

SENIOR INFORMATION & ASSISTANCE

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Reverse Mortgages

The terms “reverse equity mortgage” and “home equity conversion mortgage” refer to a homeowner’s ability to borrow against the existing equity value in a home to increase available cash to live on. The amount received must be repaid with interest, but only at death or on selling or vacating the home.

Reverse equity mortgages were developed by the Federal Housing Administrative (FHA) to respond to the needs of seniors who found themselves “property-rich and cash-poor”, i.e., with substantial equity value in their homes but not enough income to meet unexpected, or sometimes even usual, expenses.

Although reverse mortgages seem attractive to many seniors, they are not for everyone. They have pros and cons, and the balance between those can vary considerably. As with any significant financial transaction, reverse equity mortgages should be evaluated carefully in light of individual needs and circumstances. Following are some highlights and comments:

- Eligible homeowners must be at least 62 years of age; if married, the younger spouse must be at least 62. The home (not necessarily single-family) must be owner-occupied, and must be owned outright or have a low outstanding mortgage balance. There are no income requirements to qualify.
- The maximum amount available depends on the borrower’s age, the home’s value, the interest rate and the type of loan.
- Reverse mortgages are available in Washington through several lenders. Some are staffed locally and process applications locally; others do not. Some treat this program partially as a social service; some treat it entirely as any other financial transaction.
- As a consumer protection, the homeowner must participate in an educational counseling session through one of several designated independent agencies, before entering into a conversion agreement. The homeowner receives information about the program and other local financial options and has the opportunity to ask any questions. None of these counseling agencies is in our immediate region; if absolutely necessary, some of them may conduct the session over the phone.
- The home equity conversion can be taken in one of several forms or a combination of them. These forms include a lump-sum initial payment, regular payments over a fixed term, regular payments for life, or an available line of credit (with interest charged).
- The reverse mortgage can be modified to account for appreciation in the value of the property. Homeowners can take out more than one reverse mortgage in their lifetimes, e.g., by selling one home and paying off the reverse mortgage, and buying a smaller home and getting another reverse mortgage on it.

- There are no payments required on the reverse mortgage until the homeowner dies, or the property is sold or vacated. However, interest accrues during this time and will be figured into the financing and the payments made. Interest is at an adjustable rate tied to Treasury bill rates, but with no lock-in available at a fixed rate as with conventional ARM's (adjustable rate mortgage).
- As long as one spouse remains in the home (even if the other requires care in a nursing facility), the mortgage does not come due. For a single homeowner, however, admission to a nursing facility would cause the mortgage to come due and repayment in full may be required within one year or less. For a married couple with one spouse entering a nursing facility, if DSHS Medicaid coverage is a possibility, the situation becomes more complicated and great care should be taken about interpersonal transfers and other financial eligibility factors. Legal and financial planning advice is recommended in such a case.
- FHA insures any excess obligation on behalf of the lender. Thus, even if the sum of payments plus interest and any mortgage insurance premiums turn out to be greater than the value of the home (e.g., due to real estate market fluctuations), the homeowner and heirs will never owe more than the home is worth, cannot be forced to sell or vacate because of the difference, and cannot have a deficiency judgment entered against them.
- There are usually up-front, out-of-pocket fees for an appraisal and credit check (since these mortgages are generally sold to another lender). Additional charges for interest, closing costs, monthly service fees, and mortgage insurance premiums are financed within the payment schedule; although they are not out-of-pocket expenses, they reduce the payments the homeowner receives.
- Payments from a reverse equity mortgage do not affect Social Security or Medicare benefits. Because they are loans against the equity in the home, they are not "income" for the Medicaid or Supplemental Security Income (SSI) programs. However, with Medicaid and SSI, care must be taken that the homeowner remains within the allowable resource limits of these programs or eligibility for their benefits will be lost.

Example:

Borrower is 62 years old; has maximum appraised property value of \$227,550; and qualifies for \$84,421. After subtracting prepaid mortgage insurance, closing and other costs, borrower is eligible for \$72,557 at 8% interest. Borrower makes no loan payments, but can opt to receive:

\$72,557 in lump sum or home equity line of credit.	or	\$531/Month for as long as borrower lives in the home.
\$893/Month for 10 years	or	\$1,478/month for 5 years

If the \$72,557 were taken in a lump sum, the total loan balance would be \$456,572 in 20 years and \$699,197 in 25 years.

American Association of Retired Persons (AARP) has an excellent website and review of Reverse Mortgages at www.aarp.org or call them at 1-800-922-8716. Senior Information & Assistance also publishes a handout on Where to Go for Reverse Mortgages. Call us at (360) 428-1301 for a copy.