Reverse Mortgages

A Reverse Mortgage is a special type of loan sold to homeowners age 62 years and older. This type of loan allows homeowners to access a portion of their home equity as cash; you receive money from the lender, rather than making payments to the lender.

There are three different types of reverse mortgages:

1. **Single-Purpose Reverse Mortgages** are offered by some state and local government agencies and nonprofit organizations. This is the least expensive option. They are not available everywhere and can only be used for one purpose, which is specific to the government or the nonprofit lender. Examples of this would be home repairs and/or improvements or property taxes. Most homeowners with low or moderate income can qualify for these loans.

2. **Federally-Insured Reverse Mortgages are also known as Home Equity Conversion Mortgages (HECMs)** and are backed by the U.S. Department of Housing and Urban Development (HUD). HECMs may be more expensive than traditional home loans and the upfront costs can be high. This is very important to consider, especially if you plan to stay in your home for a short period of time or borrow a small amount. HECM loans are widely available and have no income or medical requirements, which means they can be used for any purpose. You must meet with a government-approved housing counselor before applying for this type of loan.

3. **Proprietary Reverse Mortgages** are private loans that are backed by the companies that develop them. Just like HECMs, these loans can be expensive and can be used for any purpose.

How much you can borrow depends on your age, the value of the property, the current interest rates, and the type of reverse mortgage you choose. Before you take out a reverse mortgage, you should be aware of your payout options:

- Line of Credit is when you pay only the interest on money you use. The amount of money available to you grows over time.
- Monthly Payout can be a good choice if you need additional monthly income to cover daily living expenses. The amount of money available to you grows over time. Note: You can change your monthly payment option at any time for about $20.
- Lump Sum is where you take the whole amount of money at once. This can be risky because you will pay interest on all of the funds, even if you do not need them.
- Combination of Monthly Payments and a Line of Credit is a combination of monthly payments and a line of credit.

Reverse Mortgage loans are nontaxable and, generally, do not affect your Social Security or Medicare benefits. You retain the title to your home without making monthly payments. These loans must be repaid when the last surviving borrower dies, sells the home or no longer lives in the home as a principal residence. In the HECM program, a borrower can live in a nursing home or other medical facility for up to 12 consecutive months before the loan must be repaid. If you are considering a reverse mortgage, you should shop around. For more information on this topic, contact the AARP to obtain a copy of the *Reverse Mortgage Loans, Borrowing Against Your Home* guide or visit the following sites:

- AARP http://assets.aarp.org/www.aarp.org_/articles/money/financial_pdfs/hmm_hires_nocrops.pdf
- FTC 202-326-2222 or www.ftc.gov
- CFPB 855-411-2372 or www.consumerfinance.gov