

Aging Issues

A column from the director of
the Ohio Department of Aging



Reverse Mortgage: Is It Right For You?

Whether seeking money to finance a home improvement, pay off a current mortgage, supplement their retirement income or pay for healthcare expenses, many cash-poor, older Americans are turning to reverse mortgages.

A reverse mortgage allows seniors, 62 and older, to convert their home equity into ready cash. It is a loan against a person's home that the individual does not have to pay back for as long as he continues to live there. While living in his home, the person is still responsible for the usual expenses of maintaining the home, such as property taxes, insurance and repairs.

It's just the opposite, or reverse, of a regular home mortgage in which the borrower uses income to repay the loan and build up home equity. With a reverse mortgage, the lender sends the borrower cash and the borrower makes no repayments. The amount the consumer owes gets larger and his home equity shrinks.

The mortgage must be repaid in full, including all interest, fees and other charges, when the borrower dies, sells the home or permanently moves away. Any remaining equity belongs to the person or his heirs. The borrower may owe a lot of money and his home equity may be very small. If the consumer has had the loan for a long time, or if his home's value has decreased, there may not be any equity left at the end of the loan.

Credit scores and income are not considered in the loan qualification process for a reverse mortgage. A borrower can receive cash in a single lump sum payment, as a regular monthly cash advance, as a credit line account or as a combination of these payment methods. Income from a reverse mortgage generally does not affect Social Security or Medicare benefits. If a senior receives more in payments than the home is worth, the person will never owe more than the value of the home, according to the Federal Trade Commission.

However, anyone considering a reverse mortgage needs to study the issue. Reverse mortgage proceeds could impact your Medicaid eligibility. The mortgage fees are high and your debt will continue to increase as interest is charged to the outstanding balance of the loan. The interest is not tax deductible until the loan is paid off, unlike regular home mortgages. As your home equity is used up, there will be fewer assets to leave to your heirs.

Reverse mortgages make sense for some, but for others, there may be better solutions than tapping into your home equity. AARP has developed five questions to help you decide if a reverse mortgage

is right for you.

Do you really need a reverse mortgage? What would you do with the money you would get from one? Are the needs you intend to meet really worth the high cost of these loans? If anyone is trying to sell you something and recommending you use a reverse mortgage to pay for it, that's generally a good sign that you don't need it and shouldn't be buying it.

Can you afford a reverse mortgage? These loans are very expensive and the amount you owe grows larger every month. The younger you are when you take out a reverse mortgage, the more the compound interest will grow and the more you will owe. These loans can be especially costly if you sell and move just a few years after taking one out.

Can you afford to start using up your home equity now? The more you use now, the less you will have later when you may need it, for example, to pay for future emergencies or health care needs. You may also need your equity to pay for future home repairs or a move to assisted living. If you are not facing a financial emergency now, then consider postponing a reverse mortgage.

Do you have less costly options? Do you have other financial resources that you could use instead of taking out a loan? If you could easily make the monthly payments on a home equity loan or home equity line-of-credit, these alternatives are much less costly than a reverse mortgage. Have you looked into the costs and benefits of selling your home and moving to a less expensive one?

Do you fully understand how these loans work? Reverse mortgages are quite different from other loans. Before considering one, do your homework.

Many lenders require that you have free debt counseling prior to applying for a reverse mortgage. The U.S. Department of Housing and Urban Development (HUD) has housing counseling agencies available nationwide to provide information, counseling and a free referral to a list of FHA-approved lenders. Call toll free, 1-800-569-4287, for the name and location of a HUD-approved housing counseling agency near you.

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About Aging Issues

Twice each month, the Ohio Department of Aging delivers Aging Issues, a column from Director Barbara E. Riley that examines topics of interest to older Ohioans, their family members and others who care for and serve them. Aging Issues is intended for personal use as well as re-publication in newspapers, newsletters and other publications with older adults as a target audience. Thank you.

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