Key Questions to Ask about Reverse Mortgage Loans

When you are shopping for a reverse mortgage loan, consider the questions below. Ask your lender about other loan products, such as a traditional home equity loan or home equity line of credit. For more information, go to: *www.frb.gov*.

1) What is a Reverse Mortgage Loan?

A reverse mortgage loan is available to seniors (usually age 62 and older) who own all or almost all of the equity in their home. This loan allows you to exchange equity in your home for cash. With a reverse mortgage loan, you typically don't pay back the loan for as long as you live in your home. Instead, the loan must be repaid in full when the last living borrower dies, sells the home, or moves out of the home for 12 months or more. Repaying the loan in full includes the amount of the original loan plus all interest and any other fees and charges. Most borrowers (or their heirs) repay a reverse mortgage by selling the home.

2) How is a reverse mortgage loan different from a traditional mortgage?

- **Traditional mortgages** are loans generally used to buy a home or to borrow against your home equity for bills or other expenses. When you take out a traditional mortgage, typically the lender owns most of the equity in your home. As you pay back the loan over time (usually through monthly payments), you get that equity back from the lender. Once the traditional mortgage is paid off, you own all the equity in your home—the lender owns nothing.
- With a **reverse mortgage loan,** you already own all or most of the equity in your home, and you exchange this equity for cash from a lender. Because you do not pay back this money gradually over time, you do not earn equity back from the lender. Instead, the equity you own decreases and the amount you owe increases as interest and other fees and charges are added to the amount of the original loan.

3) Is a reverse mortgage loan right for me?

The advantage of a reverse mortgage is that you can exchange your home equity for cash and do not have to make monthly payments. **But reverse mortgages have risks:**

- ***Loan amount increases over time***
  The amount you owe increases every month. The younger you are when you take out a reverse mortgage, the more time there will be for the interest to grow and the more you will owe.
- ***Less cushion for emergencies***
  By taking out a reverse mortgage now, you will have less home equity later when you may need it more, for example, to pay for future emergencies, health care needs, home repairs, or everyday living expenses. If you are not facing a financial emergency now, consider postponing taking out a reverse mortgage.
- ***Costs more than other loan options***
  Reverse mortgages are generally more expensive than other home loans, so consider other options before taking a reverse mortgage. Reverse mortgages may also have tax consequences or may affect your eligibility for federal or state assistance. Talk with a HUD-approved reverse mortgage counselor or financial advisor to learn more.

4) What fees and charges are added to a reverse mortgage loan?

Fees and charges can vary in amount and type from one reverse mortgage loan to another. Most borrowers choose to have these costs added to their loan balance. If you choose to add these costs to your loan balance, you will be charged interest on these costs each month in addition to the interest charged on the cash you receive. Reverse mortgage loan fees and charges typically include:

- **Closing costs**, which are charged once, at closing
- **Reverse mortgage insurance premium**, which is charged in two parts: once at closing and each month as a percent of your outstanding loan balance
- **Interest**, which is charged on your outstanding loan balance each month
- **Servicing fee**, which is charged each month.

5) What if my lender wants me to use money from my reverse mortgage to buy an annuity or make another investment?

Under federal law, you cannot be required to use your reverse mortgage money to purchase any other financial or insurance product (such as an annuity, long-term care insurance, or life insurance). If another product is offered to you, make sure you understand: (1) how the product works and what its benefits are, (2) how much it costs, (3) whether you need it, and (4) how much money the person selling the product makes if you purchase it. Talk with a HUD-approved reverse mortgage counselor or financial advisor before you decide.

6) Does the lender take the title to my home while I have a reverse mortgage?

No. You continue to own your home while you have a reverse mortgage loan. This means that you must still pay for property taxes, insurance, and repairs.

7) Can I lose my home while I have a reverse mortgage?

Yes. You could lose your home if you do not pay for property taxes, insurance, and repairs. For example, if you don't pay your taxes, the lender could demand that you repay the loan in full. You may have to sell your home to repay the loan. Or the lender could take your home through foreclosure. Also, if you don't live in your home for 12 straight months or more (for example, if you are in the hospital or a nursing home), the lender could demand that you repay the loan in full, and you may have to sell your home to repay the loan.

8) What happens at the end of the loan? What if I owe more than my home is worth when the loan comes due?

A reverse mortgage loan is usually repaid by selling the home. If the money earned through selling the home isn't enough to repay the reverse mortgage, almost all lenders will absorb the difference. These lenders will not be able to sue you or your heirs for more money. If the reverse mortgage is insured by the federal government, the government will absorb the difference instead of the lender. However, if you or your heirs want to keep your home, the loan must be repaid in full. Ask your lender if this applies to your loan.

9) What happens if there is money left over after the home is sold?

Almost all reverse mortgage loans let the homeowner (or the homeowner's heirs) keep any money left over after the loan is repaid in full. Ask your lender if this applies to your loan.