



Loan Options for Homeowners

There are some loans that are offered only to people who own their homes. These loans can seriously impact your finances. Think carefully before you take out one of these loans. This section will talk about reverse mortgages and home equity loans.

Always be on the lookout for predatory lending. Before you take on any new debt, [click here to read more about predatory lending in the chapter titled “Managing Your Debt.”](#)

Reverse mortgages

A reverse mortgage is a special type of loan available to seniors who own their homes and want to stay there, but need extra cash. Reverse mortgages work by letting you, the homeowner, access the value that has increased in your home while you have been paying your mortgage. This value is known as “equity.” Generally speaking, your home’s equity is the current market value of your home minus the amount you owe on your mortgage. This is not an exact formula; there are many other factors that are considered when determining equity.

Reverse mortgages are not right for everyone. If you are thinking about taking out a reverse mortgage, you should talk to an attorney first. REMEMBER: It is **never** a good idea to use the equity in your home to pay unsecured debts like credit cards or medical bills. Call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to speak to an attorney for free.

IMPORTANT NOTE: If your spouse recently passed away and you are worried that you are going to lose your home because of a reverse mortgage, an attorney might be able to help you. If you are 60 or older, call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to talk to an attorney for free.

Who qualifies for a reverse mortgage?

If you are 62 years-of-age or older and either own your home outright or owe a small mortgage, you might be able to get a reverse mortgage. Your home must be your principal residence. For a federally insured reverse mortgage your home must be:

- A single family home; or
- A one-unit to four-unit building (you must occupy one of the units); or
- A approved condominium; or
- An approved manufactured home.

Usually, your home must also meet certain property standards. And you have to attend counseling with an approved agency first. The purpose of this counseling is to assess whether a reverse mortgage is right for you.

Generally, there are no income guidelines to qualify.

If you are married or have a partner who is under the age of 62

If your spouse or cohabitating partner is under the age of 62, a reverse mortgage could have

disastrous effects on them when you die. You should talk to an attorney before you apply for a reverse mortgage. Call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to speak to an attorney for free.

IMPORTANT NOTE: If your spouse recently passed away and you are worried that you are going to lose your home because of a reverse mortgage, an attorney might be able to help you. If you are 60 or older, call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to talk to an attorney for free.

Important considerations

Most reverse mortgages do not require monthly repayment. Repayment is only required:

- When you die;
- If you sell or give away your home; or
- If you do not live in your home for 12 months.

You still have to pay your property taxes and homeowner's insurance. If the payment for taxes and insurance are not included in your mortgage payment, you will need to pay them separately.

Amount of the loan

The amount of equity that you are allowed to tap into will vary according to your loan. Your maximum loan amount will not necessarily be equal to your home's equity. Lenders take into account other factors, such as:

- Your age;
- Current interest rates; and
- The appraised value of your home.

Prepayment of loan proceeds

In general, and depending upon your lender, your loan can be paid to you as a:

- Lump sum;
- Regular monthly income;
- Regular monthly income for a specified term; or
- Line of credit.

Interest rates and fees

Reverse mortgages are expensive. They usually have high interest rates and large fees. You will need to check with your lender to determine your interest rate. In addition to the interest rate, there are several types of fees that add to the cost of your loan. Read your contract carefully and be sure that you understand the terms.

Insurance

Unlike other private loans, the federal government insures certain reverse mortgages. Reverse mortgages with this insurance have special rules and protections. Some of these special rules apply specifically to foreclosure. Other rules cover what can be used to satisfy your debt. You should talk to your reverse mortgage counselor about the specific details of your reverse mortgage.

You can call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to speak to an attorney for free.

Repayment

Generally, the loan is repaid when the borrower dies. Usually, your home is the only asset that can be used to repay your loan. But, your heirs might not be required to sell your home if they can pay the loan with other assets. If you were planning to leave your home to a loved one after your death, a reverse mortgage may not be right for you.

Effect on benefits

If you receive benefits such as Social Security Disability (SSI) or Medicaid, your benefits may be affected by the payments you receive under your loan.

Home equity loans

Home equity loans or lines of credit allow you to borrow money based on how much “equity” you have in your home. Generally speaking, your home’s equity is the current market value of your home minus the amount you owe on your mortgage. But this is not an exact formula; there are many other factors that are considered when determining equity.

With a home equity loan, you can either get one lump sum payment, or a line of credit that allows you to draw upon the money as needed.

Home equity loans require monthly payments to repay the loan. These payments start as soon as you take out the loan. If you don’t make these monthly payments, you can lose your home to foreclosure.

If you decide to apply for a home equity loan, make sure you can afford it. Figure out how much you can afford to pay, and then shop around. Be careful about hidden costs and fees and predatory lenders. Don’t sign anything unless you understand and agree to the terms. Don’t risk foreclosure or risk losing equity in your home by spending too much to borrow money.

REMEMBER: It is **never** a good idea to pay credit card debt or medical bills with the equity from your house. If you are having difficulty with a debt collector and are worried about not paying a debt, contact an attorney first. If you don’t own a lot of property, you may be “collection proof.” This means a debt collector cannot collect against you. An attorney will be able to advise you on how best to proceed. Call the Legal Services for Maine Elders Helpline at 1-800-750-5353 to talk to an attorney for free. For more information about how to handle your debt, [click here to see the chapter “Managing Your Debt” in this handbook.](#)