

Reverse Mortgages Pay It Forward

Did you know?

Ninety percent of reverse mortgages are insured through the government's Home Equity Conversion Mortgage program (HECM), which covers any shortfalls if the home loses more value than the loan is worth.

Pros:

- ▶▶ Since the homeowner doesn't make monthly payments, no minimum income standards are needed to qualify for a reverse mortgage.
- ▶▶ Reverse mortgages need to be paid only when the homeowner sells the house, moves out, or dies. Any difference between the sale proceeds and the loan payoff goes to the homeowner or their estate.
- ▶▶ Payments obtained in a reverse mortgage are tax-free.

[MORE INFO]

The AARP provides a fact sheet on reverse mortgages: www.aarp.org/money/personal/reverse_mortgages/.



Older Americans have a lot to worry about in today's economy. But for homeowners age 62 and older who own their homes outright or have a low balance on their home loan, a reverse mortgage may present an untapped source of wealth—or simply a means to pay bills in hard times and remain in their homes.

Like the name implies, a reverse mortgage is a loan against a home's equity that doesn't have to be repaid until the owner dies, or sells or permanently moves out of the home. The reverse-mortgage loan can be provided several ways—as a one-time lump-sum payment, a line of credit that the homeowner can tap as needed, a variable monthly payment, or some combination of the three.

Jeff Lewis, president of Generation Mortgage, says that reverse mortgages have gone “from marginal to mainstream,” propelled by a generation of home buyers who stuck with fixed-rate mortgages and have substantial home equity, but may lack other savings or may face substantial debt problems.

Homeowners can receive loans up to \$417,000, the new limit authorized by the Federal Housing Administration (FHA) in

November 2008. The interest rate is determined by combining the value of the home with the homeowner's age.

Reverse mortgages need only to be paid when the homeowner sells the house, moves out, or dies. The debt can be settled with proceeds from the sale. However, if the homeowner dies before paying the mortgage off, the lender may choose to foreclose on the property unless the heirs can pay the debt.

There are some risks and costs attached. The interest owed on a reverse mortgage is tacked on to the balance of the existing loan, which can add up to a substantial portion of the overall debt. There are also numerous origination fees, which can cost up to \$6,000. Not to mention that reverse mortgages have high upfront costs, including higher insurance premiums, title search costs, and origination fees. Finally, as home values continue to drop nationwide, many reverse mortgage holders could find themselves with high debt and little equity to pay it off.

Frank Kogel, a dental technician, moved his practice into his home to cut costs, but ended up tangling with the IRS, “and risked losing my home and business,” he says. His mortgage agent helped him qualify for a reverse mortgage that enabled him to “pay off my debts and go on with my life.

“I was amazed at the [agent's] efficiency,” Kogel says. “The whole process came off with flying colors and saved my life.” ♦

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