

What family members should know about reverse mortgages



MetLife



You may find it helpful to share this information with family members.

Even if you're already familiar with reverse mortgages, as the relative of a potential borrower, you may have questions or concerns about the process and the options. The information below is designed to give you a brief overview. If you have further questions, please contact MetLife Bank at 1-800-607-0366, or call your relative's MetLife Bank reverse mortgage consultant directly.

Definition A reverse mortgage is a way for older adults to access the equity in their home to pay for the necessities or even extras in life while allowing them to live in their home and maintain their independence.

Eligibility Homeowners age 62 or older who live in the home as their principal residence are eligible. The home has to have little or no debt remaining on it, and meet U.S. Department of Housing and Urban Development's (HUD) minimum property standards, although the reverse mortgage may be used to pay for any required repairs. If there is a remaining conventional mortgage, the property owner may still be eligible. In that case, the reverse mortgage would be first used to pay off the existing mortgage(s).

Maintaining ownership Borrowers retain ownership of their home. They can continue to live in it as long as they want, and the loan doesn't have to be repaid until they leave or sell the home. They are responsible for paying property taxes and homeowner's insurance, and making any property repairs.

Loan amount The amount of the loan depends on: homeowner's age, type of reverse mortgage, current interest rates, home location and Federal Housing Administration's (FHA) lending limits for the area, appraised value of the home, and amount of equity in the home.

Receiving the money Borrowers can receive the cash from a reverse mortgage in several ways: a lump sum, a monthly cash advance, a line of credit, or a combination of these options.

Use of the money The main reasons people get a reverse mortgage are: to continue living in their home and remain independent, while supplementing their income to pay necessary or discretionary expenses.

Monthly payments There are no required monthly mortgage payments.*That's why it's called a "reverse" mortgage. Unlike traditional forward mortgages, with a reverse mortgage, the bank pays the borrower. However, the homeowner is responsible for paying home insurance premiums and property taxes, as well as for ongoing maintenance.

Repaying the loan After the homeowner leaves the home permanently, the loan balance needs to be repaid, including interest and fees. This is usually done through the sale of the house. There is also the option of using other assets, or a refinanced mortgage, to repay the loan in full and keep the house. Other events that may trigger loan repayment are: the last surviving borrower passes away or fails to live in the home for 12 consecutive months; failure to pay property taxes or insurance; or the property deteriorates beyond what is considered reasonable wear and tear and is not repaired.

Lender limitations Reverse mortgages are considered non-recourse loans, which means that the property alone stands for the loan amount to be repaid. The borrower may satisfy the loan by giving a marketable title to the lender, or by selling the home at a fair market price. If that fair market price is less than the loan balance, the lender must accept the sale proceeds as sufficient payment and cannot seek to recover additional repayment from the borrowers' income, other assets, or heirs. Of course, if the sale price exceeds the loan balance, then the amount in excess of the loan belongs to the borrowers or their heirs.

Tax implications The money from a reverse mortgage is generally tax-free. Technically, it's not considered income, just existing assets in the form of equity. Laws differ in each state, so it's a good idea for your relative to consult with a tax advisor.

Government benefits Funds from a reverse mortgage generally do not affect regular Social Security or Medicare benefits. However, needs-based benefits, such as Medicaid and Supplemental Security Income (SSI), may be impacted. Contact a tax professional about your relative's particular situation. A MetLife Bank reverse mortgage consultant can provide additional information.

Interest rates Most reverse mortgages have variable rates that are tied to a financial index and will vary according to market conditions and product. MetLife Bank offers both variable and fixed-rate products. In a rising interest rate market, the balance on a variable-rate reverse mortgage will grow more quickly than on a fixed-rate reverse mortgage.

Refinancing Reverse mortgages can be refinanced. This option can be advantageous if the home increases in value, making more equity available.

Other fees Beyond interest charges, most reverse mortgages have an origination fee, closing costs, mortgage insurance premium, and a monthly servicing fee. These can be paid by the reverse mortgage itself, so there is no immediate burden to the borrower. The costs are added to the principal and paid with interest when the loan becomes due.

Benefits versus a home equity loan Unlike a home equity loan, a reverse mortgage does not require monthly mortgage payments, and there are no income requirements. In most cases, credit history is not a factor either.

To learn more or get started, call 1-800-607-0366.

Mortgage financing provided by MetLife Home Loans, a division of MetLife Bank, N.A. Equal Housing Lender.

*Although there are no monthly mortgage payments, interest accrues on the portion of the loan amount disbursed.

All loans are subject to property approval. Certain conditions and fees apply.

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