



NEED CASH FOR RETIREMENT? A REVERSE MORTGAGE MAY BE A GOOD OPTION

Weigh Costs, Complexities and Alternatives Before You Decide

ENGLEWOOD, COLORADO—Whether it's due to over-exuberant credit card spending, poor planning or unexpected medical costs, more and more seniors are finding themselves long on debt and short on cash. To make up the difference, increasing numbers of older Americans are turning to reverse mortgages: tapping into the equity from their homes to generate needed income.

"A reverse mortgage is a 'rising debt, falling equity' type of loan," says William L. Anthes, Ph.D., president and CEO of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is a nonprofit foundation that promotes financial well-being for all Americans.

Anthes explains, "Older homeowners who choose a reverse mortgage make a conscious decision to spend down their home equity in return for cash advances that eventually must be repaid with interest."

A reverse mortgage may indeed be a good solution for some older Americans who are house rich and cash poor, especially in light of statistics showing that while 80 percent of persons 65 and older are homeowners, their median family income was a modest \$23,409 in 2001, the most recent figure available from the Department of Health and Human Services' Administration on Aging.¹

However, while reverse mortgages can provide a steady stream of cash that some seniors may desperately need, these loans have costs and complexities that retirees should consider carefully before making a final decision.

How They Work

Anthes provides some reverse-mortgage basics.

- **A reverse mortgage is a loan** against your home that requires no repayment for as long as you live there. To qualify, you must be at least 62 years old, own your home and use it as your principal residence. If you have any debt on the home, you must

pay it off before getting a reverse mortgage, or use part of the proceeds of the reverse mortgage to pay it off. In addition, if an appraisal uncovers property defects, you must hire a contractor to make the repairs prior to closing on the reverse mortgage.

- **The amount of cash you can get from a reverse mortgage** depends on your age, the value of the home and the loan's cost (the interest rate, closing costs, etc.). Your income generally has nothing to do with qualifying for the loan or the amount you receive." Typically, older borrowers with more expensive homes will qualify for a larger amount, and, of course, a lower-cost loan will put more cash in your pocket," Anthes says. Loan payouts can be made in a lump sum, in monthly payments, as a line of credit or through any combination of these. The money is received income tax free and can be used for any purpose you choose. A reverse mortgage does not affect your right to receive Social Security or Medicare benefits, but it could affect your ability to qualify for other federal or state assistance.
- **The cost of a reverse mortgage** typically includes interest charged on the loan amount, appraisals, mortgage insurance, origination fees, closing costs and a monthly servicing fee. Most of these costs can be "financed" with funds from the reverse mortgage. "Lenders are required by law to clearly disclose the projected annual average cost of the loan so you can easily compare different reverse mortgages," Anthes says.
- **You make no monthly payments on a reverse mortgage**, so the amount you owe grows larger over time—hence, the term "reverse" mortgage. However, the total amount due never can exceed the value of the home. "It's just the opposite of a conventional, or 'forward' mortgage, where you make payments every month with the goal of paying off the loan over time," Anthes explains.
- **Reverse mortgages can be repaid anytime**, but they *must* be repaid when the last surviving borrower sells the home, permanently leaves the residence (when the owner goes to a nursing home, for example) or dies. "Discuss with your heirs the repayment obligations of a reverse mortgage," Anthes recommends. "Also, remember that the lender does not obtain your house in payment. The lender receives the amount you owe, and you or your heirs keep the rest." In addition, as the homeowner, you remain responsible for taxes, insurance and upkeep on the home during the term of the reverse mortgage.
- **Most borrowers use the federally insured "Home Equity Conversion Mortgage" (HECM) standard form**, although proprietary reverse mortgages are available from some private lenders. As part of applying for an HECM, you must discuss the loan with a counselor who is employed by a nonprofit or public agency approved by the U.S. Department of Housing and Urban Development (HUD). The

counseling service generally is free; its purpose is to make sure you fully understand the costs and repayment obligations of a reverse mortgage. Whether you choose an HECM or another type of reverse mortgage, be sure to discuss your options with a trustworthy financial advisor.

Benefits and Disadvantages

For many seniors, the number one benefit of a reverse mortgage is that it allows them to cash in on the value of their home without having to move to a less expensive house or community.

Still, Anthes advises that all retirees interested in reverse mortgages first research the benefits of selling their home and moving. Find out how much your home is worth. Investigate potential communities and housing options that are more affordable. "You may find that moving wouldn't be as undesirable as you thought," Anthes says. "Or, you could realize that staying where you are is the best option for you. In that case, a reverse mortgage may be a good choice."

However, before you make your final decision, consider the disadvantages associated with reverse mortgages, as well. For instance, if you wish to leave your heirs a substantial inheritance, you may want to rethink a reverse mortgage.

"For older citizens who hope to leave a financial legacy, a reverse mortgage probably is not the best option," Anthes says. "Your heirs still may receive a portion of your estate, but only after they pay off your reverse mortgage."

Anthes suggests seniors interested in reverse mortgages talk with their heirs about the implications. "You may find that your children or other heirs would prefer that you use the equity in your home to ensure that your final decades are comfortable rather than save it so they can receive a large inheritance."

As you consider the benefits and disadvantages associated with a reverse mortgage, also think about whether or not now is an appropriate time to use the money, and how much money you need. Anthes says, "Be sure to discuss how much to receive, and in what form, with a financial advisor. You don't want to use too much in early retirement and then be left with no cash *and* no equity for your final years."

Alternatives to Consider

As you are weighing the pluses and minuses associated with a reverse mortgage, remember to think about other opportunities, as well. "A reverse mortgage is a worthwhile option to consider, but it isn't the only way for seniors to solve a cash crisis," Anthes says. For example, if you need a modest sum of money for a few years, a home equity loan might be

a less expensive option short term *if* you can qualify for a low-cost loan and can easily make the monthly payments. Remember, unlike with a reverse mortgage, you can lose your home if you fail to make payments on a home equity loan.

Another option to explore is government assistance. For example, many local and state government agencies offer low-cost, deferred payment loans for repairing or improving your home, although these loans generally are limited to homeowners with low or moderate incomes. You also might be eligible for a property tax deferral loan. This type of loan provides annual advances to pay your property taxes. You do not have to repay your property tax deferral loan until you move or the mortgage changes hands. Once again, however, these loans only are available to seniors whose household income falls below a certain amount as defined by individual state law.

Other government sources of assistance include Supplemental Security Income (SSI), prescription drug discount programs and programs to help low-income individuals pay their utility bills. To learn more about these and other programs for seniors in your state, call the Eldercare Locator, a free service of the U.S. Administration on Aging, at 1-800-677-1116.

Anthes says, "The bottom line is to explore all your options and make an informed decision based on what is best for you. Also, don't think you have to make this decision alone. Involve family members and financial advisors you trust. If they have your best interests at heart, they'll be sure to help you make the right choice."

¹ "A Profile of Older Americans: 2003," based on "American Housing Survey for the United States in 2001, Current Housing Reports," H150/01. U.S. Department of Health and Human Services, Administration on Aging.

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