

Daily Union Article

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Title: Reverse Mortgages: Proceed with Caution!

I recently received a phone call asking me "How do I know if a reverse mortgage is a good decision for me?" That isn't an easy question to answer as the response depends on a wide range of variables unique to each consumer. While there are some advantages to taking out a reverse mortgage for those who qualify, there are certainly some drawbacks, as well. As you explore this financial opportunity, proceed with caution!

The Consumer Financial Protection Bureau (CFPB) defines the term reverse mortgage as a special type of loan that allows older homeowners to borrow against the equity in their homes. Your home's equity is the amount that remains after you subtract what you still owe on your home from its current market value. For example, if you owe \$45,000 on your \$200,000 home, your home equity is \$155,000 (\$200,000 - \$45,000 = \$155,000.)

The first thing to think about is "Would I qualify for this type of loan?" These types of loans have 3 basic qualifying conditions:

- 1) You must be at least 62 years old.
- 2) Your home must be your primary residence.
- 3) You must have paid off some, or all, of your traditional mortgage.

Additionally, if you still owe money on your traditional mortgage, you are required to use part of the money from your reverse mortgage to pay off the traditional mortgage. There are limits to how much money you can borrow for a reverse mortgage. If your traditional home mortgage balance is too high, you might not be able to obtain a reverse mortgage.

With a reverse mortgage, you borrow against the equity and the loan balance grows over time. You don't have to pay back the loan while you or your eligible spouse live in the home (sounds great at this point!) However, you still have to pay taxes, insurance, and maintain the home. The loan must be paid off when you or your eligible spouse have passed away. Most people have to sell their home to pay off the loan, but neither you nor your heirs will have to pay back more than the home is worth. At the end of the life of the loan, the borrower owes a substantial amount and her or his equity has decreased, possibly significantly.

In a fact sheet published by the Consumer Financial Protection Bureau, it explains that most reverse mortgages are insured by the Federal Housing Administration (FHA) through its Home Equity Conversion Mortgage program. This program requires that you meet with a reverse mortgage counselor to discuss the detailed effects a reverse

mortgage will have on your finances. These counselors are required to be approved by the Department of Housing and Urban Development (HUD). FHA requires that your home be in good condition in order to apply for a reverse mortgage.

The advertising and marketing efforts of many banking institutions address the “perks” without necessarily sharing the “potholes.” Reverse mortgages are complex financial products that can be difficult for the average consumer to navigate through without a trained unbiased professional.

If you are considering a reverse mortgage, I strongly suggest you do some research and meet with a HUD-approved reverse mortgage counselor. I also suggest you proceed with caution because the consequences of defaulting on such a loan are considerably challenging.

In a K-State Research and Extension fact sheet authored by Dr. Martin Seay and Dr. Elizabeth Kiss they recommend you ask yourself these questions as you work through the research phase of this decision:

- Is my home going to meet my needs as I age?
- Is my home safe and comfortable and will it remain so as my mobility or health diminishes with age?
- If I could no longer drive, would my home become an isolated environment?
- What help and supportive services do I have access to while living in my home?

If you feel you can age in place in your home, then the next step is to think carefully about the financial impact a reverse mortgage could have on you and your family.

Again, asking yourself some questions can provide a more clear understanding on whether a reverse mortgage is a good choice. :

- Why do I need the money? Is my need immediate to deal with an emergency? Am I trying to be prepared to meet an anticipated need sometime in the future? Am I looking for a longer-term solution in order to be able stay in my home?
- Is my house currently in good repair? How much can I realistically get from my house based on current market conditions in my community and my age?
- Does my durable power of attorney include real estate? Is my title to the property shared with others and would that affect my ability to obtain a reverse mortgage?
- Do I have existing relationships with the professionals I am likely to need, including a banker, real estate agent, lawyer, appraiser, inspector, and contractors?

Source: "Understanding Reverse Mortgages: Do They Make Sense for You?", pub# MF3163

Although advertisements promote reverse mortgages as a win-win financial decision, take caution! You should do your homework and work with an approved counselor before you sign a contract. For more information on reverse mortgages, contact me at

the Geary County K-State Research and Extension office at 785-238-4161. Until next time, keep living resourcefully!

Optional Sidebar:

Caution Recommendations for Reverse Mortgages:

- ✓ Don't sign the loan documents unless you understand how a reverse mortgage works.
- ✓ Know your options – there may be a better choice.
- ✓ Have a serious talk with a federally approved housing counselor who specializes in reverse mortgages.

