ConsumersUnion
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Tips for Seniors Considering a Reverse Mortgage

1. **If you need cash, consider alternatives to reverse mortgages first.**

   a. Explore eligibility for less expensive programs or benefits.
   Reverse mortgages are very expensive loans. They should be considered only as a last resort. Before seeking a reverse mortgage, see if you qualify for less expensive programs that offer monetary assistance or cost-cutting benefits, such as Supplemental Security Income (SSI) or Medicaid. You may also be eligible for prescription drug, energy and telephone discount programs, local government grants and low-cost loans for home improvement, state property tax postponement and/or Veterans low-cost in-home supportive services.

   b. See if family financing is an option.
   An alternative to expensive reverse mortgages may be an inter-family loan. In an inter-family loan, family members advance money to the senior instead of the senior getting a reverse mortgage from a bank. Home equity is used as collateral for this "private reverse mortgage." Sums paid out are tracked and recorded. When it comes time to sell the home, the family-member investors regain their contributions along with interest. Typically, the costs of an inter-family loan are a fraction of what they would be if the homeowner got a traditional reverse mortgage from an institutional lender.

   To get started on an inter-family loan, talk to your adult children about how much money you need and if they are able and willing to make such a loan. If the amount needed is a manageable sum, you and your kids should meet with an attorney to have a contract drawn up to clarify the terms and to protect investors. All payments must be tracked, and interest on these sums calculated. This may be done with the help of a Certified Public Accountant (CPA). Even with the cost of professionals, the setup costs of an inter-family loan are usually a fraction of the thousands required to start a reverse mortgage.

2. **If you decide to pursue a reverse mortgage do these things first:**

   a. Calculate the continuing expenses that come with a reverse mortgage.
   Advertisements sell reverse mortgages as an end to financial worries. This is not altogether true. Would-be borrowers must think about how much money they will still be paying in continuing expenses once they have a reverse mortgage. Here are two ongoing expenses that a reverse mortgage does not eliminate:
   - You must stay current on all payments owed for property taxes, homeowners' insurance and, if applicable, all homeowners' association fees.
   - You must adequately maintain the home or the loan may be called, for example, if you cannot repair a leaky roof.

   Failing to do either of these things can lead to default. Default on a reverse mortgage can lead to foreclosure. Sadly, seniors with reverse mortgages can and do lose their homes.

   b. See a HUD Counselor face-to-face and consult with your financial advisors.
   Before borrowing against your home equity, attend a face-to-face counseling session with a local HUD counselor rather than the phone counseling that is permitted in nearly every state. Do not rely on HUD counseling alone to determine whether a reverse mortgage is appropriate for your needs. Either before or after meeting with a HUD-approved counselor, meet with either a Certified Financial Planner (CFP) or Certified Public Accountant (CPA), and/or with an elder law attorney before deciding on any reverse mortgage. Use this opportunity to discuss personal financial goals in more depth while obtaining specific advice regarding potential options to–or information about–appropriate reverse mortgage products. To find local counselors, consult: https://entp.hud.gov/idapp/html/hecm_agency_look.cfm or contact the AARP Foundation at 1-800-209-8085.