

Reverse Mortgages

By Ms. Eddy Jo Yost

Reverse mortgages have been gaining in popularity. For the federal fiscal year ended Sept. 30, 2006, the Federal Housing Administration insured 76,351 reverse mortgages, compared to 43,131 the prior year – a 77 percent increase, according to the U.S. Department of Housing and Urban Development (HUD)*. This increasingly popular mortgage product may well revolutionize the way Americans plan for and fund their retirements. But, what exactly is a reverse mortgage and how does it work?

A reverse mortgage is a type of home loan that enables homeowners who are at least 62 years of age to access the equity in their homes. Rather than paying a monthly mortgage payment to the lender, the borrower receives money from the lender, backed by a mortgage that is based on the value of the home.

Depending upon the reverse mortgage product, borrowers may choose from among several payment options, including a lump sum, equal payments over time or a line of credit. There are generally no restrictions on how a borrower can use the loan funds. Key features of reverse mortgages are:

- No income or health requirements
- Minimal credit verification requirements
- Loan proceeds may be tax-free—consult a tax advisor for more information
- Loan proceeds do not affect Medicare or Social Security
- Supplemental Security Income (SSI) and/or Medicaid/MediCal are usually not affected—consult your local senior services agency for more information

Repayment is not due until the last borrower sells the home or permanently leaves the home; the borrower, heirs or the estate will not owe more than the appraised value of the home at the time repayment is due

To qualify for a reverse mortgage, all borrowers on the title to the home must be at least 62 years of age and occupy the home as their primary residence. Lenders approved by the U.S. Department of Housing and Urban Development (HUD) offer the Home Equity Conversion Mortgage (HECM) loan programs in accordance with Federal Housing Administration policy. In response to the needs of homeowners with home equity and home values that exceed HECM limits, leading mortgage lenders have expanded the market with proprietary reverse mortgage products. Thanks to the proprietary products, reverse mortgage are now available to qualified homeowners whose homes appraise for more than government loan limits allow, often the case in many higher priced markets.

Reverse Mortgages as Retirement Planning Tools

Beyond paying off any existing mortgage prior to receiving remaining reverse mortgage

proceeds, there are generally no restrictions on the use of funds a borrower receives. This aspect makes reverse mortgages highly attractive as retirement planning tools.

Whether a borrower chooses to receive a lump sum, a monthly payment or a line of credit, access to funds gives seniors financial control and flexibility in retirement years. Among the most common uses of funds from a reverse mortgage are:

- Paying for everyday expenses
- Making home repairs and improvements
- Covering medical expenses
- Purchasing long-term care insurance
- Paying off loans or bills
- Maintaining or improving quality of life

Perhaps most important to many seniors is the fact that a reverse mortgage can help people remain in their home, while supplementing income and providing assistance in managing expenses.

Work with a Trusted Specialist

Regardless of the reverse mortgage product chosen—a HECM mortgage or a lender's own reverse mortgage product— most lenders also require counseling by a HUD-approved counselor as part of the proprietary loan process.

In addition to counseling, consumers are strongly encouraged to seek advice from family, legal and financial advisors. Of utmost importance is working with a trusted lender that has reverse mortgage specialists. Trusted reverse mortgage specialists should be eager and able to provide detailed insights that help homeowners decide whether this financing option meets their needs and goals.

As with any financial management tool, a reverse mortgage may not be right for everyone. Before obtaining a reverse mortgage, homeowners should make sure they are well-informed, understand this type of mortgage, and receive guidance from trusted sources.

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* Statement of Brian D. Montgomery, Assistant Secretary for Housing – Federal Housing Commissioner, U.S. Department of Housing and Urban Development Hearing Before the Special Committee on Aging, United States Senate, February 15, 2007.