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Federal Trade Commission
For The Consumer

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Reverse Mortgages:
Get the Facts Before Cashing in on Your Home's Equity

If you're 62 or older – and looking for money to finance a home improvement, pay off your current mortgage, supplement your retirement income, or pay for healthcare expenses – you may be considering a reverse mortgage. It's a product that allows you to convert part of the equity in your home into cash without having to sell your home or pay additional monthly bills.

The Federal Trade Commission (FTC), the nation's consumer protection agency, wants you to understand how reverse mortgages work, the types of reverse mortgages available, and how to get the best deal.

In a "regular" mortgage, you make monthly payments to the lender. In a "reverse" mortgage, you receive money from the lender, and generally don't have to pay it back for as long as you live in your home. The loan is repaid when you die, sell your home, or when your home is no longer your primary residence. The proceeds of a reverse mortgage generally are tax-free, and many reverse mortgages have no income restrictions.

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Types of Reverse Mortgages

There are three types of reverse mortgages:

- *single-purpose reverse mortgages*, offered by some state and local government agencies and nonprofit organizations
- *federally-insured reverse mortgages*, known as Home Equity Conversion Mortgages (HECMs) and backed by the U. S. Department of Housing and Urban Development (HUD)
- *proprietary reverse mortgages*, private loans that are backed by the companies that develop them.

■ Single-purpose reverse mortgages are the least expensive option. They are not available everywhere and can be used for only one purpose, which is specified by the government or nonprofit lender. For example, the lender might say the loan may be used only to pay for home repairs, improvements, or property taxes. Most homeowners with low or moderate income can qualify for these loans.

- HECMs and proprietary reverse mortgages may be more expensive than traditional home loans, and the upfront costs can be high. That's important to consider, especially if you plan to stay in your home for just a short time or borrow a small amount. HECM loans are widely available, have no income or medical requirements, and can be used for any purpose.

Before applying for a HECM, you must meet with a counselor from an independent government-approved housing counseling agency. Some lenders offering proprietary reverse mortgages also require counseling. The counselor is required to explain the loan's costs and financial implications, and possible alternatives to a HECM, like government and nonprofit programs or a single-purpose or proprietary reverse mortgage. The counselor also should be able to help you compare the costs of different types of reverse mortgages and tell you how different payment options, fees, and other costs affect the total cost of the loan over time. To find a counselor, visit **www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm** or call 1-800-569-4287. Most counseling agencies charge around $125 for their services. The fee can be paid from the loan proceeds, but you cannot be turned away if you can't afford the fee.

How much you can borrow with a HECM or proprietary reverse mortgage depends on several factors, including your age, the type of reverse mortgage you select, the appraised value of your home, and current interest rates. In general, the older you are, the more equity you have in your home, and the less you owe on it, the more money you can get.

The HECM lets you choose among several payment options. You can select:

- a "term" option – fixed monthly cash advances for a specific time.
- a "tenure" option – fixed monthly cash advances for as long as you live in your home.
- a line of credit that lets you draw down the loan proceeds at any time in amounts you choose until you have used up the line of credit.
- a combination of monthly payments and a line of credit.

You can change your payment option any time for about $20.

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HECMs generally provide bigger loan advances at a lower total cost compared with proprietary loans. But if you own a higher-valued home, you may get a bigger loan advance from a proprietary reverse mortgage. So if your home has a higher appraised value and you have a small mortgage, you may qualify for more funds.

Loan Features

Reverse mortgage loan advances are not taxable, and generally don't affect your Social Security or Medicare benefits. You retain the title to your home, and you don't have to make monthly repayments. The loan must be repaid when the last surviving borrower dies, sells the home, or no longer lives in the home as a principal residence.

In the HECM program, a borrower can live in a nursing home or other medical facility for up to 12 consecutive months before the loan must be repaid.

If you're considering a reverse mortgage, be aware that:

- Lenders generally charge an origination fee, a mortgage insurance premium (for federally-insured HECMs), and other closing costs for a reverse mortgage. Lenders also may charge servicing fees during the term of the mortgage. The lender sometimes sets these fees and costs, although origination fees for HECM reverse mortgages currently are dictated by law. Your upfront costs can be lowered if you borrow a smaller amount through a reverse mortgage product called a "HECM Saver."
- The amount you owe on a reverse mortgage grows over time. Interest is charged on the outstanding balance and added to the amount you owe each month. That means your total debt increases as the loan funds are advanced to you and interest on the loan accrues.
- Although some reverse mortgages have fixed rates, most have variable rates that are tied to a financial index: they are likely to change with market conditions.
- Reverse mortgages can use up all or some of the equity in your home, and leave fewer assets for you and your heirs. Most reverse mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan becomes due and the home is sold. However, if you or your heirs want to retain ownership of the home, you usually must repay the loan in full – even if the loan balance is greater than the value of the home.
- Because you retain title to your home, you are responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. If you don't pay property taxes, carry homeowner's insurance, or maintain the condition of your home, your loan may become due and payable.
- Interest on reverse mortgages is not deductible on income tax returns until the loan is paid off in part or whole.

Reverse mortgage loan advances are not taxable, and generally don't affect your Social Security or Medicare benefits.

Getting a Good Deal

If you're considering a reverse mortgage, shop around. Compare your options and the terms various lenders offer. Learn as much as you can about reverse mortgages before you talk to a counselor or lender. That can help inform the questions you ask that could lead to a better deal.

- If you want to make a home repair or improvement – or you need help paying your property taxes – find out if you qualify for any low-cost single-purpose loans in your area. Area Agencies on Aging (AAAs) generally know about these programs. To find the nearest agency, visit

www.eldercare.gov or call 1-800-677-1116. Ask about "loan or grant programs for home repairs or improvements," or "property tax deferral" or "property tax postponement" programs, and how to apply.

- All HECM lenders must follow HUD rules. And while the mortgage insurance premium is the same from lender to lender, most loan costs, including the origination fee, interest rate, closing costs, and servicing fees vary among lenders.
- If you live in a higher-valued home, you may be able to borrow more with a proprietary reverse mortgage, but the more you borrow, the higher your costs. The best way to see key differences between a HECM and a proprietary loan is to do a side-by-side comparison of costs and benefits. Many HECM counselors and lenders can give you this important information.
- No matter what type of reverse mortgage you're considering, understand all the conditions that could make the loan due and payable. Ask a counselor or lender to explain the Total Annual Loan Cost (TALC) rates: they show the projected annual average cost of a reverse mortgage, including all the itemized costs.

Be Wary of Sales Pitches

Some sellers may offer you goods or services, like home improvement services, and then suggest that a reverse mortgage would be an easy way to pay for them. If you decide you need what's being offered, shop around before deciding on any particular seller. Keep in mind that the total cost of the product or service is the price the seller quotes plus the costs – and fees – tied to getting the reverse mortgage.

Some who offer reverse mortgages may pressure you to buy other financial products, like an annuity or long term care insurance. Resist that pressure. You don't have to buy any products or services to get a reverse mortgage (except to maintain the adequate homeowners or hazard insurance that HUD and other lenders require). In fact, in some situations, it's illegal to require you to buy other products to get a reverse mortgage.

You don't have to buy any products or services to get a reverse mortgage.

The bottom line: If you don't understand the cost or features of a reverse mortgage or any other product offered to you – or if there is pressure or urgency to complete the deal – walk away and take your business elsewhere. Consider seeking the advice of a family member, friend, or someone else you trust.

Your Right to Cancel

With most reverse mortgages, you have at least three business days after closing to cancel the deal for any reason, without penalty. To cancel, you must notify the lender in writing. Send your letter by certified mail, and ask for a return receipt. That will allow you to document what the lender received and when. Keep copies of your correspondence and any enclosures. After you cancel, the lender has 20 days to return any money you've paid up to then for the financing.

Reporting Possible Fraud

If you suspect that someone involved in the transaction may be violating the law, let the counselor, lender, or loan servicer know. Then, file a complaint with:

- the Federal Trade Commission (FTC). You can do that online at **www.ftccomplaintassistant.gov** or by phone at 1-877-FTC-HELP (1-877-382-4357).
- your state Attorney General's office at **naag.org** or state banking regulatory agency at **www.csbs.org/Pages/default.aspx**.

Whether a reverse mortgage is right for you is a big question. Consider all your options. You may qualify for less costly alternatives. The following organizations have more information:

Reverse Mortgage Education Project
AARP Foundation
601 E Street, NW
Washington, DC 20049
www.aarp.org/revmort
1-800-209-8085

U. S. Department of Housing and Urban Development (HUD)
451 7th Street, SW
Washington, DC 20410
www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm
1-800-CALL-FHA (1-800-225-5342)

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
www.ftc.gov/yourhome
1-877-FTC-HELP (1-877-382-4357)

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit **ftc.gov** or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a video, *How to File a Complaint,* at **ftc.gov/video** to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

If there is pressure or urgency to complete the deal, walk away and take your business elsewhere.

The Federal Trade Commission (FTC) is the nation's consumer protection agency. Here are some tips from the FTC to help you be a more savvy consumer.

1. **Know who you're dealing with.** Do business only with companies that clearly provide their name, street address, and phone number.
2. **Protect your personal information.** Share credit card or other personal information only when buying from a company you know and trust.
3. **Take your time. Resist the urge to "act now."** Most any offer that's good today will be good tomorrow, too.
4. **Rate the risks.** Every potentially high-profit investment is a high-risk investment. That means you could lose your investment — all of it.
5. **Read the small print.** Get all promises in writing and read all paperwork before making any payments or signing any contracts. Pay special attention to the small print.
6. **"Free" means free.** Throw out any offer that says you have to pay to get a gift or a "free" gift. If something is free or a gift, you don't have to pay for it. Period.
7. **Report fraud.** If you think you've been a victim of fraud, report it. It's one way to get even with a scam artist who cheated you. By reporting your complaint to 1-877-FTC-HELP or ftc.gov, you are providing important information to help law enforcement officials track down scam artists and stop them!

Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education