# CONSUMER ADVISORY

**January 2013 By Attorney General Tom Miller**

## Reverse Mortgages

A reverse mortgage is a special type of home equity loan that allows a homeowner to convert home equity into cash, either through a lump sum or through monthly payments. The amount you can borrow depends on several factors, including how much your home is worth, current interest rates, the age of the homeowner or homeowners, and the terms of the loan.

**Depending on the product, a reverse mortgage may provide you with cash to supplement your retirement income. It can also help you with expenses such as home improvements and health care costs. But it can also be complicated, confusing, and costly.**

Under a reverse mortgage, you still own the home and the bank pays you instead of you making monthly payments to the bank. The loan does not generally have to be repaid until the last surviving owner moves out, sells, or dies. At that time, the lender will sell the home to pay off the reverse mortgage.

**Types of Reverse Mortgages**

- **Home Equity Conversion Mortgage (HECM):** This is a reverse mortgage that's insured by the Federal Housing Administration. The homeowner must be at least 62 and live in the home. The homeowner must own the home outright, or have a low mortgage balance that can be paid off at closing time with proceeds from the reverse loan.
- **Proprietary Reverse Mortgage:** This is a private loan backed by commercial institutions, such as a bank, a mortgage company or other private lender. It's generally more expensive than other types of reverse mortgages or traditional home loans.
- **Single Purpose Reverse Mortgage:** This type of loan may be offered by a state, local government, or non-profit agency. The loan may be restricted to specific types of home repairs, home improvements, or paying property taxes. This is generally the least expensive of the three types of reverse mortgages.

If someone is inheriting your home, they must repay the loan in order to take possession. If the amount owed is equal to the home's value, your heirs would not inherit the home as it would revert to the lender. Also, with lump sum payments, the interest charges are added each month. Over time the total debt owed can far surpass the original loan. However, most mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan becomes due and the home is sold (though if your heirs would like to retain ownership, they generally must repay the loan in full, even if the loan value is greater than the home's value).

**Understand your options and rights.** Know the benefits, your costs and the loan terms before entering into a reverse mortgage agreement. A reverse mortgage may not be your best option if you need a small amount of money for a limited time. This is why it's so important to get good advice, look at your options, and comparison shop. Always consider consulting with a lawyer or a trusted financial advisor before entering into this complicated type of loan.

Some loan agents may try to aggressively sell you a reverse mortgage product. Beware of high-pressure sales tactics, so-called "educational seminars," sales pitches that instill fear about nursing home finances, and sales pitches that are tied to other investments. Be wary of "mortgage consultants" who push for costly renovations or specific contractors.

Before applying for an HECM, federal law requires that the borrower must meet with an independent government-approved housing counseling agency (information at www.HUD.gov). A private lender may also require counseling.

You have the right to cancel within three business days after closing the loan. To cancel you must do so in writing. Send your letter by certified mail, and ask for a return receipt. Keep copies of all documents and letters. And be sure to contact the Consumer Protection Division immediately if you think you've been scammed.