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Department of Commerce

Division of Financial Institutions

REVERSE MORTGAGES

Reverse mortgages are becoming an increasingly popular alternative mortgage product for homeowners who are senior citizens. A U.S. Department of Housing and Urban Development (HUD) Reverse Mortgage is a safe, federally-insured private loan. Many seniors use it to supplement Social Security income, meet unexpected expenses, make home improvements or simply provide greater financial security. You can receive free information about reverse mortgages by calling AARP toll-free at 1-800-209-8085. Since your home is probably your largest single investment, it's smart to know more about reverse mortgages, and decide if one is right for you.

What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets a homeowner convert all or a portion of their home's equity into cash. The equity built up over years of home mortgage payments can be paid to you. Unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower no longer uses the home as their principal residence.

The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home, the older you are, and the lower the interest rate, the more you can borrow. You do not make payments because the loan is not due as long as the house is your primary residence. With an FHA-insured HUD Reverse Mortgage, you cannot be foreclosed upon or forced to vacate your house because you "missed your mortgage payment."

Like all homeowners, you must pay your real estate taxes, homeowner's insurance and other conventional payments, such as utilities.

What are the qualifications for a HUD reverse mortgage?

To be eligible for a federally-insured HUD reverse mortgage, HUD's Federal Housing Administration (FHA) requires that the borrower be a homeowner and meets the following criteria:

- You must be 62 years of age or older;
- You must own your home outright or have a low mortgage balance that can be be paid off at the closing with proceeds from the reverse loan; and
- You must live in the home.

You are required to receive consumer information from HUD-approved counseling sources prior to obtaining the loan and meet any other underwriting criteria for the specific loan program. You can contact the Housing Counseling Clearinghouse at 1-800-569-4287 to obtain the name and telephone number of a HUD-approved counseling agency and a list of FHA approved lenders within your area.

How do I receive my payments?

Reverse mortgages are paid to the homeowner in one of five plans:

- **Tenure** - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence;
- **Term** - equal monthly payments for a fixed period of months selected;
- **Line of credit** - unscheduled payments or installments at times and in amounts of the borrower's choosing until the line of credit is exhausted;
- **Modified Tenure** - combination of line of credit with monthly payments to the homeowner for as long as the borrower remains in the home; or
- **Modified Term** - combination of line of credit with monthly payments to the homeowner for a fixed period of months selected by the borrower.

What types of homes are eligible?

Your home must be a single family dwelling or a two-to-four unit property that you own and occupy. Townhouses, detached homes, condominium units and some manufactured homes may also be eligible. Condominiums must be FHA-approved. A HUD-approved counselor can tell you if your condominium project is eligible.

Can the lender take my home away if I outlive the loan?

No! You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. You can never owe more than your home's value.

What's the difference between a reverse mortgage and a bank home equity loan?

With a traditional second mortgage or home equity line of credit, you must have a sufficient income-to-debt ratio to qualify for the loan and you must make monthly mortgage payments. The reversed mortgage is different because it pays you and is available regardless of your current income.

Will I still have an estate that I can leave to my heirs?

When you sell your home or no longer use it for your primary residence, you or your estate will repay the cash you received from the reverse mortgage plus interest and other fees to the lender. The remaining equity in your home, if any, belongs to you or to your heirs. None of your other assets will be affected by a HUD reverse mortgage loan. This debt cannot be passed along to the estate or heirs.

Should I use an estate planning service to find a reverse mortgage?

HUD does not recommend using an estate planning service or any service that charges a fee just for referring a borrower to a lender. HUD-approved housing counseling agencies provide this information for free and can make reliable referrals to a list of HUD-approved lenders. Call 1-800-569-4287, toll-free, for the name and location of a HUD-approved housing counseling agency near you.

Beware of Scams:

If you are interested in a reverse mortgage, beware of scam artists that charge thousands of dollars for information that is free from HUD. FHA does NOT recommend using any service that charges a fee for referring a borrower to an FHA lender. FHA provides this information for free, and HUD-approved housing counseling agencies are available for free or at very low cost, to provide information, counseling, and a free referral to a list of FHA-approved lenders. Search online or call (800) 569-4287 toll-free, for the name and location of a HUD-approved housing counseling agency near you.