The Buried Costs of the Reverse Mortgage Lines of Credit

Recently, there have been a number of articles advising seniors that a smart way to prepare for unexpected expenses is to open up a line of credit with a reverse mortgage.

A reverse mortgage is a loan that allows homeowners aged 62 and older to borrow against the equity in their homes. The loan will become due with interest when the borrower dies or permanently moves out of the home. Reverse mortgages are often pitched as “easy money,” but beware: these loans are expensive and can result in default and foreclosure.

Seniors are told that reverse mortgages are a proactive and prudent financial strategy that gives them easy access to cash when needed. Unfortunately, these articles stay silent about the extraordinary costs required to initiate and maintain any kind of reverse mortgage loan, and that because of the loan origination fees, having line of credit just sitting around waiting to be used will actually be eating up the senior’s home equity. Sadly, these pro-industry articles don’t make it clear that setting up this “rainy day financial plan” costs a substantial amount of money and after it is established, will continue to accrue the debt owed on a reverse mortgage loan.

The Costs of Getting a Reverse Mortgage Line of Credit

1. The HECM counseling fee: In order to get a reverse mortgage line of credit, borrowers must undergo mandatory counseling with a third-party HECM counselor approved by the U.S. Department of Housing and Urban Development. The fee is typically around $125.
2. **Home appraisal fee:** A home appraisal runs from about $300 to $500 depending on the condition and size of the house.

3. **Costs for closing the loan:** There are fees for credit checks, title insurance, and loan recording.

4. **Loan origination fee:** A lender can charge the greater of $2,500 or 2% of the first $200,000 of your home’s value plus 1% of the amount over $200,000. HECM origination fees are capped at $6,000.

5. **Initial mortgage insurance premium:** There is an initial 2% mortgage insurance premium (MIP) at closing.

6. **Origination Fees Rolled into the loan:** The origination fees can be immediately paid or they can be rolled into the loan. If they rolled into the loan, they will accrue interest at the same rate as does the principle.

7. **Annual mortgage insurance premiums:** Over the life of the loan there is an annual MIP that equals 0.5% of the outstanding mortgage balance.

8. **Loan servicing fees:** There are monthly servicing fees of up to $30 if your reverse mortgage loan has an interest rate that adjusts annually, and up to $35 monthly if the interest rate adjusts on a monthly basis.

The lender can also add the cost of their servicing fee into the borrower’s interest rate. This all increases the monthly loan balance.

While it is a good idea for seniors to be prepared for financial emergencies, it is not wise or prudent to create a reverse mortgage line of credit unless and until it is absolutely necessary.

Reverse mortgage are complex and expensive loans. Seniors need to be very aware of what their true costs will be before becoming involved in them. Their financial security depends on it.

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