

# Reverse Mortgage Self-Evaluation:

## A CHECKLIST OF KEY CONSIDERATIONS



A reverse mortgage is a loan that enables homeowners that are generally 62 years of age or older to use part of their homes' equity to obtain cash proceeds that can be used in many ways. The loan does not have to be repaid until the last surviving borrower or remaining eligible non-borrowing spouse passes away or permanently leaves the home, or if the homeowners sell the home, or fail to meet the loan obligations, that include paying property taxes and insurance, and keeping their home maintained.

Nearly all reverse mortgage loans on the market today are federally insured Home Equity Conversion Mortgages (HECMs), though other types of reverse mortgage loans are offered by some states and private lenders. This Reverse Mortgage Self Evaluation is based on the features and requirements of HECM reverse mortgages, but may be helpful to consumers considering other types of reverse mortgage loans.

**Reverse mortgages are a versatile financial tool that nearly a million homeowners have used to age-in-place, and for other reasons. However, like any financial product, reverse mortgages should be considered carefully before deciding whether to obtain one.**

**You should ask yourself the following questions before proceeding with your loan application:**

- 1. How do you intend to use your reverse mortgage loan proceeds?*
- 2. Do you fully understand your obligations as a borrower under a reverse mortgage?*
- 3. If you are married, will your spouse be a co-borrower on your loan?*
- 4. How will your reverse mortgage loan be repaid?*
- 5. Do you receive assistance under any government programs that are based on your current income?*
- 6. How long do you, and your spouse, plan to remain in the home?*
- 7. Have you considered other strategies to supplement your retirement income?*

## 1. HOW DO YOU INTEND TO USE YOUR REVERSE MORTGAGE LOAN PROCEEDS?

One of the advantages of a reverse mortgage loan is that borrowers generally have the freedom to use their cash proceeds any way they choose. Eligible homeowners obtain reverse mortgages for many reasons including:

- Repairing or modifying the home to meet the physical needs of getting older
- Supplementing retirement income to meet expenses
- Managing the costs of in-home care
- Paying off an existing mortgage
- Paying bills
- Paying property taxes
- Delaying Social Security
- Providing a source of funds for living expenses in lieu of liquidating financial investments during times of market downturn or disruption
- Establishing a line of credit for use as a financial safety net
- Helping retirement savings last longer
- Purchasing a retirement home

### Do you have a plan for making your reverse mortgage loan proceeds last?

Reverse mortgage loans are most successful when borrowers have a plan to ensure the money supports and sustains them for as long as they want to stay in their home. Additional consumer protections were put into place in 2013 to help borrowers preserve more of their home equity during the first year of the loan.

It is never recommended that reverse mortgage borrowers use their loan proceeds to speculate on real estate or securities, or to engage in risky investment schemes.

You should be aware that loan originators are not permitted to require or encourage you to purchase other financial products such as an annuity or long term care insurance as a condition for getting a reverse mortgage.

## 2. DO YOU FULLY UNDERSTAND YOUR OBLIGATIONS AS A BORROWER UNDER A REVERSE MORTGAGE LOAN?

Reverse mortgage borrowers are not required to make monthly loan payments to their lender, but must continue to meet certain obligations in order to stay current on the loan. Failure to meet these obligations may result in the loan becoming due and payable.

With a reverse mortgage, the home is the collateral on the loan which means that the lender has a vested interest in the safety and condition of the property, and that the property is free of superior liens. For that reason, reverse mortgage borrowers must: live in the property for the majority of the calendar year; maintain the condition of the home; stay current on all property taxes, insurance, and any condominium fees or homeowner's association fees; and comply with all other loan terms. Ask yourself:

### Will you live in your home for the majority of the calendar year?

The mortgaged property must be the borrower's principal residence. Every year, borrowers must verify that they continue to occupy and live in the home by signing an occupancy certificate and mailing it to the loan servicer.

### **Are you prepared to maintain the condition of your property?**

As part of the application process, the property will be inspected and appraised. Homeowners are responsible for regular upkeep of the property and are required to maintain the home's condition from the time the loan is made. Failure to maintain the home in a satisfactory condition can result in the loan becoming due and payable.

### **Will you be able to pay your property taxes, insurance, and homeowner fees?**

Borrowers must pay all property taxes, homeowners and hazard insurance premiums, and any applicable condominium fees, planned unit development fees, homeowner's association fees, and any other special assessments that may be required by local or state law.

### **Do you understand what will happen if you cannot pay your taxes, insurance, or homeowner fees?**

If the borrower fails to make a tax or insurance payment, the loan servicer may advance the payment from the available loan proceeds. But, if there are not enough proceeds available to cover the payments, the loan servicer may elect to advance its own funds to make the payments.

Once this happens, the loan will be considered to be in technical default and the loan servicer may call the loan due and payable or establish a repayment plan with the borrower. If the terms of the repayment plan cannot be met, the loan servicer will call the loan due and payable and could move to foreclose on the property.

### **Do you understand your personal finances will be reviewed?**

To help determine if a reverse mortgage is a sustainable option for borrowers, a policy was put into effect in 2015 requiring lenders to conduct a financial assessment of every reverse mortgage applicant to ensure that the applicant possesses the ability and willingness to pay ongoing costs, such as property taxes, homeowner's insurance, and other financial obligations, over the expected life of the loan. Lenders examine, in part, the borrower's debt and sources of income, such as Social Security, pensions and investments.

If, based on the results of the financial assessment, there is an income shortfall or credit problems, the lender may set aside a certain amount of money from the loan's principal limit to pay for property taxes and insurance premiums over the course of the loan. The "set aside" reduces the amount of loan proceeds available to the borrower.

A borrower may also elect to set aside a certain amount of funds to pay for property taxes and insurance premiums over the course of the loan. Once a "set aside" is established, it cannot be canceled or changed.

## **3. IF YOU ARE MARRIED, WILL YOUR SPOUSE BE A CO-BORROWER ON YOUR LOAN?**

Under the rules of a HECM reverse mortgage, borrowers must be at least 62 years old, named on the title of the home, and use the home as their principal residence. Spouses who do not meet these criteria cannot sign the HECM reverse mortgage loan documents as a borrower and will be identified as either an eligible non-borrowing spouse or an ineligible non-borrowing spouse depending on certain additional criteria. You should speak to your HUD-approved reverse mortgage counselor about the non-borrowing spouse criteria.

### **What if your co-borrower spouse survives you?**

If both spouses are borrowers, the HECM reverse mortgage features apply equally to both spouses even in cases where one spouse survives the other.

### **What if your eligible non-borrowing spouse survives you?**

When the borrower passes away, an eligible non-borrowing spouse who follows the requirements may be able to defer repayment of the loan and continue living in the home, but they will not be able to receive any remaining loan proceeds and they must continue to meet the obligations of the loan.

### **What if your ineligible non-borrowing spouse survives you?**

An ineligible non-borrowing spouse would not be able to defer repayment of the reverse mortgage loan.

## **4. HOW WILL YOUR REVERSE MORTGAGE LOAN BE REPAYED?**

A reverse mortgage is a non-recourse loan which means that the borrower or the borrower's estate will never be obligated to pay the lender more than the loan balance or the current value of the home, whichever is less. When a loan is called due and payable, the reverse mortgage borrower or the borrower's estate only needs to repay the lesser of either the loan balance or 95% of the home's appraised value at that time.

### **Do you know your options for repaying the loan?**

A reverse mortgage loan becomes due when the last surviving borrower or remaining eligible non-borrowing spouse passes away, permanently vacates, or sells the home; or if the homeowners fail to meet the loan obligations, which include paying property taxes and insurance, and keeping their home maintained. A borrower can repay the loan balance with proceeds from the sale of the home or by using personal funds to satisfy the debt.

If you pass away, or permanently leave the home, do you know how your heirs or estate will repay the loan?

After the last surviving borrower or remaining eligible non-borrowing spouse passes away, or permanently leaves the home, there are several different ways the loan can be repaid. The heirs or estate can:

- Sell the property and use the proceeds to pay the loan balance;
- Use personal funds or gifted money to repay the loan;
- Purchase the property for 95% of its appraised value;
- Provide the lender with clear and marketable title to the home through a "deed in lieu of foreclosure." If the borrower's heirs or estate do not want to take responsibility for selling the property, or purchasing it, the person authorized to act on behalf of the borrower's estate can provide a "deed in lieu of foreclosure" to the loan servicer and avoid an actual foreclosure.

### **Do you want someone to inherit your home after you pass away?**

Reverse mortgage loans are not assumable and heirs cannot take possession of the home until the debt is satisfied either by repaying the loan with personal funds, funds from the estate, or by obtaining separate mortgage financing, if they qualify for such financing at that time.

### **Did you know that you can prepay your reverse mortgage loan?**

A borrower may prepay all or part of the outstanding loan balance at any time without penalty.

## **5. DO YOU RECEIVE ASSISTANCE UNDER ANY GOVERNMENT PROGRAMS THAT ARE BASED ON YOUR CURRENT INCOME?**

A reverse mortgage does not affect regular Social Security or Medicare benefits. However, if you are on Medicaid or receive Supplemental Security Income (SSI), reverse mortgage proceeds may affect your benefits.

Although reverse mortgage loan advances are not considered income, they may affect eligibility for some means-tested benefits, which are public assistance benefits that are only available to people who qualify based on their income and assets. Loan advances that are retained in a borrower's bank account may be counted as assets, also referred to as "liquid resources" or "reserve." You should consult with a qualified financial advisor to learn how a reverse mortgage could impact eligibility of some government benefits.

### **Are you considering a lump sum cash draw?**

Getting a lump sum cash draw from a reverse mortgage, unless it is immediately spent, could impact a borrower's eligibility for Medicaid and Supplemental Security Income. Funds that you retain could count as an asset and could impact eligibility. You should contact a qualified financial advisor or the local Area Agency on Aging or a Medicaid expert to learn more.

## **6. HOW LONG DO YOU, AND YOUR SPOUSE, PLAN TO REMAIN IN THE HOME?**

Reverse mortgages, like many financial products, have costs associated with them, including some that need to be paid up-front when the reverse mortgage is obtained. Among other things, that means that if you or your spouse are not likely to continue to live in your home for more than several years after the reverse mortgage is obtained, you should pay particular attention to those costs and consider them carefully with your HUD-approved reverse mortgage counselor and whether there may be other more cost effective alternative strategies.

## **7. HAVE YOU CONSIDERED OTHER STRATEGIES TO SUPPLEMENT YOUR RETIREMENT INCOME?**

### **Do you qualify for public or private benefits available to low-income people with Medicare?**

During reverse mortgage counseling, borrowers will find out if they might be eligible for grant money or other financial assistance by utilizing BenefitsCheckup, a tool for identifying services, such as housing assistance, tax deferral programs, home repair grants or loans, food stamps, fuel assistance, social services or healthcare.

### **Did you know there are other ways to tap your home equity?**

There are several ways homeowners aged 62 and older can tap into their home's value during retirement, including by: renting out a room in the house or home sharing, refinancing an existing mortgage, taking out a home equity loan or home equity line of credit, selling the home, selling the home privately and leasing back the property for an extended period of time, and others. Each of these options has its own benefits and drawbacks that should be carefully considered before making a decision.

## **YOUR NEXT STEPS / COUNSELING**

This checklist was created to help you consider whether a reverse mortgage is right for you. Your HUD-approved reverse mortgage counselor can help you to answer additional questions you may have about the loan. You can also find more information about reverse mortgages loans and the loan process on [www.reversemortgage.org](http://www.reversemortgage.org), a consumer website created by the National Reverse Mortgage Lenders Association (NRMLA).



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