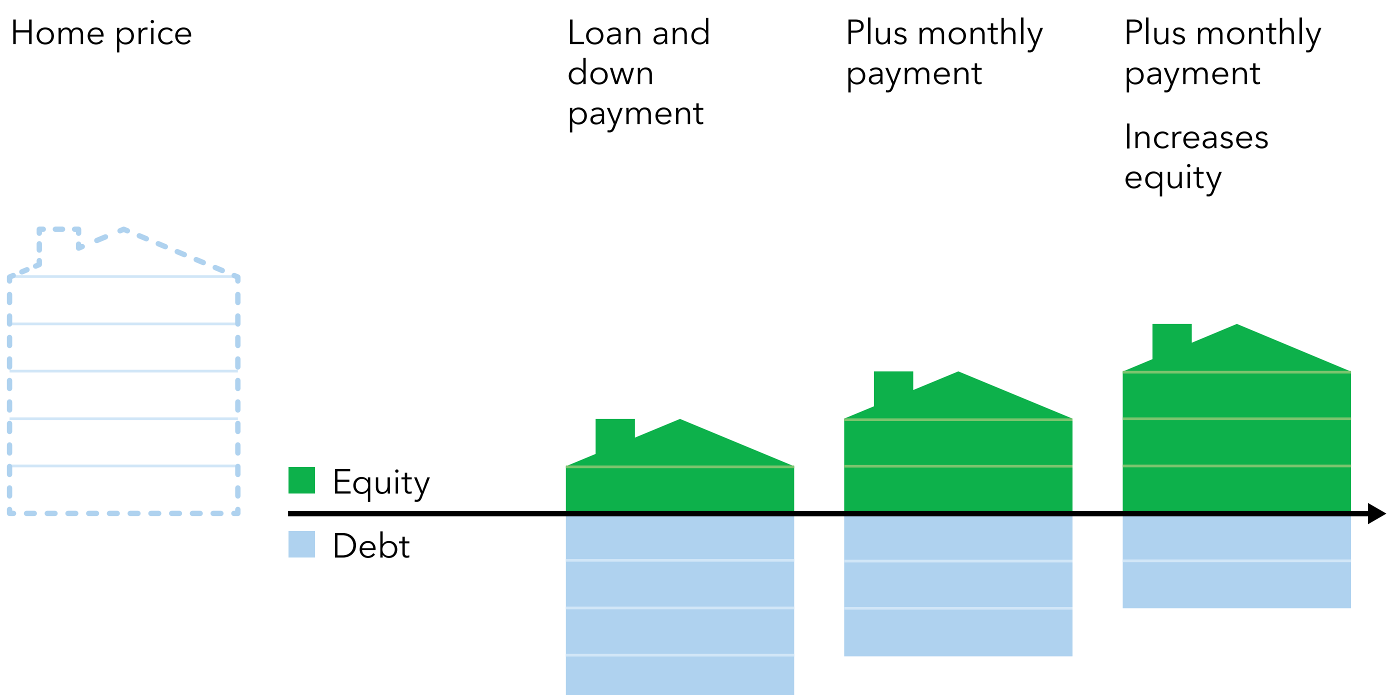
Alert

Most reverse mortgages today are called Home Equity Conversion Mortgages (HECMs). HECMs are federally insured by the Federal Housing Administration (FHA). This guide covers typical features and requirements for HECM reverse mortgages. Non-HECM reverse mortgages may have different requirements and features.

How is a reverse mortgage different from a traditional mortgage?

Traditional mortgages

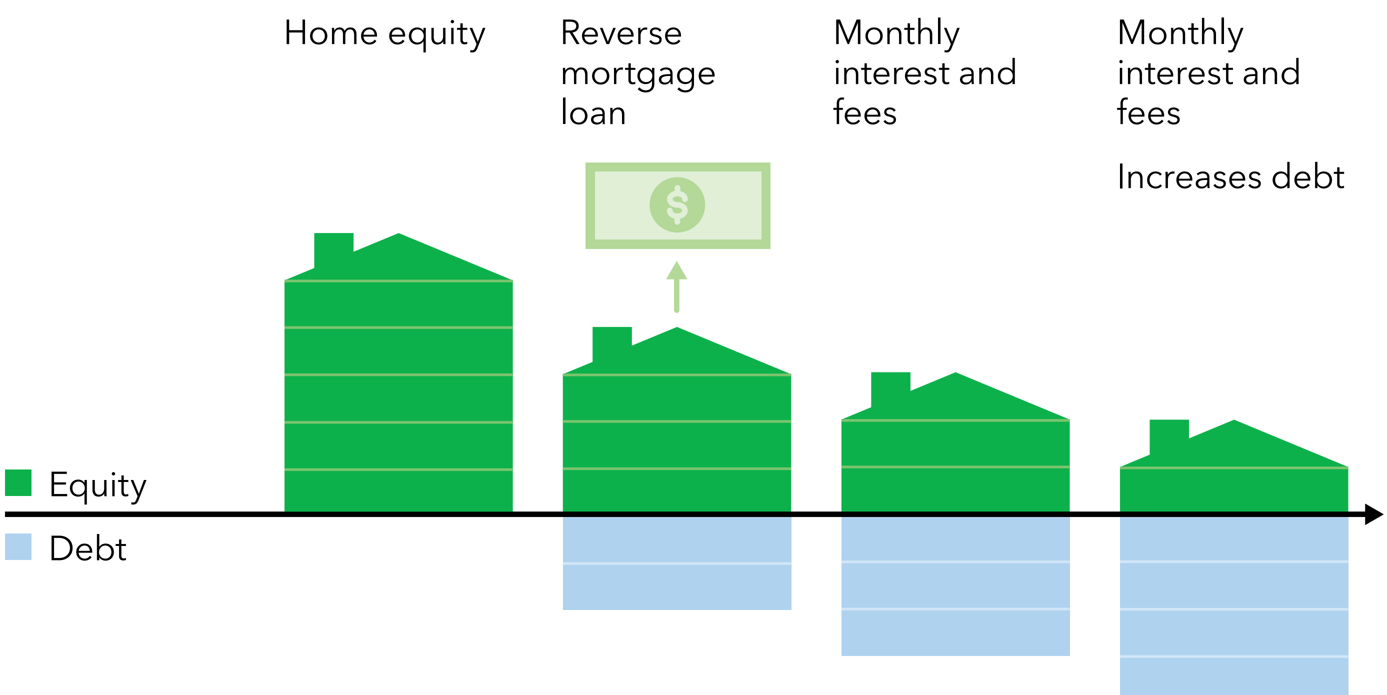
With a traditional mortgage, you usually borrow money to pay for the home at the time of the purchase, and pay it back over time. With each payment, you build your equity and your loan balance goes down.



Reverse mortgages

With a reverse mortgage, you borrow money using your home as a guarantee for the loan, as you would for a traditional mortgage. Unlike a traditional mortgage, a reverse mortgage is repaid when the borrowers no longer live in the home. Although you won't make monthly mortgage payments, you'll need to continue to pay property taxes and homeowners insurance, and keep your house in good condition. Because interest and fees are added to the loan balance each month, your loan balance goes up—not down—over time. As your loan balance increases, your home equity decreases.

Reverse mortgage borrowers must be age 62 or older. Borrowers usually use the loan to help pay for living expenses.



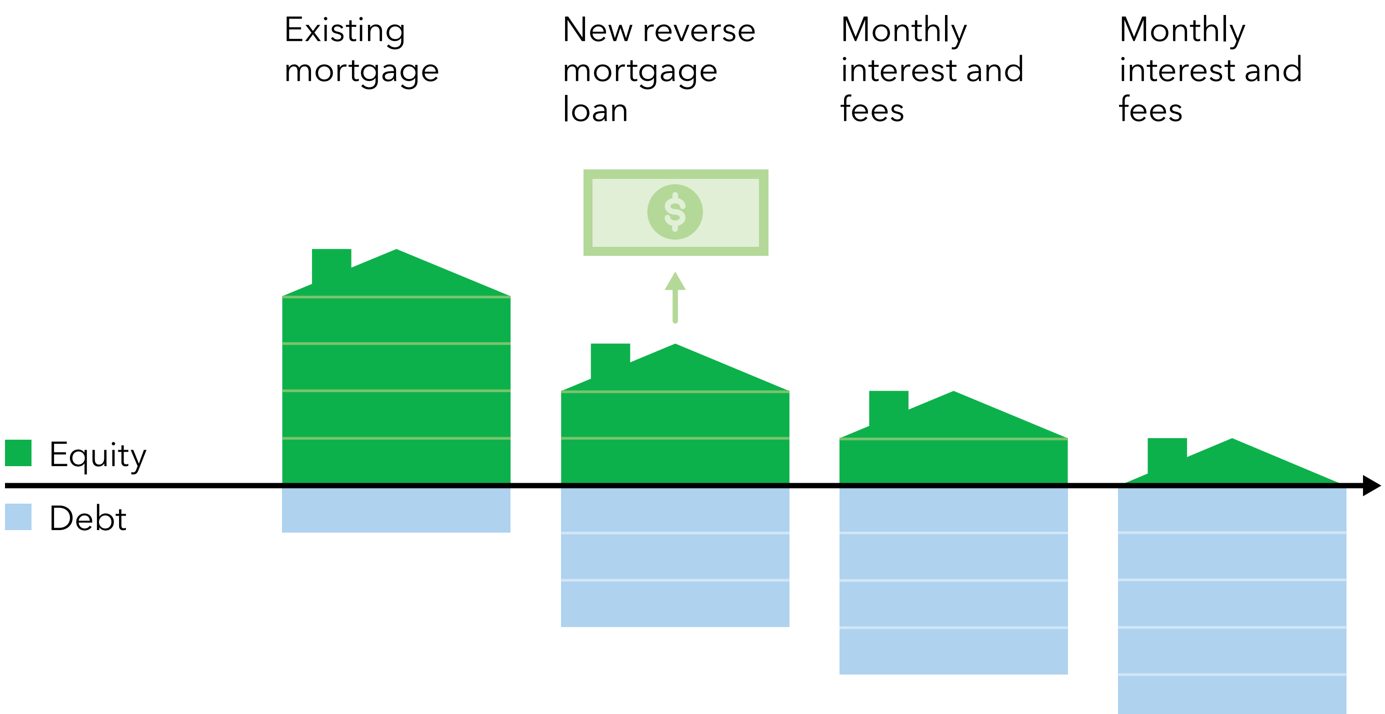
Alert

A reverse mortgage is not free money. It is a loan that you, or your heirs, will eventually have to pay back, usually by selling your home.

Borrowed money + interest + fees each month = rising loan balance.

How does a reverse mortgage work if I still have a traditional mortgage?

Many people interested in a reverse mortgage still owe money on their home. If this is your situation, you will be trading one loan for another, usually a larger one. Some of the money you borrow with the reverse mortgage will be used to pay off your current mortgage. If you owe a lot on your current mortgage, you may not have much money from the reverse mortgage left over to spend on other things. However, a reverse mortgage will free up money you have been using to make monthly mortgage payments.



Alert

If you still owe a lot of money on your existing mortgage, you might not have enough equity to pay off your current mortgage with a reverse mortgage—which means you may not be able to get a reverse mortgage.

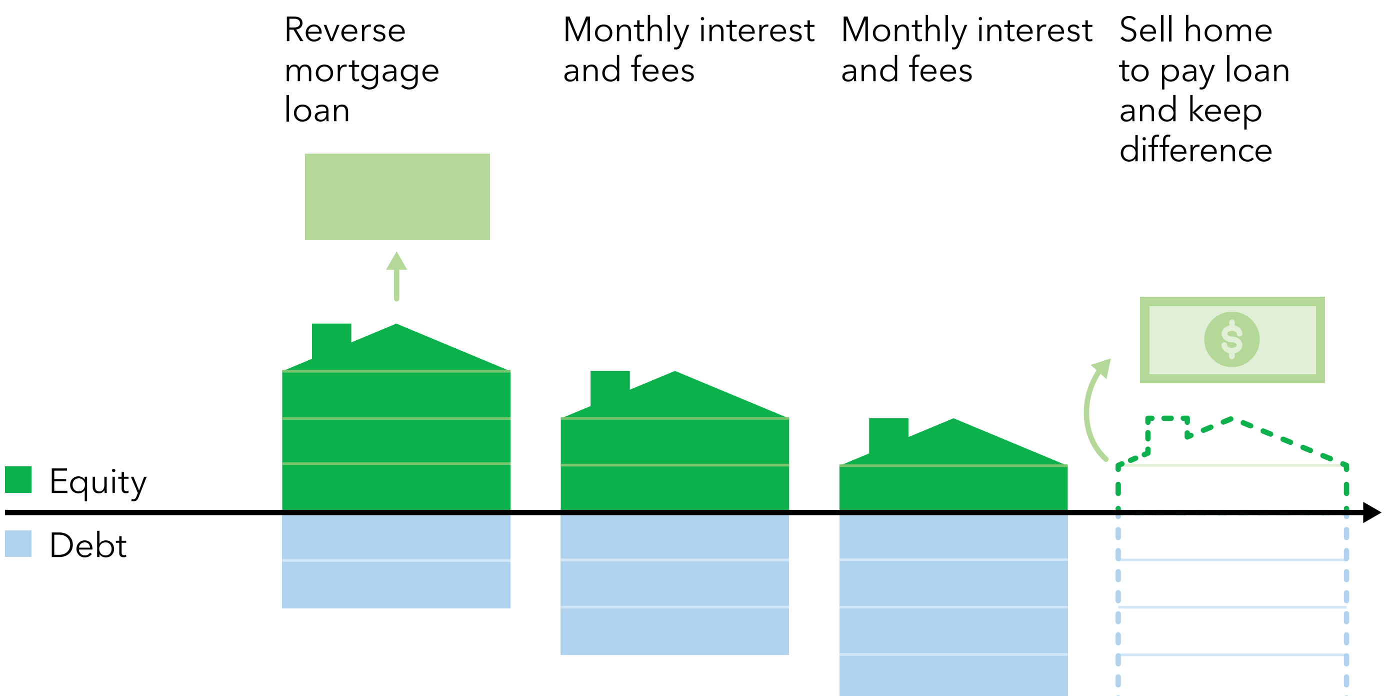
What happens if I want to sell my home?

You might decide to sell your home while you have a reverse mortgage. You may want to downsize, or move closer to family.

With a reverse mortgage, the money you borrow and the interest and fees added to the loan balance shrink your equity. However, if home prices rise, you might gain back some equity. It's hard to predict how much, if any, equity will be left when you sell your home.

What if my reverse mortgage balance is less than my home value?

So long as your reverse mortgage loan balance is less than the value of your home, this works just like selling your house when you have a traditional mortgage:

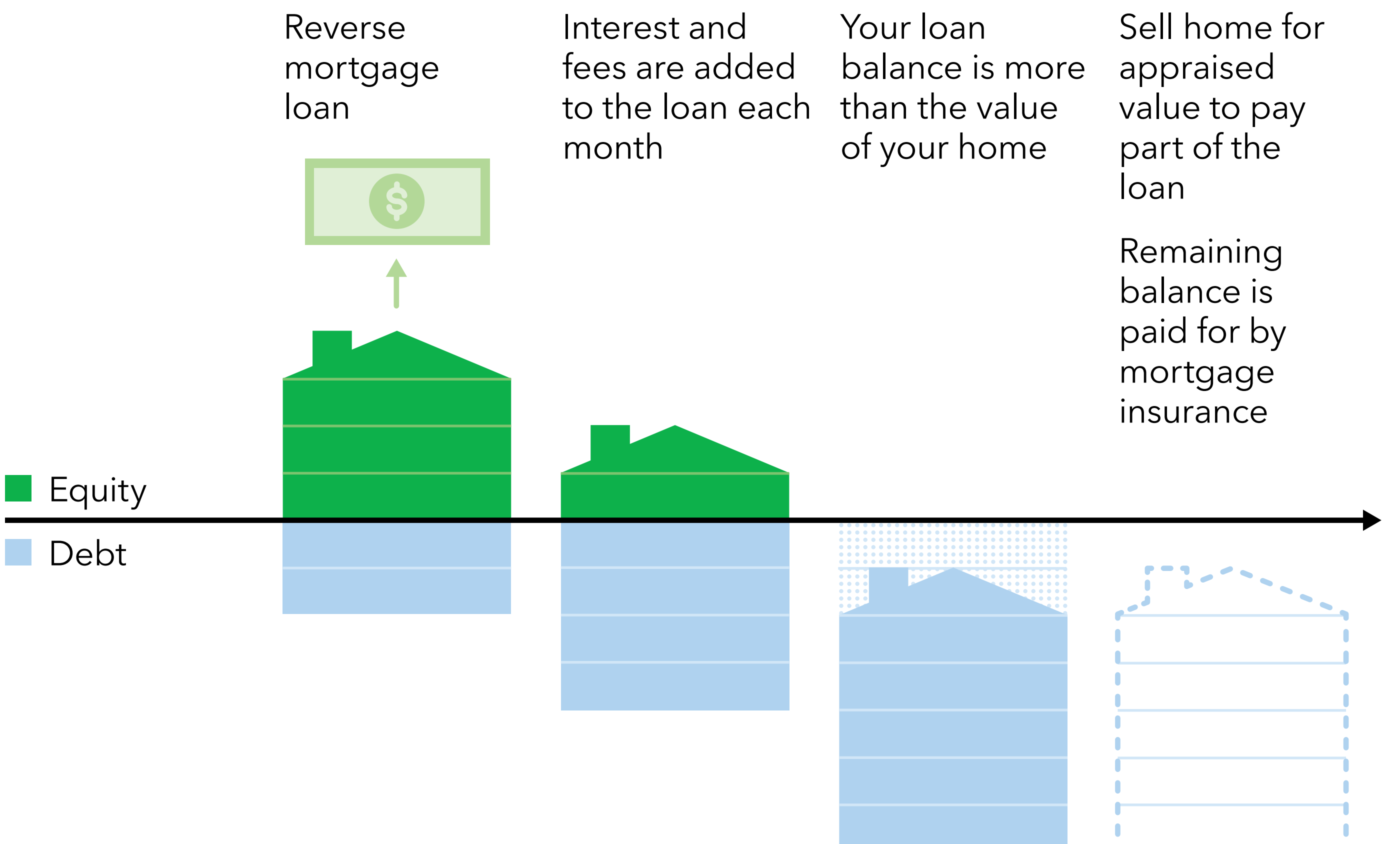


Alert

Home price increases are not guaranteed! During the housing crisis between 2007 and 2012, home prices fell more than 25 percent overall, and more than 50 percent in some areas.

What if I owe more on my reverse mortgage than my home is worth?

If your loan balance is more than the value of your home, you may not have to pay the difference. When you sell your home for the appraised fair market value, the remaining balance of the loan is paid by mortgage insurance.



Caution

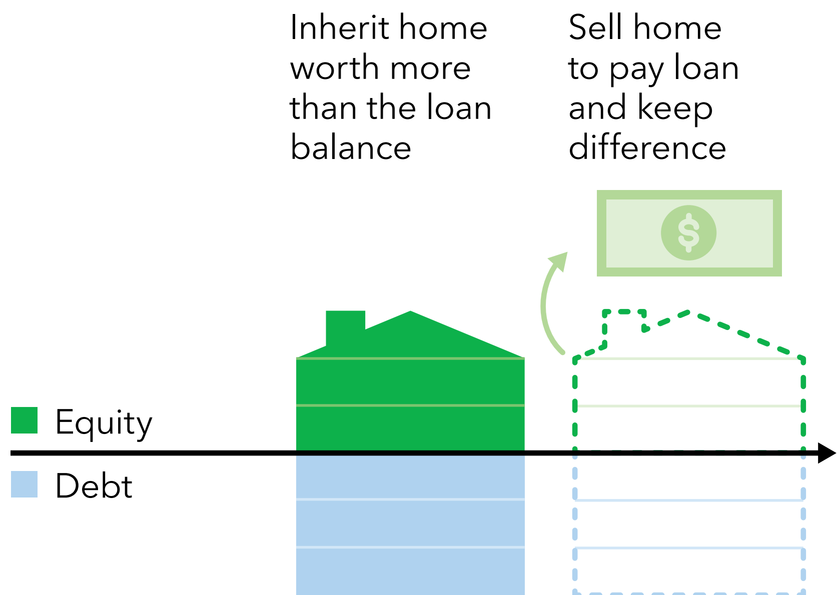
If you don't meet your responsibilities with a reverse mortgage (see pages 16-18), your loan could become due for repayment. In this case, you will usually have to sell your home for the lesser of the loan balance or 95 percent of its appraised value.

What happens to my home when I pass away?

When the last remaining borrower passes away, the loan has to be repaid. Most heirs will repay the loan by selling the home.

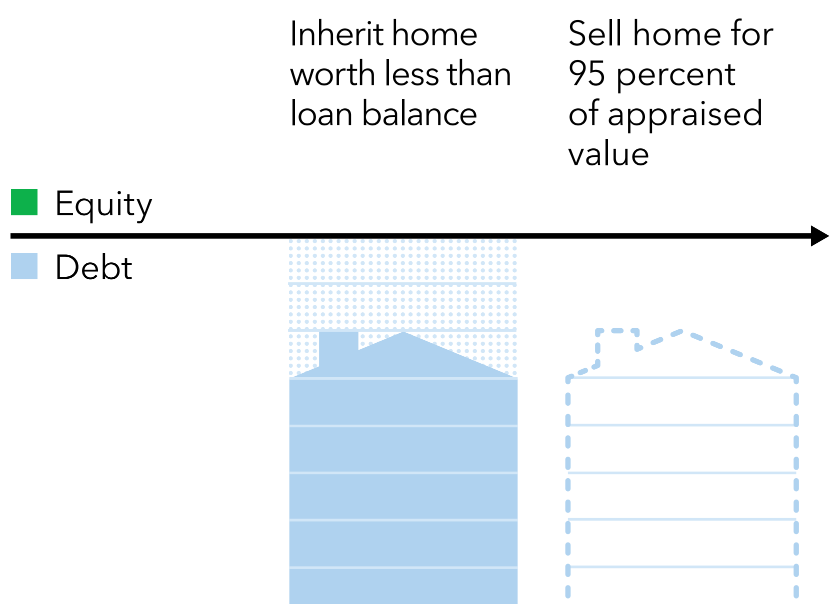
How does it work when the loan balance is less than the home value?

Your heirs will use the loan proceeds to repay the loan and keep the difference.



How does it work when the loan balance is more than the home value?

Your heirs won't have to pay more than 95 percent of the appraised value. The remaining balance of the loan is covered by mortgage insurance.



Caution

If you plan to leave your home to heirs, talk to them about their repayment options. If your heirs want to keep the home, they will have to repay either the full loan balance or 95 percent of the home's appraised value—whichever is less.

How much can I borrow?

Your “principal limit”

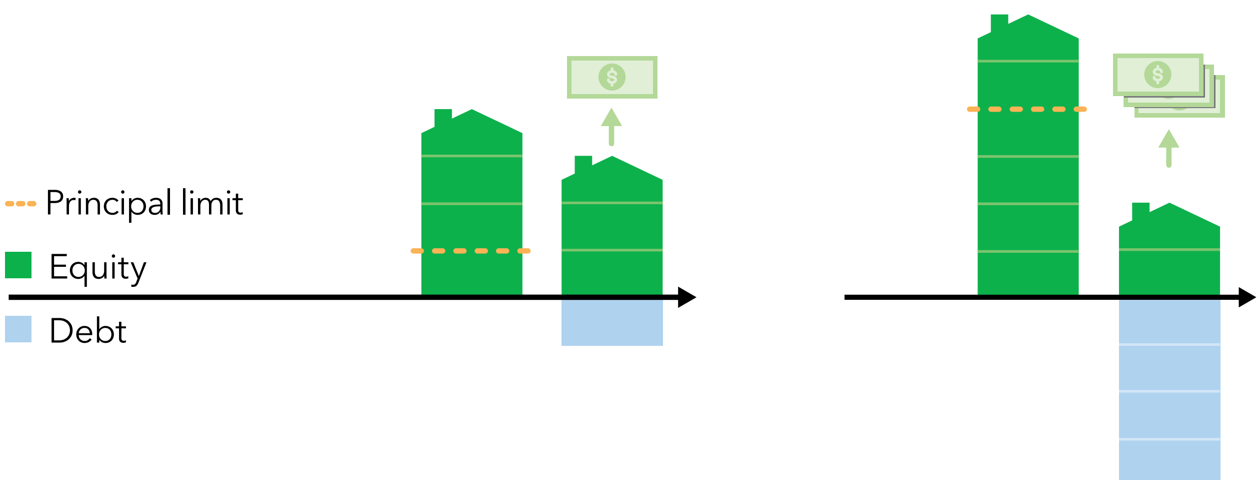
Your borrowing limit is called the "principal limit." It takes into account your age, the interest rate on your loan, and the value of your home. In general, loans with older borrowers, higher-priced homes, and lower interest rates will have higher principal limits than loans with younger borrowers, lower-priced homes, and higher interest rates.

Lower borrowing limit

- Younger borrowers
- Lower-valued homes
- Higher interest rates

Higher borrowing limit

- Older borrowers
- Higher-valued homes
- Lower interest rates



Question

Whose age is used if I am married or have a co-borrower?

> If you are married or co-borrowing with another person, the principal limit is based on the age of the youngest co-borrower, or Eligible Non-Borrowing Spouse.

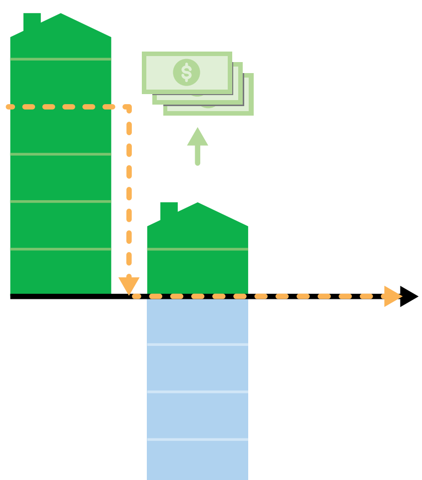
What is a credit line growth feature?

Growing credit line

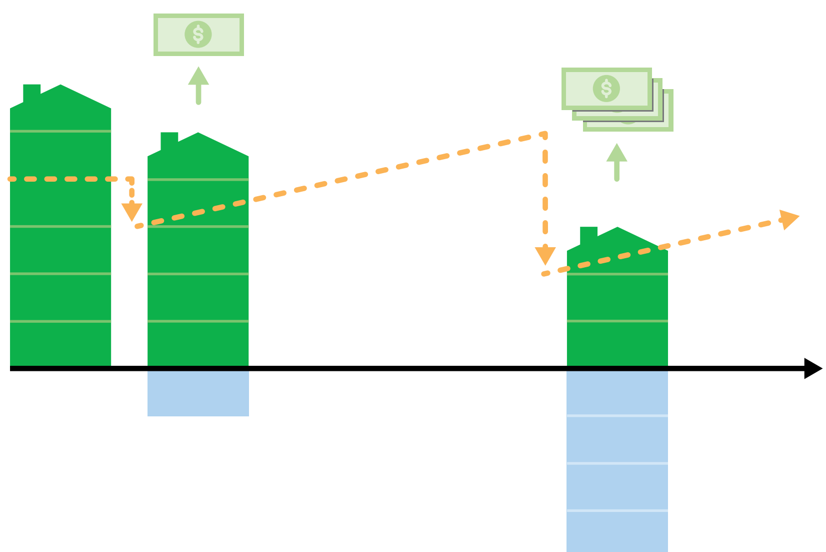
With the credit line growth feature, the less credit you use today, the more you'll have available for the future. Whatever you don't use in your credit line will keep growing, allowing you to borrow up to a maximum amount stated in your mortgage.

The amount of credit line growth is based on the interest rate and mortgage insurance premium. A credit line growth feature does not apply to the fixed rate payment option.

Example 1: If you max out your credit up front, you won't be able to borrow more in the future



Example 2: Leaving credit available means your borrowing limit will actually grow over time, helping you keep pace with rising expenses

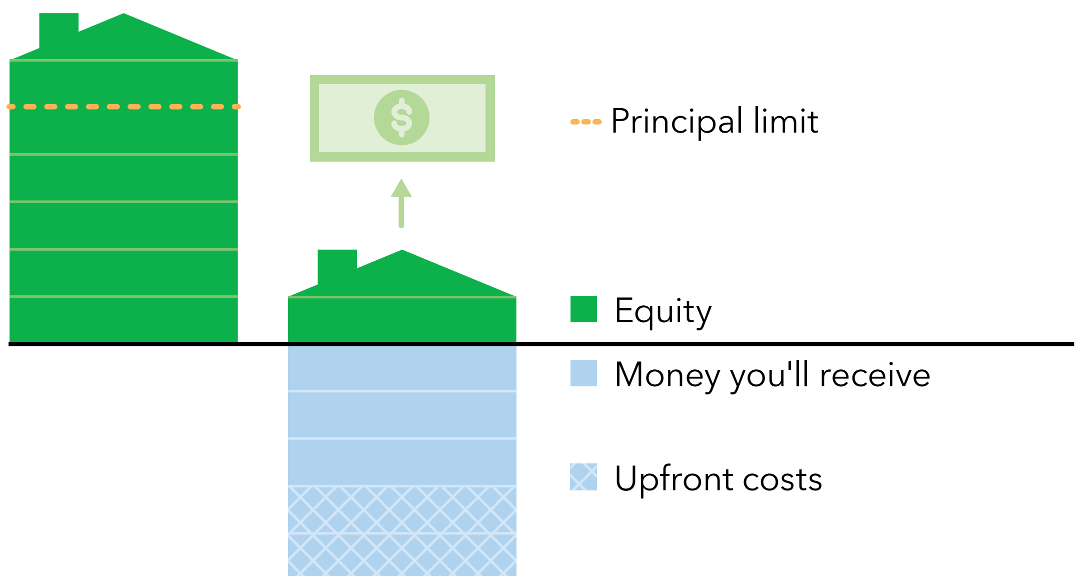


How much will it cost?

Reverse mortgages can be expensive. Like traditional mortgage loans, you will owe not just the money you borrow, but also interest and fees. Unlike traditional mortgage loans, the amount you owe grows over time.

Upfront costs

Like traditional mortgages, borrowers typically pay some one-time upfront costs at the beginning of the loan. While you can pay these costs out of pocket, you can typically choose to pay for them using your loan proceeds. This means that you don't have to bring money to the closing. But it'll reduce the total amount of money you get to use for other things.



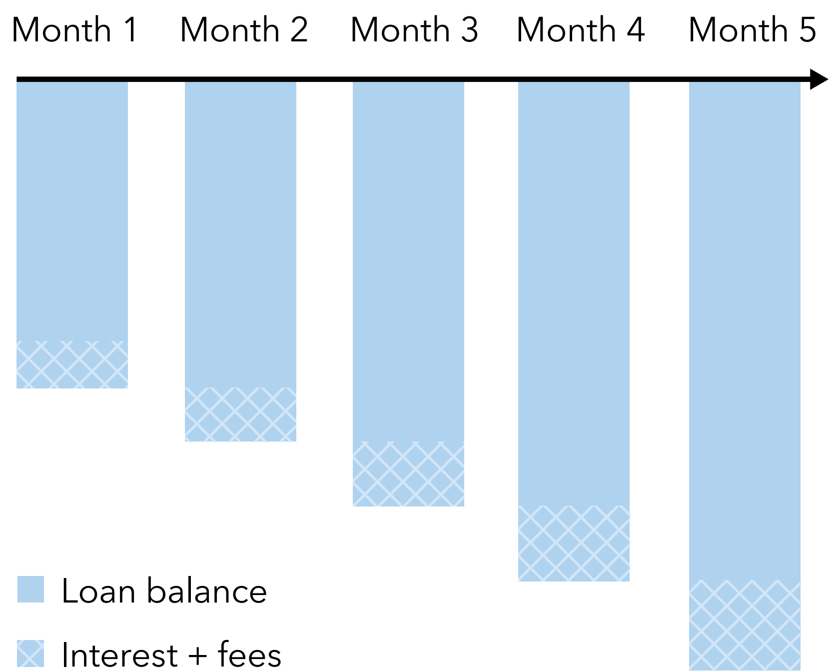
Upfront costs include origination fees paid to the lender, real estate closing costs paid to third-party professionals, and the initial mortgage insurance premium paid to the FHA.

Ongoing costs

Ongoing costs include interest, mortgage insurance premiums (MIP) and servicing fees. These costs are charged each month. Interest and the MIP are calculated as a percentage of your outstanding loan balance.

Ongoing costs are added to your loan balance each month.

These costs compound, meaning each month you are charged interest and fees on the interest and fees that were added to your previous month's loan balance.



Tip and question

- The best way to keep your ongoing costs low is to borrow only as much money as you need.
- What is mortgage insurance and why do I have to pay for it?

  If you or your heirs sell your home to pay off a reverse mortgage, your loan balance may be more than your home is worth. Mortgage insurance covers the remaining loan balance so you won't owe more than your home is worth. It also protects you in case your lender has financial difficulty and can't make payouts to you as agreed. Borrowers pay for mortgage insurance as a requirement of a HECM loan.

How do I receive my money?

You have three main options for receiving your money:

Line of credit (adjustable interest rate)

- Higher mortgage insurance costs if you withdraw more than 60 percent in the first year.
- Lower cost: pay interest and fees only on the money you're ready to use.
- Credit line growth feature*: unused credit continues to grow.
- Can be combined with monthly payout.

Monthly payout (adjustable interest rate)

- Higher mortgage insurance costs if you withdraw more than 60 percent in the first year
- Get a set monthly payout to supplement income.
- Two choices: Term (fixed monthly payouts for a set number of years) or Tenure (fixed monthly payouts as long as you maintain the reverse mortgage).
- Lower cost: pay interest and fees only on the money you've drawn so far.
- Credit line growth feature is factored into monthly payout amount.*
- Can be combined with a line of credit.

Lump sum (fixed interest rate)

- Withdraw all available funds at once. Amount available is usually lower compared to other options.
- Higher cost: pay interest and fees on entire loan amount.
- No credit line growth feature.*
- Higher risk for younger borrowers of outliving their loan funds.

*See page 9 for information on the credit line growth feature.

How can a reverse mortgage affect the people living with me?

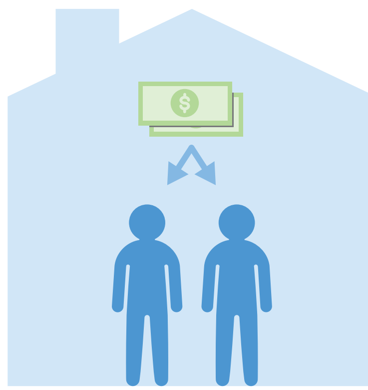
Do you live with a spouse or partner?

It is a good idea to make your spouse or partner a co-borrower.

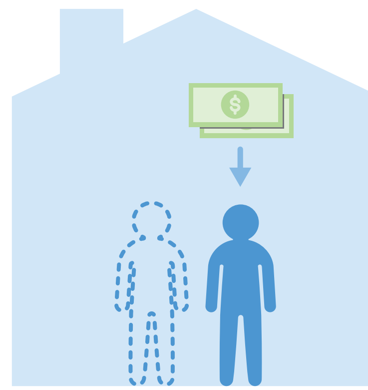
When your spouse or partner is a co-borrower, you are both responsible for the loan and both receive benefits from the reverse mortgage.

- When your spouse or partner is a co-borrower, they will be able to remain in the home after you no longer live in the home.
- A co-borrower will also continue to receive benefits from the reverse mortgage after you no longer live in the home.

You and a co-borrower may live in your home with a reverse mortgage

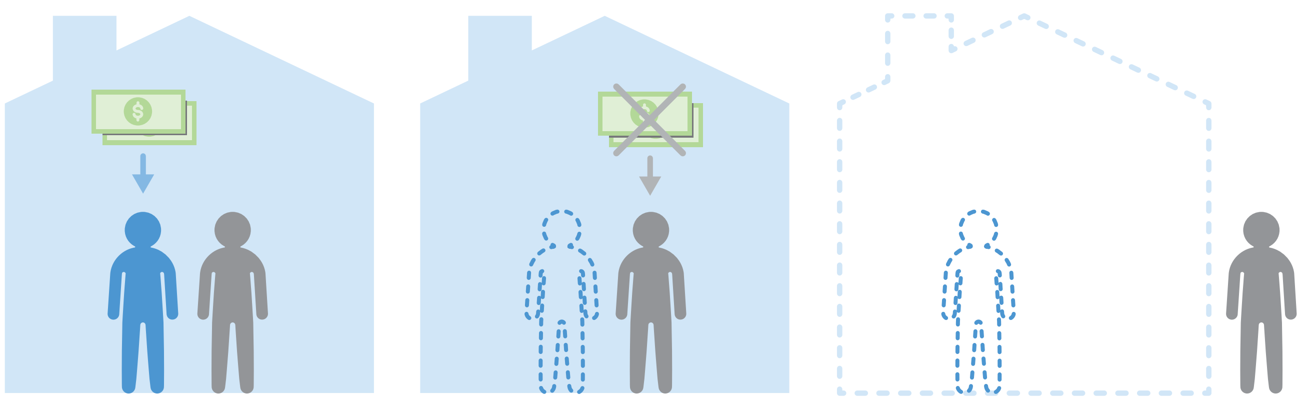


When you pass away or move, the co-borrower may remain in the home and continue to receive money from the reverse mortgage



What if your spouse isn’t a co-borrower on the reverse mortgage?

- Only co-borrowers and some non-borrowing spouses have the right to remain in the home after you pass away.
- If your spouse is not on the reverse mortgage, but was married to you at the time you took out the reverse mortgage, they may be able to remain in the home after you move into a health care facility or pass away, if they qualify under HUD's rules.
- From the time you get a reverse mortgage, your non-borrowing spouse must continue to live in the house as their principal (meaning primary) residence.
- If you get married after you already have a reverse mortgage, your spouse can’t stay in the home when you pass away unless they are your heir and are able to pay off your loan.
- Non-borrowing spouses do not receive money from a reverse mortgage after the borrower dies.



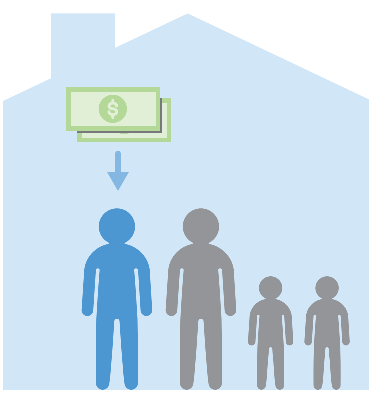
Anyone may live with you in your home with a reverse mortgage

When you die or move into a healthcare facility for 12+ consecutive months, your non-borrowing spouse will not receive loan money and may have to move out if they don't meet certain requirements

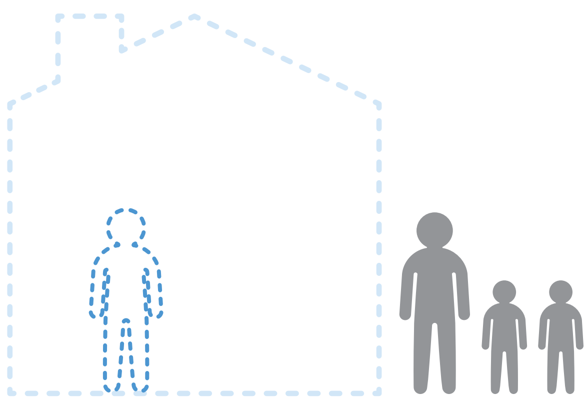
Non-eligible spouses will need to make other living arrangements after you die

Do you live with someone age 62 or older who is not your spouse?

- If this person wishes to remain in the home after you move or pass away, consider making them a co-borrower.
- If the person you live with isn't a co-borrower, they will have to move out when you move out or die, unless they are an heir and can either pay the reverse mortgage debt or 95 percent of the appraised value with cash or a new loan.
- Make plans for the people you live with for where they will move after the last borrower no longer lives in the home.



Anyone can live in your home with you when you have a reverse mortgage



When the last co-borrower or eligible spouse no longer lives in the home, the loan comes due for repayment and others need to move out

What are my responsibilities?

There are several requirements that HECM reverse mortgage borrowers must follow. If you don't meet these requirements, you could lose your home to foreclosure.

1. Property taxes and homeowners insurance must be paid on time.

With a reverse mortgage, the way you pay your property taxes and homeowners insurance could change. A lender will do a financial assessment to determine your options for paying your property taxes and homeowners insurance. Your options may include:

- You make direct payments to the insurance company and tax authority.
- You make direct payments, but have some of your loan set aside to help you with these payments.
- The lender takes care of it for you by using your loan proceeds in a set-aside account.

Question

What is a "set-aside?"

> A "set-aside" is a portion of your loan that is reserved to pay some repairs, taxes, homeowners insurance, and fees. Set-asides help make sure you'll have the funds to make these payments in the future.

2. Your home must be kept in good repair.

You must make repairs as needed to keep your home well maintained. With a reverse mortgage, your lender will let you know what repairs you may need to make. Which situation applies to you?

Your current mortgage	Reverse mortgage
I routinely maintain my home and make repairs, hiring professionals when necessary.	That's good. This is required with a reverse mortgage.
My roof is missing a couple of shingles, and my water heater is getting old.	These may not be emergency issues, but they may require attention before they become worse and cause damage to your home.
My home is in good condition, but my yard has become overgrown.	You will need to keep your entire property maintained. A neglected yard can eventually damage property.
My home needs major repairs.	You may be required to make repairs as a condition of getting a reverse mortgage. Your lender may withhold some of your loan proceeds to make the required repairs.

Caution

Beware of scams! Beware of contractors who approach you about getting a reverse mortgage to pay for repairs to your home. Learn all your options. Do not let yourself be pressured into getting a reverse mortgage.

3. Your home must be your primary residence.

Every calendar year, you will be required to certify in writing that you occupied your home as your primary residence. Which situation applies to you?

Your current mortgage	Reverse mortgage
I live in my home year-round.	You are already meeting this requirement.
I split my time between my home and another location.	OK, but you can only get a reverse mortgage on the home where you spend the majority of the year. Let your lender know if you are going to be away for more than two months.

Have you explored other borrowing and housing options?

Homeowners interested in a reverse mortgage may find that other loans or housing choices are a better fit for their financial situation or personal needs. Be sure to look at all of your borrowing and housing options before making your final decision. Consider alternatives to a reverse mortgage, such as:

Waiting

If you take out a reverse mortgage when you are too young, you may run out of money when you're older and more likely to have less income and higher health care bills.

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. Qualifying for these loans also depends 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. Pay attention to the term of your new mortgage, as it can affect your retirement plan. For example, taking on a new 30-year mortgage when you are nearing retirement can become a hardship later. Consider choosing a shorter-term mortgage, such as 10 or 15 years.

Downsizing

Consider selling your home. Moving to a more affordable home may be your best option to reduce your overall expenses.

Lowering your expenses

There are state and local programs that may provide assistance with utilities and fuel payments as well as home repairs. Many communities also have programs to help with property taxes: check with your county or town tax office. Information about these and other benefit programs is available through the Administration for Community Living, acl.gov.

To learn more about reverse mortgages, visit consumerfinance.gov/reversemortgage.

About the Consumer Financial Protection Bureau (CFPB)

The Consumer Financial Protection Bureau (CFPB) is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

The CFPB Office for Older Americans develops initiatives, tools, and resources to help protect older consumers from financial harm and help older consumers make sound financial decisions as they age.

For more information about the CFPB, visit consumerfinance.gov.

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