Reverse Mortgages

Reverse mortgages enable homeowners 62 and older to convert part of the equity in their home into cash, without having to sell the home or take on a new mortgage payment, thereby providing a way for older Americans to have greater financial security. As the name implies, a "reverse mortgage" involves the homeowner being paid by the lender while continuing to live in the home.

Mark M. Gillen
State Representative
128th Legislative District

DISTRICT OFFICE:
29 Village Center Drive, Suite A7
Reading, PA 19607
Phone: (610) 775-5130; Fax: (610) 775-3736

HARRISBURG OFFICE:
PO Box 202128
Harrisburg, PA 17120-2128
Phone: (717) 787-8550; FAX: (717) 783-7862
email: mgillen@pahousegop.com

RepGillen.com

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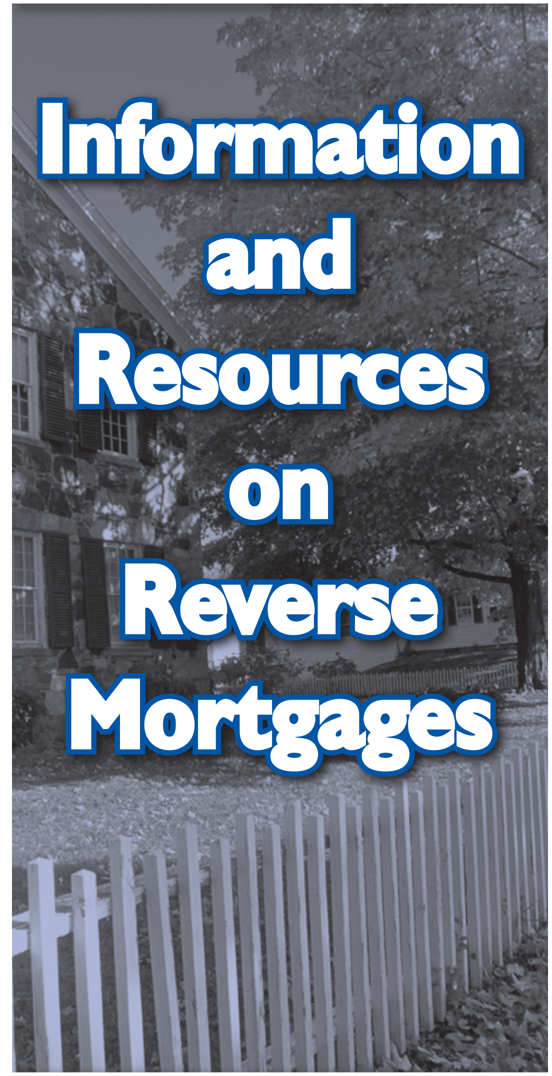

Information and Resources on Reverse Mortgages

Q&A ABOUT REVERSE MORTGAGES

What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets a homeowner convert a portion of his equity into cash payments. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer uses the home as a principal residence.

How do I qualify for a reverse mortgage?

You must be a homeowner, 62 years of age or older; own the home outright or have a low mortgage balance; and live in the home. Borrowers are required to receive HUD-approved counseling prior to obtaining a HUD-approved reverse mortgage.

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, condominium units and some manufactured homes are eligible.

What's the difference between a reverse mortgage and a home equity loan?

With a traditional second mortgage or a home equity line of credit, you must have a sufficient income-versus-debt ratio to qualify, and you are required to make monthly mortgage payments. The reverse mortgage pays you, and is available regardless of current income. The amount you can borrow depends on your age, the current interest rate and the appraised value of your home. There are no mortgage payments. You must pay your real estate taxes and other payments like utilities, but with an insured reverse mortgage, you cannot be forced to vacate your house because of missed payments.

Can the lender take my home away if I outlive the loan?

No. 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.

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. Any remaining equity belongs to you or 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.

How much money can I get from my home?

The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home. Generally, the more valuable your home is and the older you are, the lower the interest and the more you can borrow.

Should I use an estate planning service to find a reverse mortgage?

HUD does not recommend using an estate planning service, or any service that charges a fee for referring a borrower to a lender. HUD provides this information without cost, and HUD-approved housing counseling agencies are available for free, or at minimal cost, to provide information, counseling, and free referral to a list of HUD-approved lenders.

Is there more than one kind of reverse mortgage?

There are several types of reverse mortgages: single-purpose reverse mortgages, offered by some state and local government agencies and nonprofit organizations; federally insured mortgages, known as Home Equity Conversion Mortgages and backed by the U.S. Department of Housing and Urban Development; and proprietary reverse mortgages, private loans backed by the companies that develop them. Single-purpose reverse mortgages generally have very low costs, but are not available everywhere and can be used only for one purpose (for example, to pay for repairs, improvements or property taxes). HECMs and proprietary reverse mortgages can be more costly, but they are widely available, have no income requirements and can be used for any purpose.

Reverse mortgages can be federally insured, lender insured or uninsured. Federally insured plans guarantee loan advances will continue to be made even if a lender defaults. However, federally insured reverse mortgages may provide smaller loan advances than lender insured plans. Lender insured reverse mortgages may allow you to mortgage less than the full value of your home, thus preserving home equity for later use by you or your heirs. However, these loans may involve greater loan costs than federally insured or uninsured loans. The security of the lender insured plan payments depends on the financial strength of the company providing them. An uninsured plan provides monthly loan advances for a fixed term. Your loan balance becomes due and payable when the loan advances stop. If you have short term, but substantial, cash needs, the uninsured reverse mortgage can provide a greater monthly advance. However, because you must pay back the loan by a specific date, it is important to have a source of repayment.

What effect will the loan have on my Medicare and Social Security benefits?

Reverse mortgage loans are not taxable and generally do not affect Social Security or Medicare benefits, however funds received may impact eligibility for Medicaid, Supplemental Security Income or other "need-based" benefits.

Under what other circumstances should I not consider a reverse mortgage?

Because of significant up-front costs associated with a reverse mortgage, it usually would be unwise to commit to a reverse mortgage if you don't plan to stay in the home for a significant amount of time. Also, consider an alternative if you want to leave your home, free and clear, to your children and others who will inherit from you or if you have another, less costly, means to reach your financial goal.

Web sites with more information

Housing choices for senior citizens (HUD): *www.hud.gov*
Federal Trade Commission: *www.ftc.gov*
Fannie Mae: *www.fanniemae.com*