Loan Types and Costs

By: Source: AARP.org Date Posted: 2003-03-21 08:43:23

Comment E-mail Print Bookmark

Related Articles

- More Costly Private Loans
- A Rising Debt" Loan "
- Total Costs and Model Specifications
- Considering Options and Timing

The most well-known and widely available reverse mortgage is the federally-insured Home Equi Conversion Mortgage (HECM). This loan is backed by the U. S. Department of Housing and Urba Development (HUD) and can be used for any purpose. It is generally offered by mortgage companies or banks.

Some state and local governments offer low-cost reverse mortgages that generally must be use for one specific purpose only, for example, to make home repairs or pay property taxes. Many c these "public sector" loan programs are only available to homeowners with low or moderate incomes.

"Proprietary" reverse mortgages are owned and backed by the private companies that develop them. These loans can be used for any purpose and are generally the most expensive type of reverse mortgage.

Loan costs can vary by a lot from one type of reverse mortgage to another. Not all reverse mortgages include the same types of loan costs. As a result, the true, total cost of reverse mortgages can be difficult to understand and compare. That is why federal Truth-in-Lending law requires lenders to disclose a "Total Annual Loan Cost" for these loans.

Total Annual Loan Cost

The Total Annual Loan Cost (TALC) combines all of a reverse mortgage's costs into a single annual average rate. TALC disclosures can be useful when comparing one type of reverse mortgage to another. But they also show that the true, total cost of an individual reverse mortgage loan can vary by a lot and can end up being much more — or less — expensive than you might imagine.

TALC disclosures reveal that reverse mortgages generally cost the most when you live in your home only a few years after closing the loan. Short-term TALC rates are very high because the start-up costs are usually a very large part of the total amount that you owe in the early years of the loan. But as your loan balance grows larger over time, the start-up costs become a smaller part of your debt. As these costs are spread out over more and more years, the TALC rate declines.

If the loan's growing balance catches up to the home's value, your debt is then limited by that value. This makes the true cost of the loan decrease at a faster rate. So the longer you live in your home, or the less its value grows, the less expensive your loan is likely to be.

But TALC rates aren't the only way to measure reverse mortgage costs. An article on "Total Costs & Model Specifications" in the Basics section of this site shows a more complete way to measure and compare the costs and benefits of reverse mortgages.

Additional Resources

TALC Tutorial

URL: www.reverse.org/talctuto.htm

The National Center for Home Equity Conversion provides a step-by-step explanation of how TALC rates are calculated.

AARP does not endorse any reverse mortgage lender or product.

More Articles on Personal Finance »