

Reverse mortgages can assist seniors

Nancy Frazier O'Brjen/CNS

Reverse mortgages have been marketed as a ticket to financial freedom for today's seniors. But like any financial transaction, they must be approached with caution and with a full understanding of the terms.

Widely available only since 1989, reverse mortgages are special types of loans that allow homeowners 62 and older to convert the equity in their homes into cash. The homeowner can choose to receive the funds in a lump sum, in payments over a number of years or as a line of credit that the homeowners may access as needed.

The amount of the reverse mortgage will depend on the age of the homeowners and the appraised value of the home. There are no credit or income requirements to obtain a reverse mortgage.

Unlike other loans, no monthly payments are due and reverse mortgages do not need to be paid back until the last surviving borrower dies, sells the home or no

longer uses it as his or her principal residence. Although a homeowner can never be forced out of his or her home because of a reverse mortgage, someone who has been in a nursing home for a year, for example, might be legally obligated to pay off the mortgage at that time.

To qualify, any mortgage on the home must be nearly or completely paid off. Single-family homes, townhouses and certain condominiums and mobile homes are eligible, as long as they are the homeowners' principal residence.

With a reverse mortgage, the homeowners retain title to their home and continue to be responsible for paying the property taxes and insurance and for general upkeep of the property.

Taking out a reverse mortgage will have no effect on Social Security or Medicare benefits. However, it could have an effect on the benefits you receive, if any, from the federal Supplemental Security Income program or state-administered programs like Medicaid.

When a reverse mortgage comes due, the loan amount plus all accrued interest and fees will be deducted from money received in the sale of the home, with any remaining funds going to the homeowner or his or her estate.



The U.S. Department of Housing and Urban Development recommends — and for HUD-approved loans, requires — that seniors get free advice from a HUD-approved housing counseling agency before signing any documents on a reverse mortgage. Referral to such an agency is available by calling (888)

466-3487, toll-free.

That advice could save thousands of dollars, as the family of the late Lacy S. Eckhardt learned too late. Eckhardt received no such advice before signing up for a reverse mortgage in April 1998 that paid her \$58,000 in cash before her death in December 2000.

But because Eckhardt had agreed to an appreciation-sharing arrangement in her reverse mortgage, giving the lender 50 percent of any increase in the house's value during the term of the loan, her estate was billed more than \$765,000 by the company that made the loan. In court documents, the woman's family charged that the \$980,000 appraised value was set "artificially low" in April 1998 to assure an overly large profit on the house, which sold for \$2.2 million less than three years later.

The National Consumer Law Center, based in Boston, recommends that those looking into a reverse mortgage ask themselves whether there might be another, less costly, means of adding to their income or meeting their financial goals. Such options as seeking a property tax credit or abatement or taking out another type of loan might be less expensive, the center says.

But the center's best piece of advice is its most simple. "As with any loan," it says in its consumer tips on reverse mortgages, "do not sign anything you don't understand."

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