

A NEW KIND OF LOAN: *IN REVERSE*

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



A reverse mortgage allows you to convert the value of your home into cash without having to move or repay the loan each month. Generally, the more valuable your home is, the older you are, the lower the interest, the more you can borrow.

To qualify for most reverse mortgages, you must be at least 62 and live in your home more than half the year. The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home.

With a reverse mortgage, you don't have to make monthly repayments. So you don't need a minimum amount of income to qualify. You retain title to your home and the loan must be repaid when the last surviving borrower dies, sells the home, or no longer lives in the home as a principal residence. The proceeds of a reverse mortgage are not taxable, and generally do not affect Social Security or Medicare benefits.

The cash you get from a reverse mortgage can be paid to you in several ways:

- all at once, in a single lump sum of cash;
- as a regular monthly cash advance;
- as a "creditline" account that lets you decide when and how much of your available cash is paid to you; or
- as a combination of these payment methods.



There are three basic types of reverse mortgages:

Single-Purpose Reverse Mortgages are offered by some state and local government agencies and nonprofit organizations. They generally have very low costs. But they are not available everywhere, and they only can be used for one purpose specified by the government or nonprofit lender, for example, to pay for home repairs, improvements, or property taxes. In most cases, you can qualify for these loans only if your income is low or moderate

Federally-Insured Reverse Mortgages are known as Home Equity Conversion Mortgages (HECM's), and are backed by the U. S. Department of Housing and Urban Development (HUD).

Proprietary Reverse Mortgages are private loans that are backed by the companies that develop them.

HECM's and Proprietary Reverse Mortgages tend to be more costly than other home loans. The up-front costs can be high, so they are generally most expensive if you stay in your home for just a short time. They are widely available, have no income or medical requirements, and can be used for any purpose.

As you consider a reverse mortgage, be aware that:

- Lenders generally charge origination fees and other closing costs for a reverse mortgage.
- Reverse mortgages may have fixed or variable rates.
- Reverse mortgages can use up all or some of the equity in your home, leaving fewer assets for you and your heirs.
- Because you retain title to your home, you remain responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses.
- Interest on reverse mortgages is not deductible on income tax returns until the loan is paid off in part or whole.

Rising Debt, Falling Equity

A reverse mortgage is a "rising debt, falling equity" type of deal. The amount you owe (your debt) gets large as you get more and more cash and more interest is added to your loan balance. As your debt grows, your equity shrinks, unless your home's value is growing at a high rate. When a reverse mortgage becomes due and payable, you may owe a lot of money and your equity may be very small. If you have the loan for a long time, or if your home's value decreases, there may not be any equity left at the end of the loan.

You can never owe more than the value of the home at the time the loan is repaid. Reverse mortgages are generally "nonrecourse" loans, which means that in seeking repayment the lender does not have recourse to anything other than your home. Not your income, your other assets, or your heirs.

No matter why you decide to take a reverse mortgage, you generally have at least three business days after signing the loan documents to cancel it for any reason without penalty. Remember that you must cancel in writing.

Whether a reverse mortgage is right for you is a big question. Consider all your options. You may qualify for less costly alternatives. Contact the following organizations for more information:

AARP Foundation: 1-800-209-8085 or www.aarp.org/money/revmort/

Federal Trade Commission: 1-877-382-4357 or ftc.gov/credit – click on "Mortgages & Your Home"

U.S. Dept of Housing & Urban Development: 1-888-466-3487 or www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm