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FACT SHEET

CANHR is a private, nonprofit 501(c)(3) organization dedicated to improving the quality of care and the quality of life for long term care consumers in California.

Reverse Mortgage Suitability: Points to Consider

A reverse mortgage is a type of loan for homeowners 62 years of age or older who have considerable equity in their houses. Typically, borrowers receive periodic payments, e.g., monthly, and/or have access to a line of credit and make no more mortgage payments during their lifetimes. The process for repayment of the loan is triggered when the last borrower either enters a long-term care facility or dies, or when the house is sold.

A Borrower's Preliminary Reverse Mortgages Costs

There are a multitude of costs associated with setting up a reverse mortgage loan. Those costs are bundled together, accumulate compound interest debt, and are to be paid to the lender when the borrower sells the home, permanently moves away from the home, or dies. The costs can be either paid up front by the borrower, or added onto the loan. If the costs are added onto the loan, they will be part of the accumulating debt. One way or another, there are costs associated with getting a reverse mortgage line of credit and consumers need to be aware of this fact.

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 HECM Counseling Fee	$125
·	The Home Appraisal Fee	$300 - $500
·	Initial Mortgage Insurance Premium	2% of loan at closing
·	Annual Mortgage Insurance Premiums	0.5% of loan balance
·	Monthly Loan Servicing Fee	$30 - $35
·	Loan Origination Fee	$6,000 cap
·	Plus Costs for Closing the Loan (credit checks, title insurance, loan recordation, etc.)	

The suitability of a reverse mortgage for an individual borrower should be evaluated in the context of the totality of the borrower's circumstances, goals, and needs. Before purchasing a reverse mortgage, consider the following points:

1. Whether the homeowner intends to reside in the property on a long-term basis.
2. The borrower's physical health and probability for living independently into the foreseeable future.
3. Whether alternatives to a reverse mortgage would serve a similar purpose. These alternatives may include, but are not limited to, low-cost housing rehabilitation grants and public loans, property tax postponement, or government aid programs.
4. Whether the homeowner is planning to use the proceeds of the reverse mortgage loan to purchase financial products, including, but not limited to, annuities or investments, that might not be appropriate for the homeowner. (Refer to Fact Sheet – Annuity Questions for Senior Consumers.)
5. If the borrower intends to use funds obtained from a reverse mortgage to purchase investments, determine whether the cost of obtaining the reverse mortgage outweighs the anticipated earnings from the investment.
6. If the homeowner will use the proceeds of the reverse mortgage loan to purchase a long-term care insurance product, evaluate if that product is appropriate for the homeowner.
7. The borrower's ability to pay for long-term care services, whether institutional or community-based, once the borrower exhausts his or her equity in the home.
8. The borrower's marital status and the impact of the reverse mortgage on the future economic security of a spouse or dependent.
9. The borrower's intent to pass the residence to an heir and the impact of the reverse mortgage on his or her ability to accomplish this transfer.
10. Whether a resident of the property who is not the homeowner would be displaced at the maturity of the loan, against the homeowner's wishes, because he or she will not be able to pay off the reverse mortgage loan.
11. With regard to removal of names from the property title:
    a. Was another homeowner removed from title prior to or during underwriting?
    b. Was the removed homeowner under the age of 62?
    c. Was the removed homeowner significantly younger than the remaining homeowner?
    d. Is there any reason to believe that the removed homeowner will outlive the remaining homeowner?
    e. Was the removed homeowner fully appraised of the legal ramifications of being removed from title, including, but not limited to, the consequences upon the death of the remaining homeowner or upon a divorce settlement.
12. Whether the homeowner is fully aware of all loan costs and the method by which costs will be paid.
13. How a reverse mortgage will affect the borrower's eligibility for receiving government benefits, including, but not limited to Medi-Cal benefits.

Questions? Call CANHR at (800) 474-1116 or visit CANHR's website at www.canhr.org