Reverse Mortgages

From the Office of Minnesota Attorney General Lori Swanson

For many seniors citizens, their home is the most valuable asset they own. According to one recent estimate, the total value of equity in homes owned by seniors in the United States is $4.4 trillion. Some companies market the "reverse mortgage" as a way for seniors to convert this equity into cash to pay their bills or supplement their income.

A reverse mortgage is a loan that allows homeowners who are at least 62 years-old to borrow against the equity in their home. This allows the borrower to convert some equity into cash, which may be paid out in installments or one lump sum. Unlike a traditional mortgage, the borrower typically does not pay anything back as long as they live in their home. Instead, the loan is generally repaid when the borrower moves or passes away.

To qualify for a federally insured reverse mortgage, you must be at least 62 years-old, live in your home, not be delinquent on any federal debt, and have paid off most, or all, of your existing mortgage. If you still owe money on your existing mortgage, you must use the proceeds from the reverse mortgage to pay off the remainder. Before approving you for a loan, lenders are required to conduct a "financial assessment" to determine your ability and willingness to pay the costs associated with your home (e.g., property taxes and home insurance). This is typically done by reviewing your credit report and comparing your income and expenses.

The amount of money you may borrow through a reverse mortgage varies based on several factors. In general, the older you are, the more your house is worth, and the less you owe on your current mortgage, the more you can borrow through a reverse mortgage. Depending on your financial assessment, a lender may require you to set aside funds from the proceeds of the loan to pay for expenses associated with your home.

The amount you owe on a reverse mortgage grows the longer you live in your home. Interest charges are added to the amount of the loan each day that you hold it, so the total amount you owe may substantially grow over time.

When you take out a federally insured reverse mortgage, you or your estate will not owe more than your home is worth when the loan is repaid. The reverse mortgage may grow to equal the value of your home, however, leaving no equity left in your house. Because you still own your home, you are responsible to pay the property taxes, insurance, and costs of upkeep to your home. Some people who take out a reverse mortgage can lose their home if they can't afford the taxes, upkeep, and insurance.

A reverse mortgage may be suitable for some seniors, but for others it is not. If you are considering a reverse mortgage, evaluate the "pros" and the "cons." Consider whether a reverse mortgage is suitable given your circumstances or if there are other options that may be better for you.

If you are considering a reverse mortgage, consider the following tips:

Look at all of your options. If you need some cash, you may have other and cheaper options. For example, a traditional home equity loan or line of credit may be a better option for you.

Review costs and fees. Reverse mortgages may be costly. Lenders sometimes charge up-front origination fees and closing costs. A reverse mortgage can be expensive, especially if you only plan to live in your home a few years.

Shop around. As with any purchase, shop around for the best price. The costs associated with a reverse mortgage, including interest rates, closing costs, and origination fees, can vary among lenders.

Beware of sales gimmicks. Be extremely cautious if anyone tries to sell you something—be it a new roof or a financial product like an annuity or long-term care insurance—and suggests that you pay for it with a reverse mortgage. A lender, broker or originator cannot require you to purchase an annuity, investment, life insurance, or a long-term care insurance product as a condition of obtaining a reverse mortgage loan.

Beware of fear tactics. Some unscrupulous agents use fear to push their products. Be skeptical of agents who use fear of going into a nursing home or running out of money to sell you a reverse mortgage. Beware of lenders or agents who falsely tell you that the government has somehow endorsed the sale of reverse mortgages.

Get legitimate help. The law requires you to undergo counseling before you are sold a reverse mortgage. Some counseling options, however, are better than others. Some counseling is just over the telephone and may be by someone who is paid by the lender. Because a reverse mortgage is a complicated product and can have serious financial consequences, you should consult an independent attorney or trusted advisor before you enter into the transaction.

You have a right to cancel. Federal regulations allow borrowers to rescind, or cancel, a reverse mortgage within three business days of execution. To do so, you must notify your lender in writing. You should make a copy of this correspondence and send it certified mail with a request for a return receipt. The lender has 20 days after you cancel to return the money you paid for financing. Under State law, a borrower is not bound for seven days after his or her acceptance, in writing, of the lender's written commitment to make the reverse mortgage loan. During this "cooling off" period, the borrower cannot be required to close or proceed with the loan.

MINNESOTA ATTORNEY GENERAL'S OFFICE • 445 MINNESOTA STREET, SUITE 1400, ST. PAUL, MN 55101
(651) 296-3353 (Twin Cities Calling Area) • (800) 657-3787 (Outside the Twin Cities)
TTY: (651) 297-7206 • TTY: (800) 366-4812 • *www.ag.state.mn.us*