

Reverse Mortgages



A reverse mortgage is a specialized loan available to seniors who own their homes and want to stay in them, but need extra cash. Reverse mortgages work by enabling you, the homeowner, to access the value that has increased in your home while you have been paying your mortgage. This stored asset is known as “equity.” Your home’s equity is the current market value of your home less any remaining mortgage you owe.

For example:

If your home is worth \$100,000 and you still have a mortgage of \$25,000, your home has \$75,000 in equity. A reverse mortgage could enable you to borrow money from that \$75,000 reserve.

There are many private lenders who offer reverse mortgages. For example, Fannie Mae offers its Home Keeper reverse mortgage. Currently, the Home Equity Conversion Mortgage (HECM), insured by the Federal Housing Administration (FHA), is the only federally insured private reverse mortgage available.

This information is not legal advice. We offer it as a public service. We urge you to contact one of our Helpline attorneys to discuss whether a reverse mortgage is right for you.

Eligibility

Generally, reverse mortgages are available if you are 62 years-of-age or older and either own your home outright or owe a small mortgage. Your home must be your principal residence. For a federally insured reverse mortgage your home must be:

- A single family home; or
- A one-unit to four-unit building (you must occupy one of the units); or
- A HUD approved condominium; or
- An FHA approved manufactured home.

HECMs require that your home meet certain property standards. And you must attend counseling with a HUD approved agency to assess whether a HECM is right for you. Generally, there are no income guidelines to qualify.

Important Considerations

I. General

Most reverse loans do not require repayment. Instead the equity is used up. Repayment is only required:

- Upon your death;
- If you sell or transfer your home; or
- If you do not live in your home for 12 months.

You must pay your property taxes and homeowner's insurance. If the payment for taxes and insurance are not included in your mortgage payment, you will need to make arrangements to pay them separately.

II. Amount of the Loan

The amount of equity that you are allowed to tap into will vary according to your loan. Your maximum loan amount will not necessarily be equal to your home's equity. Lenders take into account other factors, such as:

- The age of the homeowner;
- Current interest rates; and
- The appraised value of your home.



III. Payment of Loan Proceeds

In general, and depending upon your lender, your loan can be paid to you as a:

- Lump sum;
- Regular monthly income;
- Regular monthly income for a specified term; or
- Line of credit.

Some loans allow you to change your payment option for a nominal fee.

IV. Interest Rates

You will need to check with your lender to determine your interest rate.

V. Fees

In addition to the interest rate, there are several types of fees that add to the cost of your loan. Read your contract carefully and be sure that you understand the terms.

VI. Insurance

Unlike other private loans, the federal government insures the HECM. Through the collection of insurance premiums added to the costs of your loan, the federal government can offer you significant protections. With this insurance, only your home's value can be used to satisfy your debt. This means that you (or your heirs) will owe only the amount of your loan or the value of your home; whichever is less. This protects you in case your loan amount exceeds the value of your home. This also means that you can never be foreclosed upon while you live in your home. If there is a deficiency between your home value and the amount of the loan when repayment is due, the FHA insurance will cover it. If your home equity exceeds the amount of your loan, your heirs can inherit the difference.

VII. Repayment

Generally, the loan is repaid upon the death of the borrower. Your home is the only asset that can be used to repay your loan. But, your heirs are not required to sell your home if they can pay the loan with other assets.

VIII. Effect on Benefits

If you receive benefits that are need based, such as Social Security Disability (SSI) or Medicaid, your benefits may be affected by the payments you receive under your loan.

Difference Between Home Equity Loans and Reverse Mortgages

Unlike reverse mortgages, home equity loans require monthly payments to repay the loan as soon as you tap into your home's equity. To qualify, your income is considered and must be sufficient to meet the monthly repayment obligations. Your home could be foreclosed on if you can't repay the home equity loan.

Deciding Whether Reverse Mortgages Are Right For You

If you were planning to leave your home to a loved one after your death, a reverse mortgage may not be right for you. If you receive public benefits such as SSI or Medicaid, your eligibility could be affected by the proceeds you receive from a reverse mortgage. If you need an income stream, desire to remain in your home, and are not concerned about leaving your home to a loved one, a reverse mortgage may be right for you.

For more information, call the Legal Services for the Elderly Helpline for free legal advice.

LSE Helpline
1-800-750-5353



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Free legal help for Maine's seniors

