

Frequently Asked Questions About Reverse Mortgages

1. What is a reverse mortgage?

A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The equity that 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 borrower(s) no longer use the home as their principal residence.

2. How do I qualify for a reverse mortgage?

To be eligible for a reverse mortgage, you 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 closing with proceeds from the reverse loan, and you must live in the home. In addition, since January 2009, homeowners may also purchase a new principal residence with reverse mortgage loan proceeds. Regardless of the type of product you may choose, you will be required to receive consumer information from an approved reverse mortgage counselor prior to obtaining the loan.

3. 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, and the appraised value of your home. 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, insurance and other conventional payments like utilities. Also, with a reverse mortgage, you cannot be foreclosed or forced to vacate your house because you "missed your mortgage payment."

4. 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. You can never owe more than the value of your home at the time you or your heirs sell the home.

5. Will I still have an estate that I can leave to my heirs?

When you sell your home, 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.

6. 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, whichever is less. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow.

7. How do I receive my payments?

You have five options:

1. Tenure - equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
2. Term - equal monthly payments for a fixed period of months selected.
3. Line of Credit - unscheduled payments or installments, at times and in amounts of your choosing until the line of credit is exhausted.
4. Modified Tenure - combination of line of credit with monthly payments for as long as you remain in the home.
5. Modified Term - combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

