

The Law and You

A Reverse Mortgage: An Alternative to Selling Your Home

With our aging society, new financial pressures for seniors have emerged. One question many seniors ask is: How can I survive during my golden years when my income no longer meets my expenses?

This question becomes even more relevant when a senior's financial reserves have been depleted. It seems there is not enough to pay the never ending bills such as property taxes, utilities, home maintenance, car and home insurance, prescriptions, medical co-pays, and on and on it goes.

When a senior's health permits him or her to remain at home, the desire to do so is usually very strong. The home is sacred. It contains so many memories. The home protects and provides comfort. It represents an emotional anchor for most seniors who are homeowners.

Seniors who are faced with diminished income often consider downsizing their living arrangements. This translates into selling the very home that brings so much comfort.

One alternative is a mortgage or home equity loan on the home. That is, the home's equity can be converted to cash to assist with daily living expenses.

However, a conventional mortgage or home equity loan requires monthly payments. To qualify, a homeowner must demonstrate an ability to make the monthly payments required by the lender.

But if a homeowner's income is insufficient to meet her expenses, such income will not be sufficient to make mortgage payments, unless the cash received from the mortgage is used to make the payments. That is the rub. So, what to do?

A "reverse mortgage" is a relatively new financial device. It is somewhat like a regular mortgage. The difference is that no payments are required. The loan is paid only when the

home is sold.

The reverse mortgage permits the homeowner to remain in the home without the burden of making monthly payments. When the homeowner dies or leaves the home without any intent to return, the home is then sold and the loan is paid off.

An example should help understand how a reverse mortgage can help. Assume a home is worth \$150,000 with no existing mortgage. The homeowner is 70 years old with income from Social Security of \$800 per month.

A reverse mortgage may be obtained for about 60% of the home's value, or \$90,000. The homeowner could take the entire \$90,000 in a lump sum or in monthly payments. The lump sum could be used for extra monthly needs or emergencies. Or, it could be used to purchase an annuity.

If an annuity is purchased at 3.5% over 20 years, it could generate income of \$522 per month. Added to the homeowner's Social Security, a total income of \$1,322 is available to the homeowner. This represents a 65% increase in monthly income.

Upon the death of the homeowner, the annuity could continue to be paid to the homeowner's heirs so that no part of the unused annuity is lost. In addition, the homeowner's home can be sold to payoff the reverse mortgage.

Since the reverse mortgage used only 60% of the home's value, there may be equity remaining after payoff. Remember, the reverse mortgage is a loan that accrues interest. If the reverse mortgage accrues interest at 3.5%, the balance owed after 20 years will be approximately \$181,000.

If the home appreciates in value to \$181,000 or less, the lender will accept the home as payment in full for the reverse mortgage. No additional payments will be

due.

However, if the home appreciates to a value greater than \$181,000, the amount in excess of the balance owed will go to the homeowner's heirs.

The interest rates used in the above example are only estimates. Interest rates for reverse mortgages will quite naturally vary. Likewise, interest rates for annuities will vary.

A reverse mortgage may not be for everyone, but it is a viable option for many seniors. Before selling your home or taking out a mortgage on your home, review all options, including a reverse mortgage.

Beside lenders or mortgage brokers, you should also consult with an Elder Law Attorney. Check the National Academy of Elder Law Attorneys at (520) 881-4005, or the Yellow Pages under the heading of "Elder Law."