

The Rest of What You Need to Know about Reverse Mortgages

by Sam Brusco, Certified Aging in Place Specialist (CAPS)

August 4, 2010

Reverse Mortgages have been much maligned in the media. *Fear* sells newspapers and gets people to watch the 6 o'clock news. I am glad that you are getting the facts for yourself about this program. This article fills in the gaps left by information provided by lending institutions.

Who should get a reverse mortgage? Homeowners who are 62 years of age or over who intend to stay in their home for the foreseeable future *and* find it difficult to keep up with rising expenses and diminishing savings or investments. It should be considered as part of a retirement plan and estate preparation with a qualified financial planner or elder attorney. During this period of declining housing prices, it may make sense to take money out of the house and put it into better paying investments. Getting a reverse mortgage may insulate your home against future creditors, such as a nursing home. If you want to move from your house in the next few years, it's probably not worth it. If your spouse is not yet 62, consider it carefully.

What can you use the tax-free money for? That's right, you don't pay income tax on disbursements from a reverse mortgage. But if you sell your stocks or bonds to get some much needed cash, you may incur capital gains taxes or other penalties. Let your other investments continue to grow and leave *them* to your children. A good use of reverse mortgage money is for upkeep and improvement of your home; this will maintain the value of your house and allow you to remain there safely and comfortably for as long as you wish. A questionable use would be luxury items or expensive vacations, but there are *no limits* on what you can do with the money. Borrow responsibly. If you think renovations to your home are expensive, consider that nursing homes are 5000 to 10,000 dollars... a month! Assisted living is \$2000 to \$3000 per month. And you get none of that back, unlike an investment in your home. Make your house safe *before* an accident or else it will be too late.

Why not just move? You could, of course, move to an apartment or condo, but AARP's research has found that about 2/3 of seniors want to stay in their current home. Neighbors check in on them; familiar surroundings are comforting and maintain a sense of connection to the world. You will also need a stroke of luck to sell the home in the current housing market. And a smaller house still has *all* the responsibilities of any house.

What everyone hates... *The fees* In mid-2010, many lenders have reduced or eliminated some of the fees. The catch is the interest rate will probably be higher. Still, fees are why a reverse mortgage should be entered into with thought. The up-front costs are one-time to set up the reverse mortgage. The nice thing is that the fees can be rolled into the loan, so that there is no cash out of your pocket. You don't bring your checkbook to the closing like when you *bought* a house. Fees include:

- origination fee to the lender (as low as \$1200, capped at \$6000; this money does not go to any government agency)
- as low as \$600 for customary closing costs, check with your lender (includes title search, appraisal, attorney, deed recording, etc.)

- \$0 to \$35 monthly service fee by the lender (typical of all loans whether you see it on a statement or not)
 - about \$5000 is set aside in escrow for these service fees (the \$5000 is not a fee per se, but it is reserved up front)
- about 2% of the home's value for mortgage insurance (may be waived by the lender)
 - protects your heirs from inheriting debt beyond the value of the house
 - insures the outstanding balance of the loan
 - protects you and your heirs if the lender should go out of business

Is the government making money off this program? No, in fact, it is *costing* them money. This is why the current 2% FHA insurance fee is expected to rise to 3% or more in October 2010 and probably more in 2011. Just because the federal government is involved does not make it bad. You wouldn't put your money into a bank without FDIC insurance, would you?

When do you make payments? You don't. Just maintain the property; pay your property taxes and insurance; and you're in like Flynn. If you take out a home equity loan instead, the bank will expect payments each month, beginning *next* month. Payments are hard to make after you've retired.

When do you have to repay the loan? When the home is no longer your primary residence, or if you sell the house, or if you do not live at this home for 12 consecutive months. Your heirs will also have 12 months to figure out what to do, after you pass on. If your spouse (or another owner) is not yet 62 years of age, the reverse mortgage needs to be repaid. If you don't have the cash, most likely you would get a traditional mortgage to make up the difference.

Who is eligible? Those who own their own homes *and* are 62 years of age or over. Those are the only requirements. Credit rating and income are *not* factors.

How do I know I'm not getting swindled? One of the requirements of the reverse mortgage program is that you must have a counseling session with an unaffiliated third party. These are generally non-profit groups.

Who will be opposed to it? Possibly heirs who are more concerned with what they will get than the safety and well-being of their elders. And those who have heard the undeserved media hype. Once you have the *unbiased* facts, a rational decision comes down to "Are the benefits worth the one-time fees?"

ABOUT THE AUTHOR: Sam Brusco is a registered general contractor in RI (#26655) and Massachusetts (#87472). He is a Certified Aging-in-Place Specialist (developed by NAHB with the AARP), an NAHB Certified Active Adult Housing Specialist, a Certified Green Professional, and a lecturer. Brusco is a member of the US Green Building Council – RI chapter, the Rhode Island Builders Association, and is a licensed Lead-Safe Remodeler (RI #LHS-0955). He can be reached at 401-632-0765 and Sam@BruscoDesign.com