

## **REVERSE MORTGAGES-THE PROS AND CONS**

The use of reverse mortgages has grown considerably over the last several years. In fact, according to the National Reverse Mortgage Lenders Association, in the 2006 federal government's fiscal year, the number of federally insured reverse mortgages has increased by 77 percent. According to Peter Bell, President of NRMLA, "Thru proper education, more retirees are recognizing that the home they have lived in for so many years can now take care of them by using a reverse mortgage to access the equity accumulated over 20, 30, 40 years, to help them live more comfortably." The reality is, however, that reverse mortgages are not for everybody and can ultimately do someone much more harm than good.

A reverse mortgage is a loan against an individual's home which does not have to be repaid until the owner moves, sells the home, dies, the property is no longer one's primary residence or defaults on the "conditions" of the loan. The borrower receives the home equity in the property as a lump sum or multiple payments. To qualify for a reverse mortgage a person has to be: 1) age 62 or older; 2) the titled owner of a home; 3) there are no income, employment or credit qualifying restrictions; and, 4) the maximum amount of the loan is based on the senior's age (the older an individual is the more that can be borrowed), where they live and the value of the home.

There are certainly benefits to obtaining a reverse mortgage. For example, the income of the individual is not a factor in determining one's eligibility. Also, a reverse mortgage does not have any impact on a person's right to receive Social Security or Medicare. The proceeds of the reverse mortgage are income tax free. Furthermore, a reverse mortgage is a non recourse loan, meaning that the borrower or the estate never owes more than the value of the home at the time the loan is paid back. Finally, the proceeds from the loan can be used for any purpose, such as to

pay bills or take a vacation.

Unfortunately, reverse mortgages do have some very serious drawbacks. One major consideration is that the costs for obtaining the loan are much higher than the closing costs for a customary mortgage. A borrower may have to pay off an existing mortgage from the proceeds of the reverse mortgage. The proceeds from the reverse mortgage may affect a borrower's right to receive governmental benefits such as Supplemental Security Income, Medicaid or Income "Waiver" benefits. Additionally, the high upfront costs of the loan would not justify its use by people who do not intend to stay in their houses for more than several years. Furthermore, a home with a reverse mortgage would not be suitable for passing on as part of an estate.

A reverse mortgage is **extremely inappropriate** for a prospective borrower who does not have sufficient money to pay real estate taxes, insurance or keep the property maintained and in good repair. The inability to make these payments would trigger a call of the loan and the borrower could end up losing the house.

The bottom line is that a person considering a reverse mortgage should consult a trusted attorney or financial advisor.