

Reverse Mortgages



Reverse mortgages allow seniors (ages 62 and up) to convert their home equity into tax-free cash while retaining the title to their homes. Unlike traditional mortgages, reverse mortgages give payments to the borrower in lump sum or periodic payments, often not having to be repaid during a senior's lifetime.

A reverse mortgage may be appropriate for seniors who:

- Need more money to live on,
- Want to remain in their home indefinitely, but
- Have no assets other than their home equity, &
- Are not concerned about leaving their home to children or other heirs.

However, reverse mortgages are expensive, involving higher fees and costs than other types of mortgages. Money from a reverse mortgage may be considered "income" under certain government programs, making seniors ineligible for other types of benefits.

Reverse mortgages are sometimes offered in high-pressure solicitations that emphasize positives while concealing or evading discussion of costs, fees, and details. In the worst cases, reverse mortgages are offered by salespeople who want seniors to invest in unsuitable or even fraudulent investments.

Do not take out a reverse mortgage in order to finance other investments. Beware of any salesperson who uses high-pressure tactics, recommends a reverse mortgage as a simple "one-size-fits-all" solution or who recommends that you commit to a reverse mortgage without exploring other options first. Both **FHA (Home Equity Conversion Mortgage)** and **Fannie Mae (Home Keeper)** have reverse mortgage programs, and some lenders may also have other reverse mortgage options.

CA law prohibits lenders from requiring the purchase of an annuity as a condition of obtaining a reverse mortgage loan; mandates counseling from a housing counselor prior to final acceptance of the loan; and requires that the loan agreement be translated into the applicant's primary language.

Federal law requires a counseling session with a HUD-approved reverse mortgage counselor before a HUD-sponsored reverse mortgage is approved. While seniors may believe that the counseling will protect them from an unsuitable reverse mortgage, the required counseling is in fact only intended to make sure the senior understands the terms of the reverse mortgage. Also, counselors are not trained to determine a senior's competency. If a HUD-approved counselor does not approve the reverse mortgage, an unscrupulous lender may contact other counselors until the lender finds one who is willing to approve the reverse mortgage.

Do not commit to a reverse mortgage until you are sure it is right for you. Make sure you understand the terms and costs. Ask about the repayment total, interest rate, and fees. Explore other options. Call the **CA Department of Corporations** to verify the salesperson and company are properly licensed. Contact your local **Area Agency on Aging** (see page 18) for information about senior programs that offer rebates or financial help for energy improvements, home and chore maintenance, property tax and/or health cost assistance.