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# Paying To Stay In The Home

Many clients express their preference for staying in the home as they age and even if their health becomes comprised. It may be that such a thought is more a wish than a plan. If one wants to maximize the likelihood of staying at home, however, figuring out a way to fund that option may make it more likely.

If one does not have the savings to pay for homecare or a long term care insurance policy with a home care rider, a reverse mortgage may be a good option. This is a home financing alternative that allows an individual to extract equity from the home in the form of a monthly or lump-sum payment.

Equity is the difference between the value of the residence and the amount owed thereupon. For example, if a house is worth $400,000.00, and there is a note and mortgage against same in the amount of $100,000.00, then there is equity of $300,000.00. The full value of the equity cannot initially be extracted with a reverse mortgage. Rather, only a portion, yet often a sizable portion of the equity will be made available to the borrower.

The loan does not need to be repaid until the house is sold or the borrower passes. If the value of the home rises, then it is possible that more money can be extracted. If the value of the house goes down, then too bad for the lender. Also, the borrower is not required to make payments on the amount borrowed.

Sounds like a pretty good deal, doesn't it? Not all that glitters is gold, however, and a recognized downside of reverse mortgages is that they do carry with them significant costs in the form of loan origination type fees.

A reverse mortgage provides a nice alternative to other financing arrangements such as an equity loan that is not based solely on the equity in the property, but rather, also upon the ability of the borrower to repay the loan on a monthly basis. Because many seniors have limited income, the loan amount that may be available by way of an equity loan could be much lower than would be available through a reverse mortgage.

Due to the significant costs associated with a reverse mortgage, such loans are not necessarily the best choice for shorter term borrowing. There are other alternatives. Perhaps a child can loan money, have a note signed by the parents and a mortgage placed upon the parent's home. In this way the child is playing the role of lender, and if there is sufficient equity in the home, is assured through the mortgage of getting repaid the full amount with interest even in the event that long term care may be required and the house may be sold to fund same.

For those with substantial incomes, equity loans are still available as are second mortgages.

The option of children paying for or supplementing their parent's income to fund care in the home should probably only occur as a last resort, after the parents' resources have been depleted. Saving money in the parents' name while the children pay for care may do little more than make available additional funds to pay a nursing home prior to eligibility for Medicaid.