
CONSUMER ALERT

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ATTORNEY GENERAL

The Attorney General provides Consumer Alerts to inform the public of unfair, misleading, or deceptive business practices, and to provide information and guidance on other issues of concern. Consumer Alerts are not legal advice, legal authority, or a binding legal opinion from the Department of Attorney General.

REVERSE MORTGAGES

Reverse mortgages have become an increasingly popular option for seniors who need to supplement their retirement income, pay for unexpected medical expenses, or make needed repairs to their homes. Before entering into a reverse mortgage, however, you should understand what a reverse mortgage is, understand the types of reverse mortgages that are available, know the costs and fees associated with reverse mortgages, and understand the repayment obligations for these mortgages.

What is a Reverse Mortgage?

Reverse mortgages allow homeowners to convert equity in their home into cash, while retaining ownership. Equity is the difference between the market value of your property and the amount you owe on your mortgage. The reverse mortgage gets its name because instead of making monthly loan payments to your lender, you receive payments from your lender. As your lender makes payments to you, the amount you owe on the loan increases and your equity decreases.

Although you are not responsible for making monthly payments on the loan, because you remain the owner of the home, you continue to be responsible for paying property taxes, maintaining homeowners insurance, and making necessary repairs.

What are the different types of Reverse Mortgages?

Home Equity Conversion Mortgage (HECM)

The HECM is the most popular reverse mortgage. HECMs are insured by the Federal Housing Administration (FHA), which is part U.S. Department of Housing and Urban

Development (HUD). The FHA guarantees that lenders will meet their obligations. HECMs are only offered by federally-approved lenders, who are required to follow strict rules imposed by the federal government. The FHA tells HECM lenders how much they can lend you, based on your age and your home's value. Further, you must undergo reverse mortgage counseling as a condition to obtaining this type of loan.

For more information regarding the HECM, visit the U.S. Department of Housing and Urban Development at: www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm.

Single-Purpose Reverse Mortgages

Payments received through these reverse mortgages can only be used for certain purposes, such as home repairs, home improvements, or paying property taxes. These types of reverse mortgages are offered by state and local governments, or nonprofit lenders, and are usually the least expensive reverse mortgages. They are often only available to low to moderate income homeowners.

Other "Proprietary" Reverse Mortgages

Some banks and financial institutions offer their own reverse mortgages. These loans are backed by the private companies that provide them; they are NOT insured by the federal government.

How do I qualify for a Reverse Mortgage?

In order to qualify for most reverse mortgages:

You and any other borrowers on the reverse mortgage must be at least 62 years of age.

The home securing the reverse mortgage must be your primary residence. Eligible property types include single-family homes, 2-4 unit owner-occupied properties, manufactured homes, condominiums, and townhouses.

You must either pay off the old mortgage debt before you get a reverse mortgage, or pay off the old mortgage debt with the money you get from a reverse mortgage.

There are no minimum asset, income, or credit requirements to qualify for most reverse mortgages.

Are there fees associated with Reverse Mortgages?

As with all mortgages, there are costs and fees connected to securing a reverse mortgage. Fees include those associated with loan origination, mortgage insurance premiums, closing costs, and monthly servicing fees. These fees are often higher than the fees associated with traditional mortgages and home equity loans. Make sure you understand all the costs and fees associated with the reverse mortgage.

Be aware that if you choose to finance the costs associated with a reverse mortgage, they will increase your loan balance and accrue interest during the life of the loan.

Will I have to repay the Reverse Mortgage?

You generally do not have to repay the reverse mortgage as long as you and any other borrowers continue to live in the home, pay property taxes, maintain homeowners insurance, and keep the property in good repair. Your reverse mortgage lender may include other conditions that will make your reverse mortgage payable, so you should read the loan documents carefully to make certain you understand all the conditions that can cause your loan to become due.

How much will I owe when my Reverse Mortgage becomes due?

The amount you will owe on your reverse mortgage will equal all the loan advances you received (including advances used to finance the loan or to pay off prior debt), plus all the interest that accrued on your loan balance. If this amount is less than your home is worth when you pay back the loan, then you (or your estate) keep whatever amount is left over.

With most reverse mortgages, you can never owe more than your home is worth. The technical term for this cap on your debt is a "non-recourse limit." It means that the lender, when seeking repayment of your loan, generally does not have legal recourse to anything other than your home's value and cannot seek repayment from your heirs.

Be aware that since the home will likely need to be sold to pay back the reverse mortgage, these types of loans may not be a good option if you want to leave your home to your children.

Tips to Protect Yourself

- Consult with an independent financial adviser to find out what reverse mortgage package best suits your financial situation and needs.

- If you do not have a financial advisor, discuss your situation with a counselor approved by the US Department of Housing & Urban Development (HUD); HUD-approved counseling agencies are available to assist you with your reverse mortgage questions. You can call 1-800-569-4287 to find a counselor in your area.
- Make sure you understand all the costs and fees associated with the reverse mortgage.
- Find out whether the reverse mortgage you are considering is federally-insured. This will protect you when the loan comes due.
- Find out whether your repayment obligation is limited to the value of your home at the time the loan becomes due.
- Make sure any reverse mortgage payments are first made directly to you; do not allow anyone to persuade you to sign over the funds to someone else.
- Be wary of anyone who tries to pressure you into a decision that you are not completely comfortable with, such as investing the payments from your reverse mortgage into an annuity, insurance policy, or other investment product, or pressuring you into receiving a lump-sum payment over monthly payments.
- If you are uncomfortable with the reverse mortgage that you entered into, exercise your right of rescission within three days of the closing. A right of rescission allows you to cancel the mortgage within three days of closing without penalty.
- Visit www.seniorbrigade.com for more information about reverse mortgages and other issues of interest to seniors.

CONTACT THE ATTORNEY GENERAL'S CONSUMER PROTECTION DIVISION

Consumers may contact the Attorney General's Consumer Protection Division at:

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www.michigan.gov/ag (online complaint form)

Michigan Attorney General Consumer Alerts are available at www.michigan.gov/ag
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