

Connecticut Reverse Mortgage Laws

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Issue

Describe Connecticut's reverse mortgage-related laws.

Summary

A reverse mortgage is a type of home loan that allows homeowners to borrow against the equity in their home. The funds may be paid to the homeowner in a lump sum, as regular monthly income, or at other times and in other amounts. The loan, and interest on it, are repaid when certain events occur, such as when the homeowner permanently moves out of the home, sells it, or dies.

Connecticut law has several provisions involving reverse mortgages generally, and one specific type of them, reverse annuity mortgage (RAM) loans in which a lump sum is used to purchase an annuity that gives the borrower monthly income (see below).

Connecticut law subjects persons who make payments to borrowers under a reverse mortgage to the banking department's regulatory requirements for mortgage servicers (e.g., licensure; see [CGS § 36a-715 et seq.](#)). But servicers who only own reverse mortgage loans or do reverse mortgage servicing do not need to maintain specified capital and liquidity requirements ([CGS § 36a-720](#)).

RAM loans are a type of "alternative mortgage loan." Connecticut banks and credit unions making these loans must give prospective loan applicants (1) information about all available mortgage loans and (2) the option of applying for a standard mortgage. The law prohibits these loans from having prepayment penalties and allows for them to have partial loan repayment through an agreement for reduced installment payments ([CGS § 36a-265](#)). A mortgage securing advancements under a RAM is definite and valid to secure all advanced funds if it lays out the (1)

full amount authorized, (2) dates and amounts of the installment payments, and (3) events that will cause the loan to reach maturity ([CGS § 49-2](#)).

The law sets out counseling requirements that must be met before any entity, including a state or federally chartered bank or credit union, may accept a final and complete RAM loan application or assess any mortgage fees ([CGS § 36a-267](#)).

By law, the Connecticut Housing Finance Authority (CHFA) must have a program offering RAMs to certain homeowners who are at least age 70 and need long-term care to remain in their homes ([CGS § 8-265i](#)). Additionally, the state's Medicaid plan must assure that funds from RAMs, in certain circumstances, are not treated as income or assets for determining Medicaid eligibility ([CGS § 17b-261j](#)).

Lastly, reverse mortgage transactions are excluded from the requirements of the Connecticut Abusive Home Loan Lending Practices Act ([CGS § 36a-746a et seq.](#)), which protects against predatory lending by requiring certain disclosures and prohibiting certain loan agreement provisions and actions by a lender when making high cost loans. (OLR Report [2005-R-0016](#) explains why this is the case.) Reverse mortgages are similarly explicitly excluded from the law's requirements for lenders making nonprime home loans ([CGS § 36a-760](#)). (For more information on these laws, see OLR Report [2021-R-0170](#).)

Alternative Mortgage Loans

Under Connecticut law, a RAM is a type of "alternative mortgage loan." These are loans secured by first mortgages on one-to-four family residential owner-occupied real property in which loan proceeds are advanced to mortgagors in installments (directly or indirectly) and are repaid with unpaid interest after certain events occur. Specifically, repayment is due after (1) the last surviving mortgagor dies, (2) the property is sold or transferred to someone other than an original mortgagor, or (3) any other event specified in the mortgage deed occurs and causes a material decrease in the property's value that will likely result in the loan not being repaid ([CGS § 36a-265](#)).

The law allows Connecticut banks and credit unions to make RAM loans, subject to specified requirements and applicable standard mortgage loan laws ([CGS § 36a-265\(b\)](#)).

Under the law, banks and credit unions making these loans may contract with the mortgagor for interest to be paid currently or to accrue, in which case the accrued interest would be added to the mortgage debt and is secured by the mortgage in the same manner as the loan principal. The law

prohibits the instruments evidencing and deeds granting these loans from having a prepayment penalty ([CGS § 36a-265\(c\)](#)).

The banks and credit unions must give anyone who requests a loan application or states that they are a prospective applicant information about all mortgage loan types that the bank or credit union offers. And prospective loan applicants must have the choice of applying for a standard mortgage loan or an alternative mortgage loan ([CGS § 36a-265\(d\)](#)).

The law generally allows the installment payment under a RAM to be reduced by an amount used to partially repay the mortgage debt, upon agreement by the mortgagor and mortgagee (or its assignee) ([CGS § 36a-265\(e\)](#)).

Pre-Mortgage Counseling

Under Connecticut law, reverse mortgage lenders must (1) inform prospective applicants of the requirements for counseling before receiving a reverse mortgage and (2) provide them with a list of independent housing counseling agencies and intermediaries approved by the U.S. Department of Housing and Urban Development to provide this counseling, which must meet related federal law requirements. (Federal law requires the counselors to discuss with the applicants things like available alternatives to the reverse mortgage, the financial implications of entering into the transaction, and that there may be tax consequences that could affect eligibility for other programs ([12 U.S.C. § 1715z-20\(f\)](#).) Connecticut law also prohibits reverse mortgage lenders, originators, or servicers from compensating the counseling agencies ([CGS § 36a-267](#)).

The lender must receive a certification from the prospective applicant or his or her authorized representative that he or she or the representative received counseling in-person or by telephone from an approved agency. It must include the counseling date and the name, address, telephone number, and signature of the prospective applicant or his or her representative and the reverse mortgage counselor. The lender must keep the certification in an accurate, reproducible, and accessible format for the term of the loan.

A violation of any of these counseling or certification requirements is an unfair trade practice under state law, subjecting violators to, among other things, civil penalties of up to \$25,000 ([CGS § 42-110a et seq.](#)).

CHFA Program

Connecticut law requires CHFA to implement a [program](#) for homeowners aged 70 years or older to obtain RAMs to help them remain in their homes and avoid nursing home care ([CGS § 8-265i](#)).

Under the program, the homeowner borrows against the value of their home (up to 70% of the home's appraised value) and CHFA allocates the funds in tax-free monthly payments.

The law caps the length of a RAM under the program at six years and requires CHFA to set the participant eligibility criteria and the costs the loan payments may cover.

Among other things, to be eligible for the program, either the homeowner or their spouse must have long-term care needs. The household income must be within certain income limits, the home must not be encumbered by any mortgage or lien at closing, and either the homeowner or an authorized representative must complete reverse mortgage counseling.

Eligible uses of RAM funds are the following: in- or out-of-home care, renovations to address medical needs, long-term care insurance premiums, uninsured medical expenses, prescription drugs, daily meals, and certain property maintenance.

The law (1) prohibits CHFA from foreclosing on a home with a program loan if the homeowner continues to live in the home and (2) requires the authority to repay, from its own resources, loans on homes not sold at the end of the loan agreement because the homeowner continues to live there.

Medicaid Eligibility

[CGS § 17b-261](#) requires the state's Medicaid plan to assure that funds from RAMs, in certain circumstances, are not treated as income or assets for determining Medicaid eligibility. Specifically, the plan must exclude funds derived from equity in home property through a reverse annuity mortgage loan or other home equity conversion loan as long as the (1) funds are held in an account that does not contain other funds and (2) Medicaid recipient does not transfer the funds to anyone for less than fair market value. The [state plan](#) has included this provision since 2010.

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