

Revisiting Reverse Mortgages

Reverse mortgages are an option for seniors, particularly in a difficult housing market. This type of loan taps a segment of net worth that may often never get touched. Recently, the Federal Housing Administration increased the lending limit for reverse mortgages, so even in today's hard-hit housing environment, seniors in higher-priced homes are now eligible for a reverse mortgage. In addition, reduced fees may help well-informed seniors find a way to use this financial tool.

What is a reverse mortgage?

Basically, a reverse mortgage releases home equity as a loan to seniors. The loan is repaid when the owner dies, the home is sold or the owner moves. The loan is typically paid off from the proceeds of the sale of the house. A reverse mortgage is a "non-recourse mortgage," which means that if the sale proceeds are less than the amount owed, the mortgage insurance pool pays the difference, so the loan is satisfied.

The lending limit set by the Federal Housing Administration is currently \$625,500, but the amount available to any individual is calculated based on factors including the senior's age, available equity, and the fixed or variable interest rate of the loan.

Borrowers should clearly understand the terms of the reverse mortgage loan because, as with any mortgage, there are associated costs. Seniors should carefully consider these, and the lender can clearly explain what they will be. (In addition, free or low cost third-party counseling by a HUD-approved agency is available and required by HUD for every reverse mortgage.)

Get More Information About Reverse Mortgages

- | [Federal Trade Commission](#)
- | Several articles from the [National Foundation for Credit Counseling](#)
- | [HUD-Approved Housing Counseling Agencies state search](#)

For example, homeowners who take out a reverse mortgage need to understand they still pay costs such as taxes, insurance and repairs on the home. Should the homeowner be unable to pay these expenses, the loan could become due and payable.

Depending on the state, payments from reverse mortgages may be counted as an asset in determining Medicaid eligibility, so seniors who are considering a reverse mortgage should consult a qualified Medicaid specialist to determine how it might affect their eligibility for Medicaid in their individual situations.

In addition, homeowners need to remain in their homes for at least six months out of the year. If the owner isn't there for a specified period — even for a prolonged but temporary stay in a nursing-home or other health care facility, the terms of the reverse mortgage could cause eviction.

Alternatives

Reverse mortgages are one of several financing options that seniors can check into. For example, if a senior homeowner needs cash for a major home repair, like replacing a heating system, the local power company may offer low-cost financing for that kind of home improvement.

Seniors may also consider selling their home to their children or another family member (the family takes out a mortgage to free up cash for the senior). Home equity lines of credit may also be an option, but can create financial constraints if they add to a senior's debt obligations.

Seniors approaching retirement can also explore options for making the best use of their retirement plans. If you are considering a loan of any type, be sure you consult a qualified financial advisor to be sure you find the financial product that best meets your need.

Advantages

Reverse mortgages use built-up equity to free up cash for seniors who want to stay in their own homes. The funds are tax-free and have no income restrictions. And they are an option for seniors who have limited incomes and may have difficulty qualifying for a traditional mortgage.

The payout from a reverse mortgage can be used for any purpose, including paying off a traditional mortgage, financing a home improvement or meeting health care expenses.

Depending on the circumstances, a reverse mortgage could be a viable financial strategy, especially at a time when seniors are living longer and are concerned with maintaining income during their lifetime. A reverse mortgage can ease financial fears and take pressure off seniors' families — especially their adult children — during tough economic times. Seniors should explore all options and consult a qualified reverse-mortgage expert; and remember that free or low cost counseling by a HUD-approved third-party advisor is available and required by HUD for every reverse-mortgage loan.

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