

## **Reverse Mortgages: What You Should Know**

Reverse mortgages can be helpful to homeowners who want to stay in their homes but are having trouble keeping up with their mortgage payments, or who have no other source of funds to pay bills or meet unexpected expenses. The Financial Industry Regulatory Authority (FINRA) is urging homeowners who are thinking about reverse mortgages to make informed decisions and carefully weigh all their options before proceeding. If you decide a reverse mortgage is right for you, be sure to make the wisest use of your loan.

### **What is a Reverse Mortgage?**

Older homeowners who want to use the equity in their homes usually have three options. (1) They can sell their house and downsize, (2) take out a home equity loan, or (3) consider a reverse mortgage. A reverse mortgage is an interest-bearing loan secured by the equity in the home. Unlike other home loans, homeowners make no interest or principal payments during the life of the loan. The interest, which is compounded, is added to the principal, which is why reverse mortgages are often called “rising debt” loans. Unless you opt for a fixed-term loan, the loan only becomes due when you die, sell your home to move, or leave your home for more than 12 months – for example if your health issues require that you live in a nursing home. If any of these occur, you or your heirs must repay the loan, including compounded interest in full.

Two important things to remember are firstly, reverse mortgages may seem like “free money” but in fact, they are quite expensive. Secondly, as the homeowner, you are still responsible for property taxes, insurance and home maintenance costs.

If you are considering a reverse mortgage, here are a few tips from the Financial Industry Regulatory Authority (FINRA).

- **Weigh all Your Options:** A reverse mortgage should ideally be a last, not a first resort. Look at all your other options. Ask your local Area Agency on Aging or AARP about less risky, lower cost ways to address your needs.
- **Understand the Risks, costs and Fees:** Just because you won't be making any interest payments as long as you live in your home doesn't mean the interest rate doesn't matter. Be sure to ask about all costs and fees, including any prepayment penalties.
- **Recognize the Full Impact of Your Decision:** While you typically do not have to pay taxes on the proceeds of a reverse mortgage, the income or lump sum you receive could impact your or your spouse's eligibility for various state and federal benefits, including Medicaid. A reverse mortgage is generally not the right choice for you if you want to leave your home for your heirs.
- **Get Independent Advice:** Because reverse mortgages are such complicated transactions, the federal government requires borrowers to meet with HUD-approved counselors before obtaining a federally guaranteed loan. Make sure that any counselor recommended by your lender is truly independent. You can do this by asking whether the counselor receives any funding from the lender or the mortgage industry.
- **Be Skeptical of Reverse Mortgages as Part of an Investment Strategy:** If someone urges you to obtain a reverse mortgage to make an investment or purchase an insurance product or a security, be skeptical, especially if they are promising high returns. What you are being asked to do is to speculate with your home equity.

- **Ask the Right Questions About the Proposed Investment Strategy:** Reverse mortgages are a very costly way to fund an investment. Before you choose a reverse mortgage for investment purposes, make sure you understand both the terms of the loan AND the terms of the investment.

The bottom line is home equity is a homeowner's most valuable asset, and most precious source of retirement income. Consider all the risks and explore all your options before taking out a reverse mortgage. If you do choose to take out a reverse mortgage, be sure to use the funds wisely.

For more information, visit <http://www.finra.org>