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Moving Forward with a Reverse Mortgage

By Gina M. Barry, Esq.

A multitude of seniors, having paid off their mortgages many years ago, currently own their homes free and clear of any debt. Some are fortunate, and they have a nest egg that, along with their income (Social Security / pension), allows them to maintain their home and provide for themselves without difficulty. Some are not so fortunate, and although they own their home, they do not have adequate sources of income and other assets to maintain the home as well as provide for their care needs.

When a senior find himself or herself unable to afford his or her home, but has some overwhelming reason to remain there, instead of selling or downsizing, a reverse mortgage, also known as a home equity conversion mortgage (HECM), can provide access to the equity in the home without the traditional monthly payments associated with a mortgage. In order to qualify for a reverse mortgage, the borrower must be at least 62 years old and own their home. The home must be the borrower's primary residence, and not a rental or vacation

property. If the borrower has an existing mortgage on the property, he or she must pay off the existing loan with money received from the reverse mortgage. There are no income requirements. Further, if they are participating in the federal HECM program, the borrower must undergo consumer counseling before being approved for the reverse mortgage.

Similar to a traditional loan, the property would be appraised and inspected as part of the approval process. Generally, a borrower can expect to be able to access between 50% and 70% of the appraised value of the home, but the amount that can be accessed is dependent on the home's value, location, interest rates, and the age of the younger borrower if there are co-owners. Once the loan is closed, payments from the mortgage to the borrower can be taken in a variety of ways, including lump sum, monthly payments or a line of credit. Typically, the line of credit increases as the homeowner ages thereby allowing more money to be borrowed over time. Once a reverse mortgage is obtained, the borrower remains

responsible for the maintenance and upkeep of the home, as well as for the real estate taxes (with any applicable abatement for age, health, veteran status, etc.) and the property insurance.

A reverse mortgage must be repaid when the senior sells the home, permanently moves out or dies. With respect to permanently moving out of the home, there is typically a period of time allowed that the senior can be absent from the home, such that if admission to a hospital or rehabilitation center is needed, but will not be permanent, this repayment feature will not be triggered. If the senior dies while still living in the home, the loan must be repaid upon the sale of the home or the family may choose to pay off the loan, including interest that has accrued on the amount borrowed, and keep the home.

The costs associated with obtaining a reverse mortgage are most commonly the reason why such a mortgage is not obtained. Although some loan programs may have lesser costs, typical closing costs on a reverse mortgage are between 6% and

8% of the home's value. The appraisal, legal fees, loan origination fees, mortgage insurance premiums and monthly service fees are paid before any funds are disbursed to the borrower.

Seniors usually turn to a reverse mortgage for a variety of reasons, including maintaining their quality of life after retirement, paying for prescription drugs or needed medical supplies or paying for administrative, personal or nursing services. If there are other financial resources that can be used to pay the ongoing expenses of the senior, then the use of those funds prior to obtaining a reverse mortgage should be seriously considered. If monthly payments on a home

equity loan or line of credit can be afforded, such a loan may be more beneficial. Further, many state and local governments offer low-cost loans for paying property taxes or making home repairs. When other options exist, a reverse mortgage might not be the best option.

Nonetheless, a reverse mortgage can allow a senior to meet the goal of remaining in the home instead of moving to a smaller home or to an assisted living facility or nursing home. When a senior owns his or her home, but does not have the other assets necessary to maintain his or her lifestyle and care needs, a reverse mortgage can be an invaluable option. Ultimately, seniors who find themselves in

this situation should discuss all of their options before moving forward with a reverse mortgage.

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