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## **Reverse Mortgages Reviewed in Recent AARP Report**

Reverse mortgages provide a way to convert home equity savings into cash for older homeowners with limited financial resources. Reverse mortgages are loans secured by a home that do not have to be repaid until the borrower dies, sells the home, or moves out of the home permanently. Typically, the older the borrower and the greater the home value, the more cash can be borrowed. The minimum age for almost all reverse mortgage programs is 62. 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, followed by the findings of a recent Research Report by the AARP Public Policy Institute on actual borrowers' experiences with reverse mortgages.

### **Home Ownership**

With a reverse mortgage, you remain the owner of your home just like when you had a "forward" mortgage (a regular mortgage on your home). 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.

## **The AARP Research Report**

In December 2007, the AARP Public Policy Institute published a Research Report, "Reverse Mortgages: Niche Product or Mainstream Solution? Report on the 2006 AARP National Survey of Reverse Mortgage Shoppers" by Donald L. Redfoot, Ken Scholen, and S. Kathi Brown (©2007 AARP). This report presents the results of the first survey of reverse mortgage borrowers and homeowners who had considered these loans but decided against them. The following information and a link to the full report may be found at: [http://www.aarp.org/research/credit-debt/mortgages/inb999\\_revmortgage.html](http://www.aarp.org/research/credit-debt/mortgages/inb999_revmortgage.html)

In the 20 years since the Home Equity Conversion Mortgage (HECM) insurance program was authorized by Congress, the program has created an insurance model to cover the risks of reverse mortgages, provided flexible payment options to consumers, established a consumer counseling program, and developed model consumer disclosures, and laid the foundation for funding the loans by investors.

Only in the past few years has the number of HECM loans grown substantially.

- 345,762 loans have been insured in the history of the program.
- Nearly one-third (107,367) of all loans so far were made in FY 2007.
- Only 1 percent of older households currently have a reverse mortgage.

Consumer awareness has increased but interest has decreased.

- The share of individuals ages 45 and older who had heard of reverse mortgages increased from 51 percent in 1999 to 70 percent in 2007.
- But the share of respondents who said they were willing to consider a reverse mortgage in the future declined from 19 percent to 14 percent.

### **Why Are Older Homeowners Interested in Reverse Mortgages?**

The 2006 AARP Survey asked respondents why they looked into a reverse mortgage and asked borrowers what they had used the money for with the following results:

- Respondents were more likely to identify “necessities” than “extras” as a reason for looking into a reverse mortgage by a margin of 48 percent to 38 percent.
- Having money to deal with emergencies and to improve the quality of life were the most frequently mentioned reasons for looking into a reverse mortgage.
- When asked to name the “main reason” for looking into a reverse mortgage and the “main use” for the loan proceeds, borrowers most frequently mentioned paying off existing mortgages.
- One-quarter (26 percent) of respondents said that they looked into a reverse mortgage to help pay for expenses related to health care or disability needs, most frequently to deal with prescription drug costs.
- Over one-fourth (28 percent) of respondents identified retiring non-mortgage debts as a reason for looking into a reverse mortgage, most frequently for credit card debt.

Three reasons for looking into a reverse mortgage are related to supplementing income:

- paying for everyday expenses (47 percent of respondents);
- improving the quality of life or being able to afford some extras (71 percent); and
- having more money for emergencies or other unexpected expenses (75 percent).

Respondents to the AARP Survey who mentioned homeowner-related expenses were looking into a reverse mortgage to pay for:

- home repairs or improvements (46 percent);
- property taxes or homeowners insurance (27 percent); and

- household chores and maintenance (18 percent).

Despite the high costs involved, 14 percent of respondents indicated that they had looked into a reverse mortgage to make investments or purchase annuities or long-term care insurance. Nine percent of borrowers reported that their lenders had recommended specific financial services products, and 4 percent of borrowers said they had used their loans for such purposes.

### **Reasons for Not Taking Out a Loan**

Among respondents who did not apply for a loan, high costs were cited three times more often than the next most important reason as the **main reason** for not applying. Over two-thirds (69 percent) of the borrowers AARP surveyed also said that the costs were high.

### **Consumer Satisfaction with Reverse Mortgages**

Consumer evaluations were very positive:

- 58 percent of borrowers indicated that the loan had completely met their needs; 25 percent said their needs were mostly met, and 12 percent said their needs had been partly met.
- 93 percent of borrowers reported that their reverse mortgages had had a mostly positive effect on their lives, compared to 3 percent who said the effect was mostly negative.
- 93 percent of borrowers and 75 percent of non-borrowers reported that they were satisfied with their experiences with lenders.
- 95 percent of borrowers and 92 percent of non-borrowers reported that they were satisfied with their experiences with counselors.

### **Conclusions and Recommendations for Practice and Policy**

The report reaches five main conclusions:

- The HECM program has successfully created the foundation for the financial infrastructure of the reverse mortgage industry.
- Reverse mortgages have enabled older homeowners to address a range of needs and desires with a high level of initial satisfaction.
- Loan costs are too high.
- Consumer knowledge about and confidence in reverse mortgages is low.
- More research is needed on how consumer uses of reverse mortgages change over time as well as on the long-term impact of these loans on financial well-being.

Contact us for more information on ways to finance care needs, and referrals to experts who can help you with reverse mortgages.