Consumer News

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Reverse Mortgages — Cashing In On Home Ownership

Many consumers age 62 or older are "house-rich and cash-poor"—their mortgages are paid off, but they are living on fixed or limited incomes. A "reverse mortgage" may allow some consumers to take advantage of their home as a valuable asset and convert it to a source of income without losing home ownership.

How Reverse Mortgages Work

A reverse mortgage is a loan: where the lender *pays you*—in a lump sum, a monthly advance, a line of credit, or a combination of all three—*while you continue to live in your home.* To qualify for a reverse mortgage, you <u>must</u> own your home. The amount you are eligible to borrow generally is based on your age, the equity in your home, and the interest rate the lender is charging. Funds you receive from a reverse mortgage may be used for any purpose.

With a reverse mortgage, you retain title to your home. You are responsible for maintaining your home and paying all real estate taxes. Depending on the plan you select, your reverse mortgage becomes due with interest when you move, sell your home, reach the end of a pre-selected loan period, or die. When you die, the lender does not take title to your home, but your heirs must pay off the loan. Usually, the debt is repaid by selling the home or refinancing the property.

Facts to Consider about Reverse Mortgages

- Reverse mortgages are rising-debt loans. The interest is added to the principal loan balance each month, because it is not paid on a current basis. The amount you owe increases over time as the interest compounds. Some reverse mortgages have fixed-rate interest; others have adjustable rates that can change over the lifetime of the loan.

- Reverse mortgages use up some or all the equity in your home, leaving fewer assets for you and your heirs.

- The three types of reverse mortgages—FHA-insured, lender-insured, and uninsured—vary according to their costs and terms. Check the features of each to select the type that is best-suited for your needs. *Before considering any reverse mortgage, consult with family members, your attorney, or financial advisor.*

- Reverse mortgages typically charge loan-origination fees and closing costs. Insured plans charge insurance premiums; some plans have mortgage servicing fees. You may be able to finance these costs if you want to avoid paying them in cash. But, if you finance the costs, they will be added to your loan amount and you will pay interest on them.

- Your legal obligation to repay the loan is limited by the value of your home at the time the loan is repaid. This could include any appreciation in the value of your home after your loan begins.

- There are various reverse mortgage plans offered today. Consult your attorney or financial advisor about the tax consequences of the particular plan you are considering.

Reverse Mortgage Safeguards

The federal Truth in Lending Act (TILA) is one of the best protections you have with a reverse mortgage. TILA requires lenders to disclose the costs and terms of reverse mortgages. This includes the Annual Percentage Rate (APR) and payment terms. If you choose a credit line as your loan advance, lenders also must tell you of charges related to opening and using your credit account.

Resources

For more information about reverse mortgages, contact the Home Equity Information Center of the American Association of Retired Persons (AARP), 601 E Street, NW, Washington, DC 20049.

You also can visit the FTC at **www.ftc.gov—**click on Consumer Protection and Publications.