



Kwame Raoul
ATTORNEY GENERAL

OFFICE OF THE ATTORNEY GENERAL STATE OF ILLINOIS

115 S. LASALLE STREET · CHICAGO, IL 60603
WWW.ILLINOISATTORNEYGENERAL.GOV

Homeowner Helpline
1-866-544-7151
1-866-310-8398

REVERSE MORTGAGES

Before deciding whether a reverse mortgage makes sense for you, it's important to fully understand the terms of the loan and what other options you might have.

Terms of a Reverse Mortgage

- **The Loan**

A reverse mortgage is a loan issued to a homeowner who is at least 62 years old in an amount based on the value of his or her home, the age of the borrower and the interest rate. The property must be occupied by the homeowner as his or her principal residence and must not have more than four units.

The homeowner makes no monthly payment to the lender, as long as he or she resides in the home and meets certain requirements. However, a reverse mortgage is still a loan and must eventually be paid back.

- **Repayment**

The loan is due and must be paid when the last remaining borrower sells the property, permanently leaves the home or passes away.

If the borrower or borrower's heirs cannot or choose not to repay the loan upon leaving the home or passing away, the lender may have the home sold as payment for the loan and, after the loan is paid, the borrower or borrower's heirs will receive whatever money is left over from the sale.

- **Fees and Charges**

Reverse mortgages have fees and transaction charges, which are taken from the loan proceeds at the time of closing the loan. Interest is also charged throughout the life of the loan, so the principal balance of the loan continues to grow until the loan is paid back.

- **Receiving Payments**

The proceeds of a reverse mortgage loan can be paid out in a number of ways, but payment is usually arranged in one of three options: 1) periodic payments made to the homeowner on an annual, quarterly or monthly basis; 2) a line of credit that is drawn on by the borrower from time to time in such amounts as is needed; or 3) a lump sum payment at the time the loan is closed.

- **Paying Taxes and Insurance and Maintaining the Property**

The homeowner must continue to pay property taxes and homeowners insurance and maintain the property; if not, the loan can be declared in default and could be foreclosed.

What Should I Do Before Obtaining a Reverse Mortgage?

- **Shop Around**

You should carefully shop around and consider different reverse mortgage offers, as well as alternatives to reverse mortgages, such as home equity loans or lines of credit.

- **Get HUD-Certified Counseling**

- Required for** federally insured reverse mortgages known as Home Equity Conversion Mortgages (HECM). You must complete counseling, either in person or by phone, with an independent HUD-approved reverse mortgage counselor before deciding whether to take out a reverse mortgage.
- Beneficial for** any type of reverse mortgage to help you evaluate the pros and cons of a reverse mortgage based on your financial situation and to better understand other options that might be available.
- Though not required, meeting with an independent housing counselor **face to face** is generally the best way to get the most out of the counseling experience, so the counselor can get a full understanding of your financial situation.

The lender must provide you with a document that contains contact information for HUD-approved reverse mortgage counseling agencies. You can also get a list of approved agencies online from HUD at www.hud.gov or by calling 1-800-569-4287.

Beware Of...

- ✓ Solicitations offering “free government programs” or claims that the loan being offered is endorsed by the government. A reverse mortgage is not a “free government program.”
- ✓ Upfront lump-sum disbursements. These typically offer less money than other payout options, can be more costly and eliminate your ability to access loan proceeds in the future.
- ✓ Using your reverse mortgage proceeds to buy another financial product, such as an annuity.
- ✓ The terms of a reverse mortgage may adversely affect your eligibility to obtain a tax deferral under the Senior Citizens Real Estate Tax Deferral Act (320 ILCS 30/1 et seq.).

Your Rights Under Illinois Law

- You have the right to a three-day waiting or “cooling off” period for reverse mortgage loans to give you time to seek additional information and counseling to evaluate your decision to take out a reverse mortgage. The period starts after you accept in writing the lender’s commitment to make the loan, and the lender cannot require you to close or proceed with the loan during this period. The “cooling off” period is three business days, and it cannot be waived by you or the lender.
- The lender cannot require you to purchase an annuity, investment, life insurance or long-term care insurance product as a condition of obtaining a reverse mortgage loan. However, the lender may still require you to have property and casualty insurance, title insurance, flood insurance or similar products meant to insure or protect the value of the home.
- Generally, the loan proceeds cannot be distributed to anyone other than the borrower or their spouse or partner. Loan disbursements in compliance with the Federal Housing Administration’s Home Equity Conversion Mortgage Program guidelines are allowed.
- The lender must permit you to repay the reverse mortgage, in whole or in part, at any time during the term of the loan.

Potential Alternatives to a Reverse Mortgage

- **Home Equity Lines of Credit**

There may be alternatives to tapping into the equity in your home with a reverse mortgage; for instance, if you have enough income to afford monthly payments, you may want to consider a home equity line of credit.

- **Property Tax Deferral Programs**

Some counties may offer seniors property tax deferral or abatement. You can check with your county treasurer about a senior citizens tax deferral.

Please keep in mind: The terms of a reverse mortgage may adversely affect your eligibility to obtain a tax deferral under the Senior Citizens Real Estate Tax Deferral Act (320 ILCS 30/1 *et seq.*).

- **Subsidies, Grants or Other Loans**

Some governmental entities and community organizations offer subsidies, grants and inexpensive loans for home repairs. If you are considering a reverse mortgage to pay for upkeep or repairs on your home, consider potential programs that may offer such assistance.

- **Benefits Checkup**

Visit www.benefitscheckup.org/ or call the National Council on Aging at 571-527-3900 to find out if you qualify for benefits that will reduce your monthly expenses.

For More Information

For more information on reverse mortgages, visit HUD at www.hud.gov or locate a HUD-certified housing counselor by calling HUD at 1-800-569-4287.

Consumer Fraud Hotlines:

Chicago

1-800-386-5438

Springfield

1-800-243-0618

1-877-844-5461

Carbondale

1-800-243-0607

1-877-675-9339

Senior Fraud Helpline

1-800-243-5377

Homeowner Helpline

1-866-544-7151

ID Theft Hotline

1-866-999-5630

1-877-844-5461

Español: 1-866-310-8398

Individuals with hearing or speech disabilities can reach us by using the 7-1-1 relay service.

