Wise Advice from The Loan Goddess

Reverse Mortgages

Reverse mortgages, as the name implies, are essentially the opposite of traditional mortgages. They are issued by insurance companies, finance companies and some banks, and if they are below a certain limit, Fannie Mae will guarantee them. They will lend you money and your home will serve as collateral. But unlike other loans, the borrower doesn't have to pay anything back during the life of the loan. The principal, along with accumulated interest, is due when the last surviving borrower dies or moves from the residence permanently. At that time the borrower or heirs can sell the home or get a new mortgage to pay back the loan. It may be right for you if you are at least 62 years old and have a lot of equity. If you qualify, you can convert that equity into cash, monthly payments or a credit line. It works best for seniors who are house rich and cash poor.

For example, a 65-year-old married couple owning an average Bay Area home worth $615,000 could qualify for a federally insured reverse mortgage that gives borrowers a credit line of $262,068, according to a reverse mortgage calculator on AARP's Web site. That is the limit for Federally insured reverse mortgages, but offers higher loan limits are available. The case above is only an estimate and assumes the couple has no existing mortgage payments. Each borrower's circumstances vary depending on a borrower's finances and situation. Factors affecting how much you can receive include your age, the amount of equity, and current interest rates. The older you are, the larger the reverse mortgage can be. Generally people with reverse mortgages receive the money in the form of a credit line, monthly payments, a lump-sum payment or mix of the three. The loans also differ from traditional mortgages in that they generally carry higher closing costs and higher interest rates than traditional mortgages. There are NO monthly payments coming in to the lender, and they are risking a possible downturn in real estate values in the future. What is owed under the loan rises during the life of the loan unless the borrower decides to pay off. A lender cannot foreclose against the home if the loan value balloons above the residence's value.

It is essential that every borrower understand these intricacies, and since the introduction of this product, many protections have been added. One is that reverse-mortgage applicants are required to go through counseling. Some applicants are thrilled to find a way out from making existing mortgage payments of $1,000 or more a month, (if it is a fixed rate and payment, even if the balance is low, the payments can eat into Social Security income) while others drop out of the process when they learn they won't be able to leave their home debt-free to their children.

A reverse-mortgage lender can require accelerated repayment of the loan under certain conditions, including failure by the homeowner to pay taxes or insure the property. On the flip side, your credit doesn't matter, your income doesn't matter and your assets don't matter. If you are old enough, and your primary residence is worth enough, and your present mortgage has a low or zero balance, you qualify. Before you sign, you need to talk to the members of your family, your attorney, your CPA, financial advisor, check with all of your trusted counselors and relatives. It can be a life line, but you need to understand what you are getting into. Several Web sites include primers on reverse mortgages as well as calculators giving rough estimates of loan amounts:
AARP: http://www.aarp.org/money/revmort/
Financial Freedom Senior Funding Corp.: www.financialfreedom.com
National Reverse Mortgage Lenders Association: http://www.nrmlaonline.org

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