

## What Is a Reverse Mortgage?

You've seen print and television ads offering what seems too good to be true: Senior citizens can take out a reverse mortgage and make no payments on the loan until they leave their home.

Reverse mortgages have become more popular over the past decade, but the Consumer Financial Protection Bureau urges homeowners to be smart when considering this type of loan.

### WHAT IS IT?

The most common type of reverse mortgage is called a home equity conversion mortgage. These loans allow homeowners to borrow against the equity in their home. Each month, interest is added to the balance of the loan, meaning the amount owed is constantly increasing. When the homeowner passes away or sells the home, the balance of the loan must be repaid from the sale proceeds.

These loans, by law, are available only to people age 62 and older, and the home must be a primary residence.



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In addition, homeowners must carry insurance on the home and keep it in good condition.

In 2008, the oldest Baby Boomers become eligible for reverse mortgages. They soon exploded in popularity, with nearly 115,000 reverse mortgages made in 2009, according to HousingWire.com. Between 2013 and 2017, however, the U.S. Department of Housing and Urban Development made changes to the program that limited the number of borrowers who qualified and

the amount of loans they could take, which led to a dropoff in lending. In the 2017 fiscal year, fewer than 40,000 reverse mortgage loans were made, HousingWire.com reports.

### PROCEED WITH CAUTION

The balance of a reverse mortgage grows over time, and particularly when a large loan is taken out at a relatively young age, can even exceed the value of the home. Most loan programs do not require the borrower or estate to

repay the balance that exceeds the home's value, but the equity is lost.

The CFPB has warned that reverse mortgages are "complex products" that can be "difficult for consumers to understand" and urges homeowners to consider all types of loans available to them, not just a reverse mortgage.

Rather than take the risk of losing all their home equity, homeowners should consider a traditional home equity loan or line of credit, the CFPB advises. These loans do

require monthly payments but allow borrowers to have a better idea of the commitment they are making beforehand.

The National Council on Aging urges consumers to never make big financial decisions under stress and to try to cut their monthly costs by looking to government programs for help with expenses such as property taxes, home energy, meals and medications using its Benefits Check Up tool at [benefitscheckup.org](http://benefitscheckup.org).

### BEWARE OF SCAMS

The reverse mortgage industry has been hit by scammers. One common ploy involves a contractor offering a reverse mortgage to a homeowner in order to purportedly pay for needed repairs or maintenance. Another scam involves someone claiming to offer a reverse mortgage for veterans through the Veterans Administration. In fact, the VA offers no such mortgage program.

NCOA urges consumers to avoid unsolicited reverse mortgage offers or offers for help with reverse mortgages. Consumers who suspect they have been targeted by a scammer should call the Department of Housing and Urban Development at 800-347-3735 to file a complaint.



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## REAL ESTATE 101



### Changing Your Mind

If you do decide to get a home equity conversion mortgage, the most common type of reverse mortgage, your decision isn't final just because you've signed on the line. You have a right to cancel within three days of the loan closing a process known as rescission. Invoking your right to rescission requires notifying the lender in writing, which you should do by certified mail. After that, the lender has 20 days to return any money you paid for the financing.

### HOMEWISSE GLOSSARY

**Lifetime adjustment cap:** determines how much the interest rate can increase in total, over the life of an adjustable rate mortgage. For example, if this cap is 5%, that means the rate can never be five percentage points higher than the initial rate. Some lenders may have a different or higher cap.

SOURCE: Consumer Finance Protection Bureau

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