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Consumer Facts for Older Americans

SOME TIPS FOR CONSUMERS CONSIDERING A REVERSE MORTGAGE

Are you considering a **reverse mortgage**? Better look before you leap. While a reverse mortgage could put money in your hands, the transaction is likely to be quite confusing. A reverse mortgage deal could also put a lot of your money in someone else's pocket.

Still, if you are a senior and a home owner and short of cash to make ends meet, a reverse mortgage can be a lifesaver. That's because a reverse mortgage taps your **home equity** – that's the market value of your house minus the outstanding balance on any existing mortgages – for cash.

But getting to that result won't be simple. Although the most common reverse mortgages -- Home Equity Conversion Mortgages (HECM) -- are insured by the Federal Housing Administration (FHA), other products are available. Costs and terms vary. And you will also face a choice of how to take your money: as a lump sum, in monthly payments, or as a line of credit, which is a commitment to make a loan in the future. Often, the payout combines these three types.

And a reverse mortgage won't be cheap. In fact, compared to many other types of loans, **reverse mortgages are quite expensive**. Among the typical big costs are the fees paid to lenders, brokers, insurers, and other intermediaries. And because a deal is complex and includes future charges that are unpredictable, it will be hard to know for sure just how big a piece of your home equity pie will go to others instead of you.

REVERSE MORTGAGE BASICS

To qualify for a reverse mortgage, you must be at least 62 years old, live in your house, and pay off any existing mortgages on the property. Your income and credit rating won't affect your eligibility. How much money will be available depends on the value of your home, government or lender limits, your age, current and future interest rates, and the fees collected by the lender and intermediaries.

In a reverse mortgage, a lender gives you **money** in exchange for a mortgage against your house. That money may come in a lump sum, in monthly payments for as long as you live in your house, in larger monthly payments for a set time period, as a loan commitment that you can call upon in the future, or in some combination of the above.

The lender's mortgage on your house generally can't be exercised until you die or move out. In the meantime, you get **to stay in your home**. You keep the title. And the lender can't seek repayment by making a claim against your other assets. Those are the good parts of a reverse mortgage.

But there is another side to the coin. **Reverse mortgages are high-cost loans**. Origination fees and insurance premiums typically eat up $25,000 or more of the total proceeds of a common reverse mortgage on a $250,000 house, the American Association for Retired Persons (AARP) says. Interest charges, which pile up over the life of the loan, get added on top of that.

And although those fees, interest charges, and insurance premiums won't come due until you die or your house is sold, your debt continues to grow over the life of your reverse mortgage loan. While some or all of those accumulated costs could be offset by a rise in the value of your house, there is no guarantee.

Still, because you get the cash now while the payback occurs only when you die or move, the costs of a reverse mortgage may seem distant or unimportant. But remember that **a reverse mortgage could take a big bite out of the money you collect when you sell your house or out of any estate you leave behind to your heirs**.

OTHER ISSUES TO CONSIDER

* Reverse mortgages are best suited for seniors who plan to remain in their homes for several more years. Because the initial cost to set up a loan is higher than for other home equity loans, the longer you remain in your home, the more cost effective it is.

* Payments from a reverse mortgage could also affect your **eligibility for assistance from some government programs**. Be sure to check with the provider of any benefits which you are collecting or for which you may be eligible in the future, including Supplemental Social Security Income, Medicaid, and food stamps.

* A **reverse mortgage isn't a good way to get money to invest or spend on luxuries** or other items that aren't necessities. However, a reverse mortgage can sensibly be considered when you need to cover big expenses or fill a hole in your budget. Still, make sure that the cash or credit line generated by your reverse mortgage will be enough to cover the costs of those requirements. And remember that you will still be responsible for paying property taxes, homeowners' insurance premiums, and for home repairs.

* It's also smart to **consider your alternatives**. Some jurisdictions offer property tax credits or abatements to seniors. Some offer inexpensive loans for home repairs. Your local agency on aging will have information on what programs are available. Also, if you can qualify for a home equity or other type of loan, compare its price and terms to a reverse mortgage.

* **Comparison shopping** remains the best way to assess the wisdom of a reverse mortgage. Look at more than one mortgage offer and, for each, calculate the costs and the amount of money that you would collect. Credit unions and non-profit organizations often charge low fees. Also, do the same calculations for alternative transactions. For example, consider whether you might come out ahead by selling your house and finding a different place to live.

* Keep in mind: a reverse mortgage is one – but often not the only -- option you have to raise cash when you need it. And if you do conclude that a reverse mortgage makes sense for you, be sure to **shop around for the best terms and lowest fees**.

SPECIAL WARNINGS

Predators, always on the prowl for seniors' hard-earned wealth, now lurk behind some reverse mortgage transactions.

It's almost always a bad idea to use the loan from a reverse mortgage to buy other financial products. Be especially wary of anyone who encourages you to take out such a costly loan in order to fund an investment such as an annuity. Predators seeking rich commissions from sales of annuities and other complicated products sometimes promote reverse mortgages as a way to get at their victims' cash.

Other predators take a more direct route. One bad actor diverted proceeds of reverse mortgages from his clients to himself. Others contact seniors and offer to help them find a reverse mortgage lender – in exchange for a "small percentage" of the loan. Don't fall for that. The same information is freely available. Call the Department of Housing and Urban Development (HUD) at 1-800-569-4287 for referral to a local housing counselor or visit HUD's website at www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm.

Read the loan documents thoroughly. As with any loan, don't sign an application with blank spaces or anything you don't understand.

FINDING IMPARTIAL HELP

Because a reverse mortgage transaction poses many daunting questions, **counseling is required** to apply for an FHA-insured reverse mortgage and is a good idea for those considering other products. To find free HUD-approved counseling, call 1-800-569-4287 or look on the website at www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm. Don't pay an application fee for a reverse mortgage until you have completed counseling.

A good counselor should help you to consider your financial options and, if you should decide a reverse mortgage is right for you, choose among different reverse mortgage products. Make sure you find a counselor who will take the time to gather information about you and understand your situation, a process that may require several hours.

And also ask a lawyer or another third party whom you trust to review your loan documents. You have three days to back out of a deal if they or you find a problem. Don't rely on a counselor, because they may not be trained to review legal documents.

Use the wisdom of your years. If your heart or instinct says a reverse mortgage deal is a bad one, stop and think. While others may advise you, in the end it's your money.