

# What is the Real Story about Reverse Mortgages

It seems like every day we see another TV commercial with Fred Thompson promoting the wonderful benefits of a Reverse Mortgage, It almost sounds too good to be true!

In the final analysis, a Reverse Mortgage is not for most people, but we believe it should at least be considered in the mix of financial planning scenarios for those of us over 62 years of age.

**1. Standard Reverse Mortgages:** Subject to sufficient equity, this mortgage is designed for an *existing house* owned by seniors (minimum 62) to provide a means for the either spouse to age-in-place in the home until the last surviving spouse leaves the home. Specifically:

- a. This type of Reverse Mortgage is a loan for senior homeowners that uses the existing home's equity as collateral.
- b. Funds from the mortgage can be distributed as a lump sum, term, lifetime payouts, or line of credit, or any combination of the above.
- c. The loan generally does not have to be repaid until the last surviving homeowner permanently moves out of the property or passes away. Subsequently, the estate has approximately 12 months to repay the balance of the Reverse Mortgage or sell the home to pay off the balance.
- d. Any remaining equity is inherited by the estate. The estate is not personally liable if the home sells for less than the balance of the Reverse Mortgage.
- e. The key to the viability and financial analysis of the Reverse Mortgage is to estimate how long the last spouse will live in the house including the ramifications of health and other life events.
- f. The existing house should ideally include, or be modified to include, the accessibility features commensurate with the seniors who will live in the house.

**2. Reverse Mortgage to Purchase:** Subject to sufficient equity, this mortgage is designed for purchase of a *new or pre-owned house* to provide a means for either spouse (minimum 62) or the surviving to age-in-place in the new home until the last surviving spouse leaves the home. Specifically:

- a. This type of Reverse Mortgage is a loan for senior homeowners that uses the equity in a *new home* as collateral.
- b. The loan generally does not have to be repaid until the last surviving homeowner permanently moves out of the property or passes away.

- c. At that time, the estate has approximately 12 months to repay the balance of the Reverse Mortgage or sell the home to pay off the balance.
- d. Any remaining equity is inherited by the estate. The estate is not personally liable if the home sells for less than the balance of the Reverse Mortgage.
- e. Again, the key to the viability and financial analysis of the Reverse Mortgage is to estimate how long the last spouse will live in the house including the ramifications of health and other life events.
- f. The new house should ideally include, or be modified to include, the accessibility features commensurate with the seniors who will live in the house.

In retrospect, there are situations in which a Reverse Mortgage is **not usually a viable alternative** as follows:

- Reverse Mortgages are typically not appropriate when proceeds will be used for:
  - a. A high-risk investment
  - b. Rate of return is lower than available for line of credit
  - c. Purchase of an annuity...e.g., tenure payout functions as an annuity
- When seniors have substantial other assets...tapping into equity is usually a secondary choice;
- Using proceeds to pay for nursing care...not allowed unless one spouse stays in home...usually is not viable for someone who will need nursing home care in the near future;
- Due to mortgage insurance requirements, and other fees, home equity loans or the outright sale of your home may be a less expensive option.
- Lastly, for more detailed information, see referenced Consumers Union Report (Non-profit Publisher of Consumers Report)

In summary, if a Reverse Mortgage is being considered, a counseling session with a Certified Reverse Mortgage Counselor must be completed before an application is submitted to determine if it is right for you. This is a win-win step. We can recommend a local counselor.

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