



REVERSE MORTGAGE

For homeowners over the age of 62, money may be tight due to a turbulent economy, greater longevity, and rising health care costs. And let us not forget the roller coaster ride called the housing market. One way to lessen the unexpected shocks that can jeopardize a comfortable retirement is to consider acquiring a reverse mortgage.

This may be a surprising recommendation, considering the bad reputation the industry seems to carry. In part, people are afraid that once they take on a reverse mortgage, they have given the house to the bank. But a reverse mortgage is just a mortgage like any other. The homeowner retains ownership, but unlike a regular mortgage no compulsory monthly payments are due. In fact, a reverse mortgage has an extra layer of safety: **it is a non-recourse loan**. A non-recourse loan means that neither the borrower nor the family member who inherits the home will ever owe more than the value of the property. If the loan amount exceeds the home value, the owner will never be responsible for payment beyond the amount owed or for which the home can be sold.



Features of Reverse Mortgages

Most reverse mortgages are typically **federally insured Home Equity Conversion Mortgage (HECM) loans**. This provides government-insured loans on assessed home values up to the Federal Housing Administration (FHA) current limit of \$635,150. Homeowners apply for the loan with a private company, but the FHA provides the guarantee on the loan so that the homeowner and his or her heirs never owe more than the home value at loan's end.

One other feature of the FHA HECM insurance ensures that the federal government will assume payments to the homeowner should the lender fail. Once the HECM is in place, the lender may not cancel, freeze, or reduce any payments the homeowner is entitled to.



There is one important caveat, however. Just like any mortgage, the borrower must stay current on taxes and insurance. If the borrower doesn't keep up with those payments, there is the possibility of losing the house.

Money borrowed on the HECM is **non-taxable**. The monies do not affect Social Security or Medicare benefits. And at the loan's end, whatever equity is left in the home is the property of the homeowner or his or her heirs.

There are several negative aspects of a reverse mortgage, including not having a home to keep in the family and pass down to a loved one. Also, fees are not insignificant, and a reverse mortgage is not recommended for those not planning to use their home for a lengthy period of time. Finally, younger borrowers should take care not to plunder their reverse mortgage because they may need home equity later in retirement if they decide to move.

What Amount Are You Eligible For?

Homeowners can take a HECM loan in the form of monthly payments, a lump sum, or a line of credit. The amount a borrower is eligible for depends on three factors:

1. *Home Value*—The more valuable the home, the larger the credit limit.
2. *Age of Borrower*—The older you are the more money you can get. What that means is there is less time for interest to accrue against the home value, so there is more credit available to borrow.
3. *Interest Rate*—If the rate is lower, less interest is accruing against the home value, so there is a larger credit limit in the beginning.

What Is the Qualification Criteria?

To qualify, one must

1. Be 62 years of age or older
2. Own the home outright
3. Have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan
4. Have financial resources to pay ongoing property charges including taxes and insurance
5. Live in the home.



The following are stories from three women who discuss their experiences with reverse mortgages and share their advice.

Staying Where I Am

Maureen was divorced and living on a limited Social Security income that simply wasn't enough to support her in her golden years. While she did have some investments, she had other issues, such as taking out a home equity line of credit (HELOC) loan on her house through a bank for one of her children's businesses. Her financial situation was making her nervous.

Women like Maureen face unique financial planning challenges, such as smaller retirement account balances, lower Social Security benefits, reduced pension income, lack of spousal support, division of assets, long-term-care issues, and caregiving responsibilities.

Divorce has financial planning implications because one or both parties will need to find suitable housing arrangements. For older adults, later-in-life divorces ("silver divorces") are problematic because they deal with the marital home that a couple has shared for decades. Traditionally, the home would either be sold and the equity divided, or one spouse would "buy out" the other. Often, this arrangement seeks reliance on traditional mortgages or poorly timed cash distributions from investment portfolios.

Maureen was adamant about not wanting to move; however, there was \$40,000 against her home and she was afraid she wouldn't make a profit off the sale. Maureen loved her home and didn't know what was in store for her in the years ahead.

"I was divorced and I didn't have a pension. I did have some money, but it was getting pretty sticky at times," she said.

Maureen knew very little about reverse mortgages, but after watching a commercial on television, she decided to take the first step. She read material about reverse mortgages, but was still confused. So Maureen met with her loan officer, who helped her learn more about reverse mortgages.

“She took the time to educate me. It was a positive experience. Having that 401(k) against my home made me nervous, because monthly payments are always due,” Maureen said.

Maureen said that many retirees don't do reverse mortgages because they are afraid to lose their homes. They think they are turning over their home to the lender. The aspect of the reverse mortgage that appealed to her the most was that she still owned her home.

“I owned my own home; it didn't go to the bank. My name is still on it, I have my own title, everything,” she said.

The prevailing belief is that reverse mortgages should be used only as a last resort. Maureen's children agreed that, for her situation, a reverse mortgage was the way to go.

“My kids didn't care about getting the house. They wanted me to have financial peace of mind,” Maureen said.

The main benefit for Maureen is that she still owns her own home, but she clearly understood that she is responsible for taxes and insurance. She also was comforted by the knowledge that she could always pay off her reverse mortgage.



“It's not like you're stuck. You have options,” she said.



Reverse mortgages give seniors who are at least 62 years old a way to convert their home equity into cash. Given that for the average American 75 percent of net worth is tied up in their homes, some in the financial-planning community argue that it makes sense to use them as a retirement asset..

Finding the Right Information

Elena works full-time in her business development coaching and consulting practice that she established over 15 years ago. She has not retired, nor is she planning to do so. Elena prefers not to be described as a “senior: or to have that term used in any quotes attributed to her because of the outdated negative stereotypes associated with it.

Elena never owned a home, but ended up inheriting one from her mother. She envisioned turning it into her dream home.

A few years ago, Elena was watching television and saw a commercial about reverse mortgages. She was not yet 62, so she realized she wasn't eligible. Yet the more she thought about it, the more she wanted a reverse mortgage so that she could leverage a portion of the equity in the home she had inherited.



“Often, when children inherit a home from their parents, they sell it and use the proceeds from the sale for cash reserves, investments, etc... Since I wanted to live in the home, this was not an option for me,” Elena said.

With a reverse mortgage, she wanted to capitalize on her financial resources but didn't want to have loan payments. The idea that she could keep her beautiful home with a reverse mortgage appealed immensely to Elena.

“I could continue to live in my home and leverage the equity in my home that I inherited from my mom. I have 100 percent equity appraised at \$635,150,” Elena said.

Elena spoke to people in her network whom she trusted. She found one person who had a reverse mortgage, but this was in 2012, before the requirement for the financial assessment. Today, it is much more difficult for a homeowner to qualify for a reverse mortgage if taxes and insurance payments would be an issue.

While researching whether a reverse mortgage would be right for her, Elena found that there is a lot of dated, inaccurate information out there.

“That is why it's important to make sure you're consulting reliable sources,” Elena said.

Elena clicked some keys on the computer and searched for AARP and HUD. She discovered the National Reverse Mortgage Lenders Association (NRMLA) website, which includes both an industry site and a consumer site. Elena found the information unbiased and objective. In her search, she noticed different levels of quality and thought hard about which lenders to contact.



Elena had a textbook-perfect experience with both the company and the loan officer who processed her loan.

“When I first visited the company's website, I found a wealth of information that was presented in a clear, easy-to-understand manner,” she said.

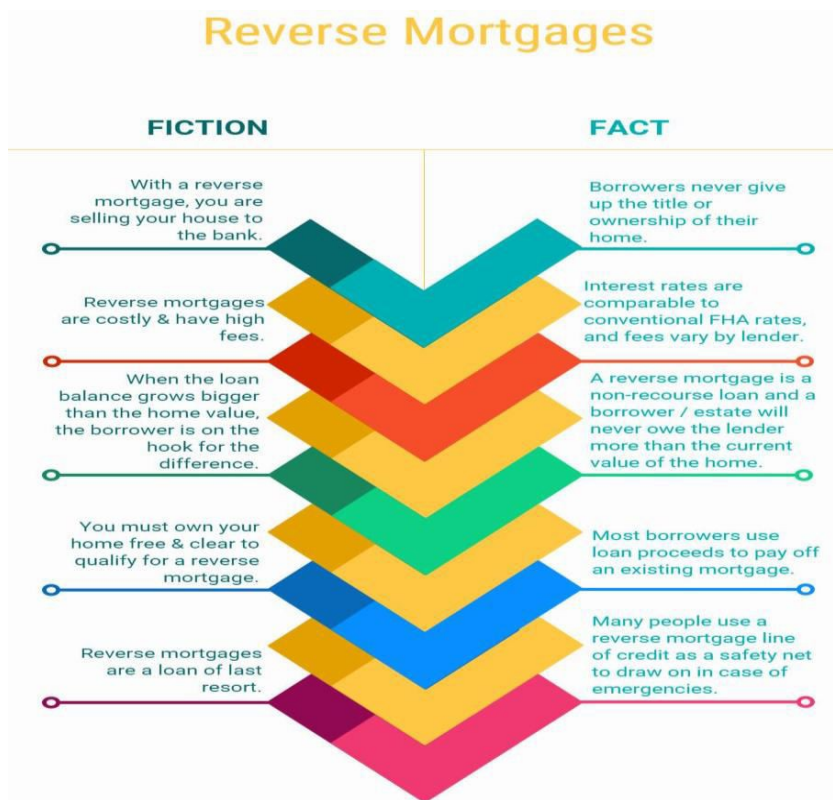
During the first conversation, the loan officer spent plenty of time learning about Elena’s goals for her reverse mortgage and helping her determine whether or not a reverse mortgage was right for her.

“He also gathered other information that would determine my eligibility, such as the amount of equity I had in my home [and] its value and condition, as well as my financial situation,” she said.

Elena’s reverse mortgage enabled her to replenish the funds she invested in renovating, redecorating, and turning her childhood home into the home of her dreams. “I also paid off all my credit card debt and still had a substantial portion of funds remaining to secure my financial future,” Elena said.

Elena added she is in a much better financial position as a result of her reverse mortgage. Since many people still do not know about reverse mortgages, Elena believes it very important to continue to improve the overall education of the public and the professionals who work with them about reverse mortgages and the benefits they offer to individuals who qualify for them.

“It’s important to educate the public, not just on the product, but what criteria to look for in a lender. For many, the home is the biggest financial asset,” Elena said.



Mission Accomplished

Laura started a non-profit for teens and young adults to help with awareness and prevention of bullying and domestic violence, a line of work that she's been involved in for 16 years. She also works as a hospice volunteer and sees many patients and families.

In her hospice work, she noticed that the homes she visited were only of value to the person who is ill and are about to pass away. Now that her sons are older, she started thinking more about her own future goals. She wasn't financially strapped, but wondered where she wanted to go from here.

Laura and her husband's house is paid for, and her sons don't want or need the house. She was more interested in doing great things for the world she resides in.

"You're remembered more by the good things that you do than the material things," Laura said. Laura hoped to be able to get money out of what she owns because of the things she wants to accomplish.

Laura didn't think reverse mortgages were a good idea at first, but soon curiosity got the better of her. She learned that most people misunderstand this type of loan, and many fear they will lose their home. "I didn't want another payment. I didn't want to owe a lot of money," Laura said.

Laura conducted much research before she decided to do the reverse mortgage, talking to friends and reading real estate agent advice online. She also knew that she would get the best understanding and price if she contacted two or three lenders, and encouraged each to bid for her business.

The loan professional she chose was polite and knowledgeable. She asked the same question several times to determine if she'd get the same answer. Each answer improved her confidence in that loan officer's integrity. She feels it is important to not feel hurried or pressured into taking a reverse mortgage.

Now Laura is continuing to make a difference in her community without worrying about losing her home.

"We should be happy in our last days," Laura said.



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Marguerita M. Cheng is the Chief Executive Officer of Blue Ocean Global Wealth. Marguerita is a past spokesperson for the AARP Financial Freedom Campaign and is a regular columnist for Investopedia and Kiplinger's Personal Finance. She is a CFP® professional, a Chartered Retirement Planning CounselorSM, a Retirement Income Certified Professional®, and a Certified Divorce Financial AnalystTM. Marguerita is also a Certified Financial Planner Board of Standards (CFP Board) Ambassador, and former Financial Planning Association (FPA) National Board Member. Rita is a recipient of the Ameriprise Financial Presidential Award for Quality of Advice and the prestigious Japanese Monbukagakusho Scholarship. She is also a charter member of the non-profit Funding Longevity Task Force at the American College of Financial Services.