



ElderCare Q&A

Is A Reverse Mortgage Right?

Q: Can I get unbiased help in deciding about a reverse mortgage?

A: Yes. State law now requires you to get counseling if you want a reverse mortgage.

Many people hold onto their home as a nest egg in case they need extra money. If you've owned your home for many years, it's probably worth a lot more than what you paid for it. Home equity is the difference between the appraised value of your home and what you owe on any mortgage. A 'reverse mortgage' allows you to convert that home equity into cash, which can be used to pay for critical repairs, or services like home care, to remain living at home independently.

But is a reverse mortgage right for you? Older homes often need a lot of costly repairs. Because of safety or accessibility issues, you may not want to 'age in place' in your home.

But if you are happy where you are, you should begin to investigate the cost of care at home, and consider how much home equity is built up in your home. You will want to explore the difference between a conventional home equity loan and a reverse mortgage. People with good credit can get a home equity loan quickly --- but you pay for it from your income --- and if you can't make your monthly payments, you could lose your house.

Reverse mortgages are designed for people age 62 and older who expect to live in their current home for several years. There are no income requirements for these loans. You make no monthly payments as long as you continue to live in the home.

There are 2 types of reverse mortgages: the HUD home equity conversion mortgage, which is insured by the federal Housing Administration, and the proprietary reverse mortgage offered by some banks and credit units. The HUD mortgages are the most popular, and make up about 95% of the reverse mortgages.

You can receive reverse mortgage payments in a lump sum, as a line of credit, as monthly payments, or other combinations. These payments are tax-free, and can be used for any purpose. Older borrowers can get more money, because lenders include life expectancy in calculating loan payments. You can even use a reverse mortgage to buy a smaller home.

Loan closing costs for a reverse mortgage are the same as for a traditional mortgage. With a reverse mortgage, you continue to own your home, and can never be forced to leave. You, or your heirs, will never owe more than the value of your home if you sell it to repay the loan - even if your home value drops. If your heirs want to keep the home, they will have to pay off the full loan balance. As you use up the equity in your home, it leaves less of an inheritance for your family.

When considering a reverse mortgage - don't wait until the last minute. Shop around with different lenders to check interest rates and fees. Don't rush into any decision. Talk it over with your family. Federal law gives you 3 days to get out of a reverse mortgage.

Massachusetts has a new law that requires you to get counseling in person from a third party organization that is certified to do counseling, before closing on a reverse mortgage. The federal government requires all HUD-approved reverse mortgage counselors to provide their clients with a 28-page consumer booklet on reverse mortgages. Counselors must complete an extra level of financial assessment to help prospective borrowers gain a greater understanding of financial risk and other factors that they need to consider to make a wise decision.

For your free copy of the HUD-required consumer booklet, go to www.ncoa.org/reversemortgagecounseling. You can also call 1-800-209-8085 to order AARP's booklet on reverse mortgages. For more info on the Massachusetts rules, and a list of approved reverse mortgage lenders, go to: www.mass.gov/reversemortgage.