Reverse Mortgages Fact Sheet

Introduction

A reverse mortgage is a loan that allows homeowners to convert the equity in their homes into cash and defer repayment on the loan. Many older homeowners use this type of financial tool to get funds that they need to pay household bills, medical bills or expenses for long-term care needs. A reverse mortgage may be distributed in any of the following ways:

- a lump sum payment
- monthly payments
- a line of credit
- a combination of these options

Repaying

The reverse mortgage has to be repaid at "maturity." This term is defined in the loan documents, but it usually includes at any of the following times.

When the borrower:

- dies
- sells the home
- permanently leaves the home
- moves into a long-term facility
- defaults

Pay particular attention to the terms of any reverse mortgage loan maturity details.

Defaulting

The homeowner must complete certain actions related to the home, such as pay property taxes, maintain insurance, and maintain the home. A homeowner may forget to make these payments or may not be able to afford to make them. If he or she fails to do these things, the borrower may be in default and the entire mortgage can become due.

Disadvantages

The National Consumer Law Center points out that a reverse mortgage is rarely a good solution for someone who will not be staying in the home for many more years. This is because of the usually expensive upfront costs (typically between $5,000 and $10,000) and compounded interest.

If the owner needs to go into a long-term care facility, the entire mortgage becomes due. If there are other people living in the home, such as a spouse, disabled child, or minor child, the mortgage may still be due, causing these dependents to become homeless if they cannot pay off the large mortgage. Anyone who lives in the home who is not named on the loan will need to move out or pay off the loan. A reverse mortgage can have negative implications for a bankruptcy filing, since it is seen as taking on more debt.

If the owner dies in the home, the entire principal, accrued interest, and any service fees must be paid in full to the lender by the heirs, or the mortgage company can foreclose on the home. A reverse mortgage uses up the home's equity with the cash that is withdrawn and the interest that accrues over time. This leads to the owner having less wealth moving forward and to pass down to heirs.

When Deciding

Before signing any documents for a reverse mortgage, carefully read through the proposed terms. You should have a good understanding of how this transaction will affect your estate and any inheritance you want to pass down to your heirs. Consult with a financial planner or attorney before signing a document concerning the most valuable asset that you may have.

Counseling is mandatory before taking out a reverse mortgage. Make sure that you find a good, HUD approved counselor by going to hud.gov and searching for "HUD Search for a Reverse Mortgages Housing Counselor" or by calling 1-800-569-4287.

This fact sheet is a collaboration of the Center for Arkansas Legal Services and Legal Aid of Arkansas, Inc. These nonprofit organizations provide free legal assistance to eligible Arkansans who meet income, asset, and other guidelines. Legal assistance may also include advice and counsel, brief services, or full representation depending on the situation. For more information about civil legal aid in Arkansas, please visit arlegalservices.org. For information specific to Legal Aid of Arkansas, Inc., visit arlegalaid.org. Apply for services online or by calling 1-800-9-LAW-AID (1-800-952-9243).

The information and statements of law in this fact sheet should not be considered legal advice. This fact sheet is provided as a broad guide to help you understand how certain legal matters are handled in general. Courts may interpret the law differently. Before you take action, talk to an attorney and follow his or her advice. Always do what the court tells you to do.

Content provided by:
Legal Aid of Arkansas, Inc.

Updated December 2016