



# Consumer Corner

by Illinois Attorney General LISA MADIGAN



## Is a Reverse Mortgage Right For You?

In recognition of National Consumer Protection Week, this month's column addresses an important issue on the minds of many seniors: reverse mortgages.

**Q.** I'm a retired senior living on a limited income. With the cost of living continuing to rise, I need additional cash to cover my expenses. I'm thinking about getting a reverse mortgage to make ends meet. Is that a good idea?

**A.** You should explore all of your options very carefully before choosing a reverse mortgage. There may be less costly options that better fit your needs, such as selling and downsizing. If used properly, a reverse mortgage can be a valuable tool to help older homeowners access their home equity and use that money to meet rising costs and continue living in their homes. **However**, reverse mortgages are not a good fit for all homeowners. You must carefully evaluate your circumstances to determine if a reverse mortgage is the best option for you.

A reverse mortgage is a unique type of loan that allows a homeowner to turn part of the equity in his or her home into cash. With a traditional mortgage, you make monthly payments to a lender. Over time, the amount of money you owe on your home decreases, while your equity in the home increases. With a reverse mortgage, the opposite happens: You withdraw money from the equity you have built up in your home, so over time your debt increases and your equity decreases. You can decide how you want to draw out the money—either in one lump sum, a fixed amount every month, a line of credit, or a combination of these payment methods.

Typically, you are not required to pay back the reverse mortgage for as long as you live in the home. Instead, the bank is repaid the loan balance when you sell the home, move out of the home, or pass away. You are free to leave your home to whomever you choose, but if the amount owed is equal to 100 percent of the home's value when you pass away, your heirs will be left with nothing.

**It is also important to note that consumers who take out reverse mortgages can lose their homes to foreclosure if they fail to meet the conditions and terms of the loan, including failing to properly maintain the home or failing to pay property taxes or homeowner's insurance.**

The amount of money you can borrow with a reverse mortgage depends on several factors, including your age, the type of reverse mortgage loan you select, the appraised value of your home, and current interest rates. Generally, the older you are and the greater the value of your home, the more money you will be able to borrow.

Before applying for a reverse mortgage, consumers must meet with a counselor from a U.S. Department of Housing and Urban Development certified housing agency to discuss a reverse mortgage's costs and financial implications, as well as possible financial alternatives. To find a counselor, call 1-800-FED-INFO (1-800-333-4636) or visit [www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm). Counseling agencies typically charge about \$125 per session, which can be paid from the loan proceeds. You cannot be turned away if you cannot afford the fee.

If you decide to pursue a reverse mortgage, **be on the lookout for predatory lenders and scam artists whose sole purpose is to cash in on the hard-earned equity in your home.** For more information on reverse mortgages, please consult the AARP's *Reverse Mortgage Loans: Borrowing Against Your Home* at [www.aarp.org/money/personal/reverse\\_mortgages/](http://www.aarp.org/money/personal/reverse_mortgages/) and visit our Web site at [www.IllinoisAttorneyGeneral.gov](http://www.IllinoisAttorneyGeneral.gov) or call our **Senior Citizens Consumer Fraud Helpline** at 1-800-243-5377 (TTY: 1-800-964-3013).