About Reverse Mortgages

For many seniors the equity in their home is their largest single asset, yet it is unavailable to use unless they use a home-equity loan. But a conventional loan really doesn't free up the equity because the money has to be paid back with interest.

A reverse mortgage is a risk-free way of tapping into home equity without creating monthly payments and without requiring the money to be paid back during a person's lifetime. Instead of making payments the cash flow is reversed and the senior receives payments from the bank. Thus the title "reverse mortgage".

Many seniors are finding they can use a reverse mortgage to pay off an existing conventional mortgage, to create money for a down payment for a second home or to pay off debt. Popularity is skyrocketing. Over the last five years the number of reverse mortgages nationwide has tripled. The uses of this untapped wealth are only limited by a person's imagination.

For those seniors who are less fortunate but own a home, a reverse mortgage can allow them to remain in the home by creating extra income. It can also allow for remodeling or repairs and when the time comes to sell, the investment in the home can make it more valuable.

False Beliefs

- **"The lender could take my house."** The homeowner retains full ownership. The Reverse Mortgage is just like any other mortgage; you own the title and the bank holds a lien. You can pay it off anytime you like.
- **"I can be thrown out of my own home."** Homeowners can stay in the home as long as they live, with no payment requirement.
- **"I could end up owing more than my house is worth."** The homeowner can never owe more than the value of the home at the time the loan is due.
- **"My heirs will be against it."** Experience demonstrates heirs are in favor of Reverse Mortgages.

Virtually anyone can qualify. You must be at least 62, own and live in, as a primary residence, a home [1-4 family residence, condominium, co-op, permanent mobile home, or manufactured home] in order to qualify for a reverse mortgage.

There are no income, asset or credit requirements. It is the easiest loan to qualify for.

A reverse mortgage is similar to a conventional mortgage. As an example:

- The bank does not own the home but owns a lien on the property just as with any other mortgage
- You continue to hold title to the property as with any other mortgage
- The bank has no recourse to demand payment from any family member if there is not enough equity to cover paying off the loan
- There is no penalty to pay off the mortgage early

The proceeds from a reverse mortgage are tax-free and can be used for any legal purpose you wish:

- daily living expenses
- home repairs and improvements
- medical bills and prescription drugs
- pay-off of existing debts
- education, travel
- long-term care and/or long-term care insurance
- financial and estate tax plans
- gifts and trusts
- to purchase life insurance
- or any other needs you may have.

The amount of reverse mortgage benefit for which you may qualify, will depend on

- your age at the time you apply for the loan,
- the reverse mortgage program you choose,
- the value of your home, current interest rates,
- and for some products, where you live.

As a general rule, the older you are and the greater your equity, the larger the reverse mortgage benefit will be (up to certain limits, in some cases). The reverse mortgage must pay off any outstanding liens against your property before you can withdraw additional funds.

The loan is not due and payable until the borrower no longer occupies the home as a principal residence (i.e. the borrower sells, moves out permanently or passes away). At that time, the balance of borrowed funds is due and payable, all additional equity in the property belongs to the owners or their beneficiaries.

There are three reverse mortgage loan products available, the FHA - HECM (Home Equity Conversion Mortgage), Fannie Mae - HomeKeeper®, and the Cash Account programs. Over 90% of all reverse mortgages are HECM contracts.

The costs associated with getting a reverse mortgage are similar to those with a conventional mortgage, such as the origination fee, appraisal and inspection fees, title policy, mortgage insurance and other normal closing costs. With a reverse mortgage, all of these costs will be financed as part of the mortgage prior to your withdrawal of additional funds.

You must participate in an independent Credit Counseling session with a FHA-approved counselor early in the application process for a reverse mortgage. The counselor's job is to educate you about all of your mortgage options. This counseling session is at no cost to the borrower and can be done in person or, more typically, over the telephone. After completing this counseling, you will receive a Counseling Certificate in the mail which must be included as part of the reverse mortgage application.

You can choose 3 options to receive the money from a reverse mortgage:

1) all at once (lump sum);

2) fixed monthly payments (for up to life);

3) a line of credit; or a combination of a line of credit and monthly payments. The most popular option, chosen by more than 60 percent of borrowers, is the line of credit, which allows you to draw on the loan proceeds at any time.

Keeping money in a reverse mortgage line of credit in most states will not count as an asset for Medicaid eligibility as this would be considered a loan and not a resource for Medicaid spend down. However transferring the money to an investment or to a bank account would represent an asset and would trigger a spend down requirement. Please note however that distinguishing between what portion of reverse mortgage proceeds might be counted as a loan and what portion as an asset is not a simple black and white decision. It is best to get an opinion from an elder attorney in your state.

If a senior homeowner chooses to repay any portion of the interest accruing against his borrowed funds, the payment of this interest may be deductible (just as any mortgage interest may be). A reverse mortgage loan will be available to a senior homeowner to draw upon for as long as that person lives in the home. And, in some cases, the lender increases the total amount of the line of credit over time (unlike a traditional Home Equity Line whose credit limit is established at origination). If a senior homeowner stays in the property until he or she dies, his or her estate valuation will be reduced by the amount of the debt.

At the death of the last borrower or the sale of the home, the loan is repaid from equity in the home. Any remaining equity (which is often the case) goes to the heirs. Almost all reverse mortgages are the HECM loan which is guaranteed by FHA mortgage insurance. If there is not enough equity to cover the loan, the insurance satisfies the loan by paying the deficit. With a HECM loan, the bank will never come after the heirs to satisfy the mortgage obligation.

Four Questions to Ask About a Reverse Mortgage.

Unlike a regular mortgage, where you repay a lender for a loan to buy a house, a reverse mortgage is a loan to you that's secured by the value of your home. The loan is normally repaid, with interest, from the proceeds when you or your heirs sell your house.

Reverse mortgages are expensive and complicated. But for people in their 80s whose other assets are dwindling and who want to stay in their home, a reverse mortgage could be a good solution.

"These mortgages got a bum rap because of the TV ads, when in fact they can be a late-in-life lifeline," says Jonathan Pond, a financial adviser and "financial ambassador" for the American Association of Retired Persons (AARP). "A reverse mortgage provides some certainty — the dollars only flow one way," he says.

Pond advises younger retirees to be wary of them, since the amount you owe grows larger over time, and says older homeowners should opt for monthly payments rather than a lump sum. "I caution people not to plan on using a reverse mortgage. However, a paid-for home is a very good asset that can be tapped into late in life."

Here are four questions the AARP recommends that you ask when considering a reverse mortgage:

1. Do you really need it? If you want to take a dream vacation, a reverse mortgage is a very expensive way to pay for it. Be prudent and decide whether the money you're seeking to squeeze out of your home is essential.

2. Can you afford a reverse mortgage? These loans are expensive, and the amount you owe grows larger every month, meaning the younger you are when you take out a reverse mortgage, the more the cost will rise over time. Also, the more of your home's equity you use now, the less you will have later when you may need it more — for example, to pay for future emergencies, health care needs, or everyday living expenses. If you're not facing a financial emergency, consider postponing the idea of a reverse mortgage indefinitely.

3. Do you have less costly options? Do you have other financial resources that you could use instead of taking out a loan? If you don't, and if you could easily make the monthly repayments on a home equity loan or home equity line-of-credit, these alternatives are much less costly than a reverse mortgage.

4. Do you fully understand how the loans work? Reverse mortgages are quite different from any other loans, and the risks to borrowers are unique. Before considering one, you need to do your homework carefully and thoroughly. If anything's confusing, ask an expert for guidance.