Long-term solution—Reverse mortgage

If you expect to live in your current home for several years, you could consider a reverse mortgage. Reverse mortgages are designed for homeowners age 62 and older. These types of loans are called "reverse" mortgages because the lender pays the homeowner. To qualify for this loan, you must live in the home as your main residence.

Unlike conventional mortgages, there are no income requirements for these loans. You do not need to make any monthly payments for as long as you (or in the case of multiple homeowners, the last remaining borrower) continue to live in the home. When the last borrower moves out of the home or dies, the loan becomes due.

There are two types of reverse mortgages available in the market. These include:

- *Home Equity Conversion Mortgage (HECM)*—This program is offered by the Department of Housing and Urban Development (HUD) and is insured by the Federal Housing Administration. These are the most popular reverse mortgages, representing about 95% of the market.

- *Proprietary reverse mortgages*—Some banks, credit unions, and other financial companies offer reverse mortgages designed for people with very high value homes.

Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payment for a specific period or for as long as they live in their homes, or a combination of payment options. The money you receive from a reverse mortgage is tax-free, and can be used for any purpose. Reverse mortgages have unique features:

- All homeowners must first meet with a government-approved reverse mortgage counselor before their loan application can be processed.
- Older borrowers may receive more money, because lenders include life expectancy in calculating loan payments.
- The national limit on the amount you can borrow under the HECM program may change from year to year. You can check the current national limit at www.HUD.gov.

You now may use a HECM reverse mortgage to buy a home. This can make it easier for you to downsize to a house that better suits your needs, or to move closer to family caregivers.

Loan closing costs for a reverse mortgage are the same as what you would pay for a traditional "forward" mortgage. These include an origination fee, appraisal, and other closing costs (such as title search and insurance, surveys, inspections, recording fees). HECM borrowers also pay a mortgage insurance premium.

Most of these upfront costs are regulated, and there are limits on the total fees that can be charged for a reverse mortgage. The origination fee for a HECM loan is capped at 2% of the value of the property up to the first $200,000 and 1% of the value greater than $200,000. There is an overall cap on HECM origination fees of $6,000 and a minimum fee of $2,500. You can finance these costs as part of the mortgage.

Advantages

- You (or your heirs) will never owe more than the value of the home if you sell the property to repay the loan, even if the value of your home declines. If your heirs choose to keep the home, they will need to pay off the full loan balance.
- You continue to own your house and can never be forced to leave, as long as you maintain the home and pay your property taxes and insurance.
- You can get your loan funds through a combination of payment options (such as lump sum and line of credit). You can change the payment plan for a small fee.
- For HECM loans, the available balance on the line of credit may increase over time, depending upon interest rates.
- If there is in an existing mortgage on the property, the proceeds of the reverse mortgage are typically used to pay off the loan. This can increase the cash you have available each month, because you no longer have to make payments on your regular mortgage.

Disadvantages

- Because closing costs for a reverse mortgage are rarely folded into the interest rate, they can appear sizable. These costs (origination fee, mortgage insurance premium, appraisal and other upfront costs) can range from about $6,000 for a $100,000 home to over $16,000 for a $400,000 home. Closing costs can be financed into the loan.
- You may use up a large part of your home equity over time and have less to leave as an inheritance to your family.
- If you are the only homeowner and you stay in an assisted living or nursing facility for more than a year, you will be required to repay the balance of the loan.

The loan amount can vary by thousands of dollars among different reverse mortgages. So it will be important for you to consider your options carefully when selecting a loan.

How Much Cash Can I Get From My House?

Several factors control how much you can borrow. These are the value of the home, the type of loan you select, and the current interest rate. The age of the youngest homeowner is also a factor for reverse mortgages. To find out how much money you may be able to get from a reverse mortgage, use one of these simple, on-line calculators:

- AARP calculator (*http://rmc.ibisreverse.com//rmc_pages/rmc_aarp/aarp_index.aspx*)
- National Reverse Mortgage Lenders Association calculator (*http://rmc.ibisreverse.com/default_nrmla.aspx*).

The condition of the home and property values in your area may also determine how much cash you will have to pay for help at home. If you've lived in your house for many years, it will have aged considerably. The house needs to be in good repair to qualify for a reverse mortgage.

Property values may increase over time. A home that appreciates by 2% each year will increase in value from $150,000 to over $165,000 in five years. If you can continue to live at home safely, it can be worthwhile to use some of your growing equity.

How long will the reverse mortgage last?

Reverse mortgages make the most sense for you if want to stay in your current home for many years. If you have an ongoing health condition, it is important to understand how much money the loan will give you to pay for help over time.

Let's consider the situation of three families who take out a reverse mortgage. They live in a house that is in good repair and worth $150,000. They own their homes free and clear of any debt.

Scenario #1: Joe and Liz Anderson (ages 69 and 65) built their 2-story dream home after retiring four years ago. Since then, Joe had a mild heart attack and has difficulty climbing the stairs. Based on Liz's age, the Andersons receive about $84,000 from their reverse mortgage. They take $20,000 of the loan to install a lift and make other home modifications. They keep the rest ($64,000) in a line of credit for future needs.

Scenario #2: Melba Jones (age 75) has lived in the same town all her life. She knows she can rely on family and friends for help with her arthritis. Her big concern is using up all her retirement funds. She receives about $97,000 from the reverse mortgage and selects a tenure payment plan. This gives her $623 per month for as long as she stays in her house. This gives her peace of mind, knowing that she can pay for extra expenses and won't be a burden to her children.

Scenario #3: Bill Smith (age 85) recently had a massive stroke. He condition is serious, and he could go to the nursing home. But his family is committed to keeping him at home. At his age, Bill can receive over $111,000 from a reverse mortgage. This money will be enough for his family to withdraw $4,800 each month for up to two years from the line of credit.

Interest rates change frequently, so only a mortgage lender can tell you how much you may get from a reverse mortgage.

Am I Prepared to Tap Home Equity?

Whether you are considering a loan or decide to sell the house, chances are that it will take time to get the equity in your home. Plan carefully to make sure that these funds will be available when you need them. These problems could slow the process:

- *Legal issues*—Make sure that you have a durable power of attorney that includes real estate. This allows your family or trusted friend to make decisions if you cannot do so.
- *Title to the home*—Understand who owns the home. If you add children or grandchildren to the title, you may not be able to qualify for a reverse mortgage (since all homeowners have to be at least age 62), or sell the house without their consent.
- *Home repairs*—For major repairs, it can take up to several months to find a contractor, get the necessary permits, and complete the job.
- *Finding a new place to live*—If you sell the house, you must find somewhere else to stay. Your children may need time to prepare their home if you plan to live with them. Retirement communities and senior housing apartments often have long waiting lists.

Transactions involving the home usually involve many, different people. These may include your banker, a real estate agent, lawyer, appraiser, inspector, and contractors. To avoid delays, plan ahead as much as possible.