DISB
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Consumer Guide
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# What You Should Know About Reverse Mortgages

A reverse mortgage is a loan that lets homeowners 62 and older borrow against the equity in their homes. Homeowners can take out their equity without having to sell the home. Reverse mortgages can help some seniors stay in their homes while getting income in retirement.

## How Reverse Mortgages Work

The lender pays you a lump sum, a monthly advance, a line of credit or a combination. The amount you can borrow is based generally on your age, the equity in your home and the interest rate the lender is charging. You can use the loan for any purpose.

With a reverse mortgage, you retain the title to your home, which means you are responsible for maintaining your home and paying real estate taxes. Your reverse mortgage may become due when you move; sell your home; reach the end of the loan period; or die. When you die, the lender does not take title to your home, but your heirs must pay off the loan. Usually they repay it by selling the home or, if they want to keep it, by refinancing.

## Facts to Consider about Reverse Mortgages

- The lender adds interest charges to the loan which accrue each month, so the amount you owe increases over time as the interest compounds. Some reverse mortgages have fixed interest rates; others are adjustable.
- Reverse mortgages use up some or all the equity in your home, leaving fewer assets for you and your heirs.
- The three types of reverse mortgages are FHA-insured, lender-insured and uninsured. Each varies in costs and terms. Check for the one that best suits your needs. But first consult with family members, your attorney or financial advisor about tax consequences and other considerations.
- Reverse mortgages typically charge loan-origination fees and closing costs. Insured plans charge insurance premiums; some plans have mortgage-servicing fees. You may be able to

finance these costs if you don't want to pay them in cash. But the lender will then add them to your loan and you will pay interest on them.
- Borrowers need to be sure they will have enough money to pay real-estate taxes and homeowners insurance or they may face eviction. It is also important for married couples to list both their names on the mortgage; if a surviving spouse's name is not on the loan, he or she may have to repay it immediately. And retirees should be wary of brokers pushing high-fees.

## Watch Out for Scams!

As well as considering the intricacies of these loans, borrowers should watch out for scams. Here are a few tips:

- Do not respond to unsolicited advertisements
- Be suspicious if someone who claims you do not have to worry about payments
- Do not sign anything you do not understand
- Seek professional advice (for example, through HUD-approved counselors)

## About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov.

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