

Consumer Counselor

Financial Information for Michigan Consumers

Reverse Mortgages

If you're 62 years or older and looking for help to pay off your current traditional mortgage, finance a home improvement, pay for healthcare expenses or simply to supplement your retirement income, a reverse mortgage may be an option for you.

Unlike a traditional mortgage where you pay a lender on a monthly basis, a reverse mortgage is where the lender loans you money which you are not required to pay back for as long as you live in the home. Typically, the money can be disbursed in a lump sum, a monthly payment, or as a line of credit, but the specific terms and conditions vary by lender and type of loan.

When you sell the home, or if you should pass away while still living there, you or your heirs will need to repay the original loan amount plus all accrued interest throughout the course of the loan. You are also required to pay property taxes, maintain appropriate homeowners insurance, and adhere to any other contractual requirements as stipulated by the lender. Failure to follow the terms of the contract can make the loan payable in full, meaning both the principal and any accrued interest will be due immediately.

Types of Reverse Mortgages:

- **Single-purpose reverse mortgages** are offered by some state and local government agencies and non-profits. These are often the least expensive but the proceeds can only be used for certain purposes as defined by the lender. Typical uses include home repairs, property taxes, or medical bills.
- **Federally-insured reverse mortgages** are known as Home Equity Conversion Mortgages (HECMs). These are available from FHA-approved lenders and are underwritten by the United States government. These are typically the most expensive and charge the most fees, but they are widely available, have no income or medical requirements, and can be used for any purpose.

- **Proprietary reverse mortgages** are private loans that are backed by the company that develops and sells them. Terms, conditions, fees, and usage restrictions are completely dependent on the contract you sign with the lender.

Important questions to ask your lender:

- Am I limited in how I can use the money?
- What options do I have for how I take the money?
- What is the interest rate on the loan and what fees will I pay?
- Is the interest rate fixed or variable?
- What happens if the amount owed exceeds the value of the home when I die?
- Is the money I'm being paid taxable and will it affect my Social Security or Medicare benefits?
- If I require long-term medical care keeping me out of my home, how long do I have before the loan must be repaid?

As with all financial decisions, it is important that you seek the advice of qualified professionals before acting. The Federal Housing Administration offers a list of counselors who are qualified to help with reverse mortgages. You can find this information by visiting www.hud.gov or by calling 800-569-4287.

About DIFS

The mission of the Michigan Department of Insurance and Financial Services is to ensure access to safe and secure insurance and financial services fundamental for the opportunity, security and success of Michigan residents, while fostering economic growth and sustainability in both industries. In addition, the Department provides consumer protection, outreach, and financial literacy and education services to Michigan citizens. For more information please contact DIFS at 877-999-6442 or visit www.michigan.gov/DIFS

