Misconceptions of Reverse Mortgages:

Myth vs Fact

MYTH #1:
The bank or lender takes ownership of my home.

FACT: With a reverse mortgage, you or your estate continue to retain ownership of your home's title.[1] The lender's interest is limited to the outstanding loan balance as a lien on the property.

MYTH #2:
A reverse mortgage requires me to make monthly mortgage payments.

FACT: There are no monthly payments required on a reverse mortgage – you have the freedom and flexibility to pay as little or as much as you want, as often as you'd like. However, as a borrower, you are responsible for keeping current with real estate taxes, homeowners insurance, and property maintenance.

MYTH #3:
My heirs will be responsible for repaying the loan.

FACT: Since reverse mortgages are non-recourse loans, the lender can only derive repayment of the loan from the proceeds from the sale of the property. Even if the value of the home is dramatically reduced, you or your heirs will never owe more than the value of the home at the time of its sale. And when the loan becomes due, your heirs have several options on what they can choose to do with the home. They can repay the loan and keep the home for themselves, sell the home and keep any remaining funds, or do nothing with the home and deed it to the lender.

MYTH #4:
To qualify for a reverse mortgage, my home must be debt-free and paid off "free and clear."

FACT: You can have a mortgage or other debt on your home's title as long as you have adequate equity in the property. It there's a mortgage on your home, the money from the reverse mortgage is first used to pay off that loan – and since no monthly mortgage payments[1] are required on the reverse mortgage, you can eliminate that monthly expense and free up more cash to use as you see fit.

MYTH #5:
Reverse mortgage lenders just want to sell my house.

FACT: You can stay in your house for as long as you want, as long as you meet the terms of the loan.[1] Should you decide to sell your home or relocate, the loan would then become due and payable.

MYTH #6:
If I get a reverse mortgage, I will be left with nothing to leave to my heirs.

FACT: Since you'd be borrowing money againt the value of your home, and accruing loan interest and mortgage insurance payments, the loan amount would increase over time. That said, the home may appreciate in value – so it's possible that there may be money left over from the sale of the house that would go to your heirs, once the loan is paid.

More facts on the back >>

MYTH #7:
I cannot sell my home if I get a reverse mortgage.

FACT: A reverse mortgage is like an other loan. If you sell your home, the reverse mortgage will be paid off at closing. There are no prepayment penalties for paying off or selling the home in advance.

MYTH #8:
A reverse mortgage should be used as a last resort.

FACT: A reverse mortgage is a powerful financial tool that can be an important part of your overall financial plan. From paying off an existing mortgage to delaying Social Security, or even creating an emergency line of credit,[2] it's a flexible product designed to give you options. In fact, many financial planners have begun to discuss reverse mortgages with clients who need additional sources of retirement cash flow.

MYTH #9:
Reverse mortgages are expensive.

FACT: Reverse mortgage loan origination costs and interest rates are comparable to those of traditional mortgages. There are FHA insurance costs that some traditional mortgages do not require, but it's a relatively small cost. Plus, lender closing costs and fees can typically be financed into the loan, so there is little required from you out of pocket.

MYTH #10:
If my lender or servicer changes, my loan terms are subject to change.

FACT: The terms of your loan are defined at closing and by law, cannot be changed, as long as the deed remains in force.

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1. As with any mortgage, you must meet your loan obligations by keeping current with property taxes, insurance, and maintenance.
2. Borrowers who elect a fixed rate loan will receive a single disbursement lump sum payment. Other payment options are available only for adjustable rate mortgages.

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Charges such as an origination fee, mortgage insurance premiums, closing costs and/or servicing fees, if applicable, may be assessed and will be added to the loan balance. As long as you comply with the terms of the loan, you retain title until you sell or transfer the property, and, therefore, you are responsible for paying property taxes, insurance and maintenance. Failing to pay these amounts may cause the loan to become immediately due and/or subject the property to a tax lien, other encumbrance or foreclosure. The loan balance grows over time, and interest is added to that balance. Interest on a reverse mortgage is not deductible from your income tax until you repay all or part of the interest on the loan. Although the loan is non-recourse, at the maturity of the loan, the lender will have a claim against your property and you or your heirs may need to sell the property in order to repay the loan, or use other assets to repay the loan in order to retain the property.