Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

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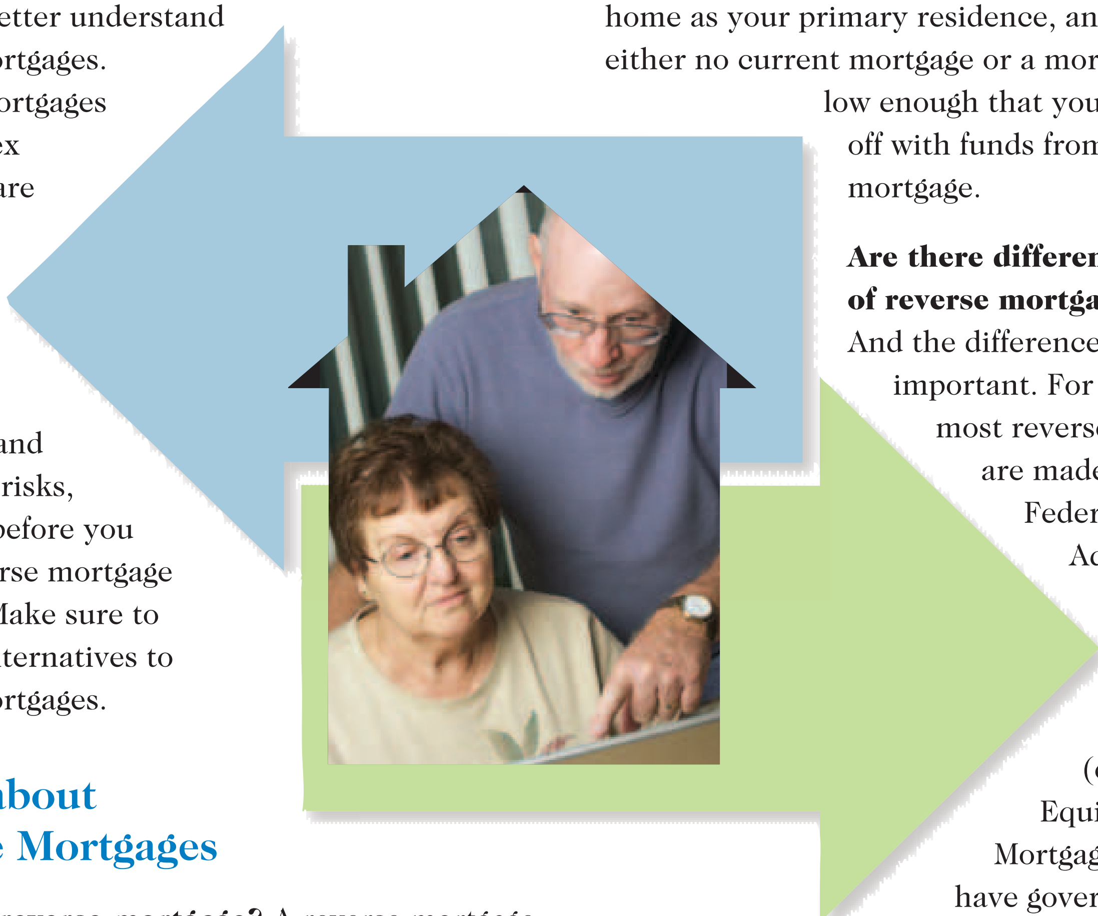
Consumer Advisory

Reverse Mortgages: Are They for You?

If you are 62 or older, or about to reach that milestone, you may find yourself considering a reverse mortgage to add to your retirement income or meet health care or other financial needs.

This Consumer Advisory, issued by the Office of the Comptroller of the Currency, is designed to help you better understand reverse mortgages. Reverse mortgages are complex loans and are secured by your home. It is important to understand the terms, risks, and costs before you sign a reverse mortgage contract. Make sure to consider alternatives to reverse mortgages.



Basics about Reverse Mortgages

What is a reverse mortgage? A reverse mortgage is a loan secured by your home that lets you receive payments from the lender—either over time or all at once—based on the value of your home at the time of the loan. As you receive payments, these amounts are added to your loan balance. Interest is charged on the outstanding balance, so even if you do not receive any further payments from your lender, the loan balance continues to increase.

Who can obtain a reverse mortgage? Generally, to obtain a reverse mortgage, you must be a homeowner at least 62 years old, must use the home as your primary residence, and must have either no current mortgage or a mortgage balance low enough that you can pay it off with funds from the reverse mortgage.

Are there different types of reverse mortgages? Yes. And the differences can be important. For example, most reverse mortgages are made under a Federal Housing Administration (FHA) program. These loans (called Home Equity Conversion Mortgages or HECMs) have government insurance that protects not just the lender, but also the borrower. If the lender becomes unwilling or unable to make payments due to the borrower, the government steps in to make them. Other reverse mortgages do not have this guarantee.

How much can I borrow? That depends on many factors, including your age, the value of your home, and applicable interest rates at the time you obtain the loan and over the course of the loan. Generally, the amount of your loan will be larger the older you are, the more valuable your home is, and the lower that applicable interest rates are.

How do I get my payments? Reverse mortgages can be very flexible about this. Depending on the type of loan you get, you can take out the funds in fixed monthly payments that last either for a set period of time or for as long as you stay in the home, as a line of credit that permits you to take out funds as you see fit, in a single lump sum (or a single draw on a line of credit), or in some combination of these options.

Costs and Benefits of Reverse Mortgages

How much will it cost? Like many home loans, reverse mortgages have both interest and fees charged over the life of the loan and up-front costs due at closing. These up-front costs generally can be "financed"—not paid out-of-pocket at closing but added to your loan balance instead. Reverse mortgages may have relatively low interest rates, but they can still be expensive compared with other home loans in other respects, primarily because of mortgage insurance premiums and other up-front costs. The interest rate on a reverse mortgage may be variable, increasing or decreasing with the "prime rate" or some other measure of market rates.

How do I repay the loan? In a reverse mortgage, you do not make monthly payments of principal and interest to the lender. Instead, interest and fees are added to your loan balance. Unless you make "escrow" payments to your lender, however, you are still responsible for paying property taxes and insurance when they are due.

When do I have to repay the loan? Generally, you do not need to make any payments until you stop using the home as your primary residence—for example, when you sell the home, no longer live in the home, or pass away. The loan then becomes due. Your obligation to the lender will be limited to the lesser of the amount due or the value of the home at the time, unless you or your heirs want to keep the home. To keep the home, you or your heirs would need to pay the full amount you have received, plus all accumulated interest and fees.

Can I lose my home before I'm ready to move? Yes, under limited circumstances. With a reverse mortgage, you keep title to your home, but you remain responsible for property taxes, insurance, and home repairs. If you fail to pay taxes and insurance or fail to maintain the home, the mortgage may become due and payable, and you could lose your home through foreclosure. Of course, if your lender requires a monthly "escrow" payment for property taxes and insurance, that risk can be reduced.

Rules of Thumb

Keep other options in mind. Other loan products, such as standard mortgages and home equity lines of credit, may make more sense for you, depending on your financial situation and needs. Other financial options—from drawing on retirement plans to selling the home—should also be considered. In addition, your community may offer home repair or other services to assist you, and you may be eligible for public benefits. Financial advisors or housing counselors can help you find other financial options or community or government programs that may meet your needs.

> Steer clear of anyone trying to sell you other products—like annuities along with a reverse mortgage.

A reverse mortgage usually makes more sense the longer you are planning to stay in the home. This is because the high up-front costs make the first years of the loan relatively expensive. For example, a borrower who uses a reverse mortgage for only a couple years can have an annual loan cost several times greater than a similar borrower using the reverse mortgage for a decade or more. For this reason, it is very important to have a realistic understanding of not just your life expectancy but also how long you can afford the expenses related to your home—including utilities, property taxes, insurance, maintenance and repairs, and condo fees—and how long you are physically able to keep living there. In considering these factors, you should bear in mind that the average HECM borrower remains in the home for only six years after obtaining the reverse mortgage.

Be wary of anyone trying to sell you other products along with a reverse mortgage. Because a reverse mortgage can give you access to a large amount of funds, it can make you a target for aggressive sales pitches for expensive and inappropriate products or services. You should generally steer clear of anyone trying to sell you other products—such as annuities, long-term care insurance, investment programs, or home repair services—along with a reverse mortgage.

Get More Information

Get a Housing Counselor. A reverse mortgage is a complex loan secured by your home. Whether such mortgages make sense for you depends on your financial situation and needs. For these reasons, we strongly recommend that you consult with a qualified, independent housing counselor in a face-to-face counseling session before making this decision. Housing counselors can help you learn about reverse mortgages, identify and evaluate the available alternatives, and understand the potential consequences of reverse mortgages, including the impact on your taxes, benefits, and heirs.

- Find housing counselors at the U.S. Department of Housing and Urban Development Web site at www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm. Or call 1-800-569-4287 or 1-877-483-1515.

- Visit NeighborWorks America's Web site at www.nw.org/network/home.asp.

Where to Find More Information.

- AARP Foundation, Reverse Mortgage Education Project
  www.aarp.org/revmort
  1-800-209-8085

- U.S. Department of Housing and Urban Development
  www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm
  1-800-CALL-FHA (1-800-225-5342)

- National Association of Reverse Mortgage Lenders
  www.reversemortgage.org/Home/tabid/63/Default.aspx

- National Council on Aging (information about government assistance programs and other alternatives to reverse mortgages)
  www.benefitscheckup.org