Pay for long-term care: Reverse mortgage

If you expect to stay in your current home or purchase a new home, a reverse mortgage is another option to pay for future needs. A reverse mortgage can pay for both immediate needs, as well as preventive measures. This allows you to continue to live at home safely and comfortably.

Compared to a home equity loan, a reverse mortgage provides many more protections for the homeowner. Like any mortgage, there may be significant upfront closing fees that generally become part of the loan balance. You must meet several conditions to qualify. Because your home may be your most valuable asset, it is a decision you should make carefully.

**How does a reverse mortgage work?**

A reverse mortgage is a special type of mortgage that is available to homeowners age 62 and older. You can access cash from the value of your home without selling your home. You choose whether you want to receive a lump-sum payment, a monthly payment, a line of credit, or a combination of these options.

There are no restrictions on how you use the money you get from a reverse mortgage.

Unlike a traditional mortgage, a reverse mortgage does not currently require an income or credit requirements. You make no monthly mortgage payments. You do not have to repay the loan as long as you continue to live in the home. The total amount that you can borrow is based primarily on the age of the youngest homeowner, the value of the home, the type of reverse mortgage you select and the current interest rate.

The loan is due when you or the last borrower dies, sells the home or moves out of the home permanently. You or your heirs keep the difference if the sale price is greater than the reverse mortgage loan balance. Your heirs can also keep the home if they repay the loan.

**Things to consider about reverse mortgages**

The following federal laws apply to reverse mortgages and protect the rights of consumers:

- You must meet with a reverse mortgage counselor certified by the federal government before the mortgage company can process your loan application.
- You continue to own your home and the mortgage holder can never force you to leave as long as you maintain the home and pay the property taxes and homeowners insurance.
- You (or your heirs) will never be required to pay more than the value of the home at the time you sell the home or repay the loan, even if the value of your home declines.
- Payouts you receive from a reverse mortgage are not taxable. They also do not affect your eligibility for Social Security or Medicare benefits.
Getting a reverse mortgage may be an option if you:

- Want to stay in your home as long as possible and receive your long-term care services there.
- Have limited retirement income from other sources and your home represents your largest asset.
- Want to use the money for any purposes, including long-term care costs or other expenses that help you age in place.
- Are comfortable with the repayment of the outstanding loan balance at the time of your death or when you move, even if this means the home does not stay in the family.
- Receive a reasonable stream of funds from the reverse mortgage after the initial upfront fees and on-going homeowners insurance, property taxes and upkeep.

Other things to consider:

- A reverse mortgage may have significant upfront costs similar to traditional mortgages. It may not be a good idea to apply for a reverse mortgage if you are likely to move out of the home soon for health or other reasons,
- If the home is owned jointly, both homeowners must be age 62 or older. The older you are, the more money they can receive through the reverse mortgage.
- There are no income or credit requirements to meet when applying for a reverse mortgage, although some are warning that future reverse mortgages could include a review of these.
- Because a reverse mortgage gives you available cash, you need to be on the alert for people who target you with various schemes to use the funds. Some practices such as cross selling a deferred annuity to someone who just purchased a reverse mortgage, are now illegal.
- If you borrow the money when you are younger (closer to age 62), you may drain all the available equity from the home and may not have anything left when you need it for long-term care costs.
- Reverse mortgage funds must first be used to pay off any existing mortgage or other debt against the home and to make required home repairs.
- If you are the sole borrower and you leave your home for care in an assisted living or nursing facility for more than a year, your loan will become due and will need to be repaid.
- New, lower-cost reverse mortgages are now available, although the loan amounts are more limited than traditional reverse mortgages.

Reverse mortgage products are offered through lenders and brokers who specialize in this type of mortgage. Study your options carefully and be familiar with the features, costs and interest rate options before making any decisions.

For more information

Check out other fact sheets and the Minnesota Own Your Future website at www.mn.gov/ownyourfuture.

Contact the One Stop Shop at 1 (800) 333-2433 or visit www.MinnesotaHelp.info® for personalized, objective assistance in understanding all of your long-term care options. The One Stop Shop does not sell, market or endorse any insurance product, lender or planning service.