



Reverse Mortgages: A Popular Way to Finance Retirement -- But Beware of Scam Artists

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Many seniors enter their "golden years" with bleak prospects because of increasing debts, poor debt management and decreasing buying power.

One thing many seniors have in common is their main asset -- their home. Many elderly people own a home, and often they have either substantial equity in the home, or they own the property free and clear.

While some people seek to consolidate debts by getting a new mortgage loan or a second mortgage, many seniors don't have enough income to qualify. And even if you qualify for the home mortgage loan, the prospect of paying off a 30-, 20- or even 15-year mortgage note may mean having to greatly tighten your belt for the rest of your life, creating undo financial hardship and stress.

Now you have another option

A reverse mortgage is a special type of home equity loan that lets a homeowner convert the equity in the home into cash. The home equity built up over years can be paid to you in a lump sum, in a stream of payments, or as a supplement to other income. Loan advances are not taxable and do not affect your Social Security or Medicare benefits. But unlike a traditional home equity loan, no repayment is required until you no longer use the home as your principal residence. For many seniors a reverse mortgage may be the solution to substantially improving their financial position, eliminating many money worries like paying the household bills and properties taxes, eliminating credit card debt and loan debt.

When you die or move out, the reverse mortgage lender gains ownership of the home unless you or your heirs pay off the loan. Also, you may sell the home and repay the lender with the proceeds from the sale.

Some seniors are reluctant to mortgage their house and reduce their estate's value because they worry about what their children might think. However, the peace of mind of knowing that one's parents are more comfortable is a definite plus for many families.

Of course, reverse mortgages are not for everyone. They can be costly, and an elderly homeowner may see only 30 to 80 percent of the value of their home through a reverse mortgage. There are also closing costs and service fees. Some reverse mortgages carry fixed interest rates and others are adjustable.

How does a reverse mortgage work?

As the homeowner, you can choose a monthly annuity payment, or opt for a lump sum payment or a line of credit account from which you can draw money when you need it, or a combination of the three.

The Federal Housing Administration (FHA) insures reverse homeowner mortgages offered by HUD approved lenders around the country. Reverse mortgages carry several conditions.

Most seniors can qualify for a reverse home mortgage because there are no income, asset or credit requirements. The homeowner must be at least 62 years of age and live in the home -- as his or her primary residence -- for the duration of the loan. The home can be a 1-4 family residence, condominium, co-op, permanent mobile home or manufactured home.

The amount borrowed must be no more than the appraised value of the home or the maximum value allowed by HUD in a given area, whichever is lower.

The older a homeowner, the more money they can receive with a reverse mortgage. At current interest rates, a 62 year old can expect to receive about 30 percent of the value of the home, while a 95 year old may receive 80 percent.

AARP outlined several other important characteristics of reverse mortgages. Please keep these in mind when considering whether a reverse mortgage is right for you:

- Since you remain the owner of the home, you are still responsible for all taxes, insurance, maintenance and repair.
- You can never owe the lender more than the value of your home at the time the loan is repaid.
- Reverse mortgage home loans must be repaid, either in cash or by transferring the deed to the home, when you die, move away or sell the home.
- Reverse mortgages come in a wide variety of options, shapes and sizes. A reverse mortgage that worked for your neighbor may be the worst thing for you.

A reverse mortgage is similar to a conventional mortgage, as follows:

- You continue to hold title to the property, as with any other mortgage.
- The bank has a lien on the property just as with any other mortgage.
- The bank cannot demand payment from any family member if there is not enough equity to cover paying off the loan.
- There is no penalty to pay off the mortgage early.

The proceeds from a reverse mortgage are tax-free and you can use them for any legal purpose, such as:

- Daily living expenses
- Home repairs and improvements
- Medical bills and prescription drugs
- Education and travel
- Long-term care and long-term care insurance
- Financial and estate tax plans
- Gifts and trusts
- Buying life insurance
- Eliminating credit card debt, paying creditors and outstanding loans
- Any other needs you may have.
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Beware of scam artists

Further confusing the issue is the number of unscrupulous lenders and telemarketers who sell information about reverse mortgages to elderly people for outrageous fees, from hundreds to even thousands of dollars. The same information these "consultants" were charging thousands of dollars for was available for free from HUD, the American Association of Retired Persons (AARP), Consumer Credit Counseling Service, and from reputable lenders.

Reverse mortgages are hard to understand. Deciding which type (if any) is right for you can be even more confusing. To help consumers, government rules require people considering reverse mortgages to receive free counseling sessions conducted by government approved lenders, retiree associations and financial counselors.

Use caution...

... when you consider whether a reverse mortgage is for you. While a reverse mortgage can be a great opportunity for an older person to draw on the equity of their home, they are not for everybody.

A good thing about them is when you take a reverse mortgage, of course, you don't have a mortgage payment anymore. For many seniors, a reverse mortgage may be all the financial help they need to lead a comfortable and secure retirement. It is an effective way to increase cash flow, reduce monthly payments and improve financial management.

However, because of the difference in the amount of home equity that younger borrowers can get versus what older borrowers can get, it may be wise to hold off. After all, the older you are, the more money you will get from a reverse mortgage. It can make all the difference between living in debt, struggling to get by or free from money worries and enjoying life to the fullest.

For additional information, contact the U.S. Department of Housing and Urban Development (HUD) for free information about reverse mortgages.

You're Invited to Call or E-mail.

"If you have questions about bankruptcy, foreclosure, credit card debt, loan modifications,
tax liens or other financial problems, please send your e-mail today to

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