

Reverse Mortgages

What is a reverse mortgage?

A reverse mortgage is a special kind of home loan that lets you convert a portion of the equity in your home into cash.

How is a reverse mortgage different from a traditional mortgage or home equity loan?

Unlike a mortgage or home equity loan, you do not have to make a monthly payment on a reverse mortgage. Instead, the reverse mortgage is repaid when you move out of your home or pass away.

Who offers reverse mortgages?

Most reverse mortgages are insured by the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) as a Home Equity Conversion Mortgage (HECM). Privately insured reverse mortgages nearly vanished from the market during the recession. Some private reverse mortgages are still available for very high value homes. Most reverse mortgage providers will require reverse mortgage counseling before closing on the loan. If the lender you are considering does not require counseling, consider exploring other lenders.

How do you qualify for a HECM loan?

To qualify for a HECM, you must:

- Be 62 years of age or older,

- Own your home with no mortgage or have a mortgage balance that is small enough to be paid off with the proceeds of the reverse mortgage,
 - Live in your home,
 - Be able to pay real estate taxes, utilities, and hazard and flood insurance premiums on the home, and
 - Get consumer information from a HUD-approved HECM counselor.
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How much money can I get from my home?

The amount you can get depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the appraised value of the home.

How can you get the money from the HECM loan?

You can choose how you would like to receive the loan amount from the five options below:

- Tenure – equal monthly payments for as long as you continue to live in the home
 - Term – equal monthly payments for a fixed period of months that you select
 - Line of credit – payments or installments at times and in amounts of your choosing, until the line of credit is exhausted
 - Modified tenure – a combination of line of credit with monthly payments for as long as you continue to live in the home
 - Modified term – a combination of line of credit with monthly payments for a fixed period of months that you select
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How can HECM loan money be used?

HECM loan proceeds may be used for any legitimate purpose, such as to supplement Social Security or retirement benefits, home maintenance, payment of real estate taxes and insurance, medical bills, and living expenses.

When must a HECM loan be repaid?

A HECM loan must be repaid when:

- You die;
 - You sell the home;
 - You move to another home;
 - Due to physical or mental illness, you no longer live in the home for more than 12 months in a row;
 - You do not pay the taxes or insurance or violate any other borrower obligation (for example, you fail to keep the home in good repair).
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What is the cost of a HECM loan?

The costs of a HECM loan usually include an origination fee, closing costs, a mortgage insurance premium, a servicing fee, and interest. You should never pay a fee to a planner or loan finder to get a HECM loan.

What should I consider before taking a reverse mortgage?

As of late 2012, nearly 1 in 10 reverse mortgages were in default. Before taking a reverse mortgage, consider:

- The cost of real estate taxes and insurance. You are at risk of foreclosure if you fall behind on these expenses.
- Taking proceeds in monthly installments, instead of a lump sum. By taking proceeds in a lump sum and using them to meet basic living expenses, you may outlive your life expectancy and be left with no equity for your remaining years.
- Potential risks for couples. If your husband borrows the reverse mortgage in his name only and you outlive your husband, you would be left to pay the reverse mortgage loan in full in order to keep the home.

Reverse mortgages are complex, and the terms can be confusing. You should talk to an attorney before getting a reverse mortgage.

What are the benefits of a reverse mortgage?

Reverse mortgages are a great way to supplement retirement income and do not require you to make monthly payments. They can be very useful when used appropriately as they provide you with the finances to meet your obligations and care for your needs.

What are the danger signs of reverse mortgages?

As helpful as reverse mortgages may be, there are many things to be cautious of before committing to taking out a reverse mortgage. Danger signs to watch for include:

- You do not receive counseling from a HUD approved housing counseling agency;
 - The counseling you receive is short or confusing, and you are not given the opportunity or encouraged to ask questions;
 - You are being discouraged from learning more about alternative options or discussing the terms of the reverse mortgage with family, friends, or other counselors;
 - You are asked for money while applying for the loan or asked to pay any fee other than what is listed on the HUD1 form used by the closing attorney;
 - You are asked for money while applying to speed up the loan process;
 - You are offered a discount to sign by a certain date; or
 - You are encouraged to take a spouse's name off the deed to qualify for the reverse mortgage without being aware of the consequences.
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What are some additional resources about reverse mortgages?

- HUD's website: www.hud.gov/groups/seniors.cfm

- AARP Reverse Mortgage website: www.aarp.org/revmort/
- National Reverse Mortgage Lender's Association: www.reversemortgage.org

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