

An Option for Seniors

What are Reverse Mortgages?

On its face, reverse mortgages may not make a lot of sense. But these financial mechanisms, also called home equity conversion mortgages, can be an option for homeowners over 62 who need money. Here's what you need to know from the Consumer Financial Protection Bureau, a U.S. government agency that makes sure banks, lenders and other financial companies are fair.

I'VE SEEN THE COMMERCIALS. HOW DOES IT WORK?

Reverse mortgages allow homeowners to borrow money using their home as security for the loan, similar to personal loans using a home as collateral or cashing out equity in a home. Just like with a traditional mortgage, the home remains in the homeowner's name, and homeowners are required to pay property tax, maintain homeowner's insurance and keep the home in good condition.

And it doesn't apply to just any home owned by anyone over 62. Most lenders want you to own your home outright with no mortgage or have a very low balance you can pay off when you close on the reverse mortgage. You also cannot owe any federal debt, such as a tax obligation or student loans (check



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to see if you cosigned any loans for a younger relative that they still owe).

Before you close, you will need to receive counseling from a HUD-approved reverse mortgage counseling agency.

SO IT'S FREE MONEY?

Nope. Unlike a traditional mortgage, the amount the property owner owes the lender goes up each month, not down. Interest and fees are added to the balance monthly and the loan balance increases as the

home's equity decreases. Either the homeowner or their heirs will pay the loan back, usually by selling the home. This makes it a serious option for families with a property they have no interest in passing on to others.

IS IT A SCAM?

It can be. Keep an eye out for contractors offering reverse mortgage solutions as a way to pay for repairs needed at the home. Also be on the lookout for companies offering Department of Veterans Affairs

(VA) reverse mortgages. The VA doesn't offer a reverse mortgage and no one offers a no-payment mortgage.

IT MIGHT BE A SCAM, BUT I ALREADY SIGNED THE PAPERWORK

You may still be OK. With most reverse mortgages, you have a three-day right to cancel, known as the right of rescission. For most lenders, you must notify the lender in writing. Send the letter by certified mail and ask for a return receipt so you

have communication of when you sent the letter and when the lender received it. Keep copies of all further communication between you and the lender. After receiving your cancellation letter, the lender has 20 days to return any money you've paid for financing the loan.

If your three-day period has passed, it may still not be too late, but it will probably take a lawyer to help you. Look for a local attorney with experience with financial obligations or real estate.



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REAL ESTATE 101



HOMEWISSE GLOSSARY

Not all real estate professionals are Realtors. Realtors are members of the National Association of Realtors. They must comply with the Realtor Code of Ethics and also may have access to market data and other benefits of being a member of the association.

Title search: A check of public records to ensure the seller is the legal owner of the property and to identify any claims or liens against the property.

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