



What Is a Reverse Mortgage?

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A reverse mortgage allows people 62 and older to convert equity in their homes to tax-free income without having to sell the home, give up title, or take on a new monthly mortgage payment. When the borrower leaves the house, the property reverts to the lender to pay off the loan.

Although reverse mortgages have been available in Texas for more than 10 years, only about 7,000 were taken out in 2008. However, that number is increasing as older baby boomers and other seniors discover this way to free up their home equity to serve present or future cash needs.

The homeowner continues to live in the home, pay property taxes, and pay homeowner's insurance. But the reverse mortgage lender will give the homeowner the equity and pay off any existing mortgage. The new lender will have a first lien on the property.

Reverse mortgages can take several forms — a lump sum, a monthly payment, a combination of both, or a line of credit. The loans are not suitable for everyone, and to make it work, seniors should have at least 50% equity in their homes.

The economic stimulus package passed in January 2009 increased the cap on reverse mortgages to \$625,500, but that limit is in effect only until the end of 2009, when Congress will reconsider what the cap will be. The stimulus package also reduced the origination fee to 2% on the initial \$200,000 of the home's value and 1% on the rest, up to a cap of \$6,000. But even with that reduction, there are significant costs to obtaining a reverse mortgage, including origination fees, title costs, appraisal fees, and all the normal closing costs of a regular mortgage.

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Several reputable organizations offer counseling and information about reverse mortgages, including the AARP and the National Reverse Mortgage Lenders Association.

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