Basics

Basic Loan Features

Although there are different types of reverse mortgages, all of them are similar in certain ways. Here are the features that most have in common.

Homeownership

With a reverse mortgage, you remain the owner of your home just like when you had a forward mortgage. You are still responsible for paying your property taxes and home-owner insurance and for making property repairs.

When the loan is over, you or your heirs must repay all of your cash advances plus interest. Reputable lenders don't want your house; they want repayment.

Financing Fees

You can use the money you get from a reverse mortgage to pay the various fees that are charged on the loan. This is called "financing" the loan costs. The costs are added to your loan balance, and you pay them back plus interest when the loan is over.

Loan Amounts

The amount of money you can get depends most on the specific reverse mortgage plan or program you select. It also depends on the kind of cash advances you choose. Some reverse mortgages cost a lot more than others, and this reduces the amount of cash you can get from them.

Within each loan program, the amounts you can get generally depend on your age and your home's value:

- The older you are, the more cash you can get; and
- The more your home is worth, the more cash you can get.

The specific dollar amount available to you may also depend on interest rates and closing costs on home loans in your area.

Debt Payoff

Reverse mortgages generally must be "first" mortgages, that is, they must be the primary debt against your home. So if you now owe any money on your property, you generally must either :

- pay off the old debt before you get a reverse mortgage; or
- pay off the old debt with the money you get from a reverse mortgage.

Most reverse mortgage borrowers pay off any home debt with a lump sum advance from their reverse mortgage. You may not have to pay off other debt against your home if the prior lender agrees to be repaid after the reverse mortgage is repaid. Generally only state or local government lending agencies are willing to consider "subordinating" their loans in this way.

Debt Limit

The debt you owe on a reverse mortgage equals all the loan advances you receive (including any you used to finance the loan or to pay off prior debt), plus all the interest that is added to your loan balance. If that 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.

But if your rising loan balance ever grows to equal the value of your home, then your total debt is limited by the value of your home. Put another way, you can never owe more than what your home is worth at the time the loan is repaid. The lender may not seek repayment from your income, your other assets, or from your heirs.

(The technical term for this cap on your debt is a "non-recourse limit." It means that the lender does not have legal recourse to anything other than your home's value when seeking repayment of the loan.)

Repayment

All reverse mortgages are due and payable when the last surviving borrower dies, sells the home, or permanently moves out of the home. (Typically, a "permanent move" means that neither you nor any other co-borrower has lived in your home for one continuous year.)

Reverse mortgage lenders can also require repayment at any time if you:

- fail to pay your property taxes;
- fail to maintain and repair your home; or
- fail to keep your home insured.

These are fairly standard "conditions of default" on any mortgage. On a reverse mortgage, however, lenders generally have the option to pay for these expenses by reducing your loan advances and using the difference to pay these obligations. This is only an option, however, if you have not already used up all your available loan funds.

Other default conditions on most home loans, including reverse mortgages, include:

- your declaration of bankruptcy;
- your donation or abandonment of your home;
- your perpetration of fraud or misrepresentation;
- if a government agency needs your property for public use (for example, to build a highway); or
- if a government agency condemns your property (for example, for health or safety reasons).

Changes that could affect the security of the loan for the lender can also make reverse mortgages payable. For example:

- renting out part or all of your home;
- adding a new owner to your home's title;
- changing your home's zoning classification; or
- taking out new debt against your home.

You must read the loan documents carefully to make certain you understand all the conditions that can cause your loan to become due.

Cancellation

After closing a reverse mortgage, you have three days to reconsider your decision. If for any reason you decide you do not want the loan, you can cancel it. But you must do this within three business days after closing. "Business days" include Saturdays, but not Sundays or legal public holidays.

If you decide to cancel, you must do it in writing, using the form provided by the lender, or by letter, fax, or telegram. It must be hand delivered, mailed, faxed, or filed with a telegraph company before midnight of the third business day. You cannot cancel by telephone or in person. It must be written.

AARP does not endorse any reverse mortgage lender or product.