MARYLAND VOLUNTEER LAWYERS SERVICE

REVERSE MORTGAGES

This factsheet provides an overview of a topic, but it is not legal advice. Please consult an attorney about your particular situation.

What is a Reverse Mortgage?

A reverse mortgage is a loan against the equity that you have built in your home. Home equity is the current market value of your home minus what you still owe on it. These mortgages are only available to homeowners, ages 62 or older.

How Does a Reverse Mortgage Work?

Unlike a regular mortgage where you make monthly payments to buy your home over time, in a reverse mortgage, the lender pays you or provides you a line of credit.

Over time, the amount owed will increase as more advances are made, and interest and fees are added. Once you die, sell the home, or permanently move out of the home, the loan must be repaid. Sometimes, people are forced to sell the home to pay off the loan. Also, because the equity in your home is being converted into cash, you will not be able to leave the home to your family. Generally, the property must be titled in your name and must be your principal residence. Generally, you must own the home with a minimal amount of outstanding liens. You must also get counseling from a certified reverse mortgage counselor.

Pitfalls with a Reverse Mortgage

Property taxes and related costs. You have to continue to pay other costs related to your home. You are still responsible for property taxes, homeowner's insurance, and other property-related expenses. Often, in traditional mortgages, these costs are part of your monthly mortgage payment, but they may need to be paid independently to the local City/County, homeowner's insurance company, etc., with a reverse mortgage. Failure to maintain these fees could violate the mortgage and trigger foreclosure.

You must continue to live in your home. The entire mortgage can become due if the home is no longer your principal residence. Occupancy must be proven every year through re-certification. Failure to recertify can trigger foreclosure.

Interest and fees. You will typically have to pay several upfront costs at the beginning of the reverse mortgage loan. These costs include fees charged by a lender on entering into a loan agreement to pay for the cost of processing the loan, real estate closing costs, and a mortgage insurance premium that is in addition to your homeowners' insurance. You can use money from the loan to pay these costs, but your loan proceed will be less. Interest will also grow on the loan. The larger your loan balance and the longer you keep your loan, the larger the interest will be.

What can be left to your family members? After your death, the house can be sold so that the proceeds can be used to pay off the loan. The property likely will not be able to be left to any family members, unless the heir is your spouse (see below). There are opportunities for heirs to buy the property, but this can be expensive and difficult. When considering a reverse mortgage, it is important to decide if you intend to leave your home to your family.

Non-borrowing spouse. If only you signed the reverse mortgage paperwork, and your spouse did not, in certain situations, your spouse may continue to live in the home after you die. The loan can be deferred until your spouse dies, if he or she continues to pay the taxes and insurance, and maintain the property. If you are the surviving spouse of a borrower, it is very important that you contact your mortgage lender immediately.

Changing your mind. In most reverse mortgages, you have three business days after closing to cancel the loan without penalty. You must notify the lender in writing and after cancelling, the lender has 20 days to return any money that you've paid.

Things to Keep in Mind

Carefully review all of the implications when considering a reverse mortgage. Always check with a counselor or a trusted resource before rushing into a reverse mortgage. Be wary of possible fraud. Scammers, and sometimes loved ones, will try to pressure you into getting a reverse mortgage and then seeking to "borrow" the lump sum payment. Scammers can also ask you to reinvest the proceeds into some type of investment scheme or suggest a reverse mortgage as an option to pay for costly and unneeded home repairs. If you suspect that someone involved in the process may be breaking the law, file a complaint with the Federal Trade Commission (https://www.ftc.gov/complaint) or the Maryland Office of the Attorney General (http://bit.ly/mdagcomplaints). You can also call 1-888-743-0023.

Additional Resources

U.S. Department of Housing and Urban Development
HECM Program (https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome)
1(800) 225-5342

Consumer Financial Protection
Considering a Reverse Mortgage?
(http://files.consumerfinance.gov/f/201409_cfpb_guide_reverse_mortgage.pdf)
1(855) 411-CFPB

AARP Foundation
Reverse Mortgage Education Project (https://www.aarp.org/money/credit-loans-debt/reverse_mortgages/)
1(800) 209-8085

Maryland HOPE Hotline
If you are facing foreclosure on a reverse mortgage, call the Maryland HOPE hotline at 1(877) 462-7555.