

## Ten important questions about reverse mortgages

By Erin K. Witt

As homeowners, many people spend a lifetime paying to decrease the debt on their home. The term of some mortgages can be as great as 30 years—and that is without refinancing, or any other subsequent mortgages that can be added to the grand total.

However, for the homeowners who meet a specific group of criteria, there is a unique and little-known option available to get paid back—a reverse mortgage. But before opting for this program, here are answers to a few important questions to help consumers guide their decision:

**Question #1: What exactly is a reverse mortgage?** A reverse mortgage is a special type of home loan that lets a homeowner convert a portion of the equity in his or her home into cash. The equity built up over years of home mortgage payments can be paid to you, but unlike a traditional home equity loan or second mortgage, no repayment is required until the borrowers no longer use the home as their principal residence.

**Question #2: Can I qualify for a reverse mortgage?** To be eligible for a reverse mortgage, the borrower must be a homeowner, 62 years of age or older; own your home outright, or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse loan; and must live in the home.

**Question #3: Can I apply if I didn't buy my present house with FHA mortgage insurance?** Yes. While your property must meet HUD minimum property standards, it doesn't matter if you didn't buy it with an FHA-insured mortgage.

**Question #4: What types of homes are eligible?** Your home must be a single-family dwelling or a two-to-four unit property that you own and occupy. Townhouses, detached homes, units in condominiums and some manufactured homes are also eligible. Some condominiums may qualify. The home must be in reasonable condition, and must meet minimum property standards. In some cases, home repairs can be made after the closing of a reverse mortgage.

**Question #5: What's the difference between a reverse mortgage and a bank home equity loan?** With a traditional second mortgage or a home equity line of credit, you must have sufficient income versus debt ratio to qualify for the loan, and you are required to make monthly mortgage payments. The reverse mortgage is different in that it pays you, and is available regardless of your current income. The amount you can borrow depends on your age, the current interest rate, other loan fees, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow. You don't make payments, because the loan is not due as long as the house is your principal residence. Like all homeowners, you still are required to pay your real estate taxes and other conventional payments like utilities, but with an FHA-insured reverse

mortgage, you cannot be foreclosed or forced to vacate your house because you missed your mortgage payment.

**Question #6: Can the lender take my home away if I outlive the loan?** No—nor is the loan due. You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. You can never owe more than your home's value.

**Question #7: Will I still have an estate that I can leave to my heirs?** When you sell your home or no longer use it for your primary residence, you or your estate will repay the cash you received from the reverse mortgage, plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs. None of your other assets will be affected by the reverse mortgage loan. This debt will never be passed along to the estate or heirs.

**Question #8: How much money can I get from my home?** The amount you can borrow depends on your age, the current interest rate, other loan fees, and the appraised value of your home or mortgage limits for your area—whichever is less. Generally, the more valuable your home is and the older you are, the lower the interest and the more you can borrow.

**Question #9: Should I use an estate planning service to find a reverse mortgage?** HUD and most other reputable lenders do not recommend using an estate planning service, or any service that charges a fee just for referring a borrower to a lender.

**Question #10: How do I receive my payments?** Five options are available for reverse mortgage borrowers:

- Tenure—equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- Term—equal monthly payments for a fixed period of months selected.
- Line of credit—unscheduled payments or in installments, at times and in amounts of borrower's choosing until the line of credit is exhausted.
- Modified tenure—combination of line of credit with monthly payments for as long as the borrower remains in the home.

Modified term—combination of line of credit with monthly payments for a fixed period of months selected by the borrower.