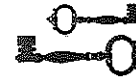




REAL ESTATE



The Many Faces of Reverse Mortgages

By: Vivian Dye, Atlantic Residential Mortgage

A few years ago, if I asked a group of friends, "Do you know what a reverse mortgage is?" I suspect only a small percentage would respond in the affirmative. Today, the opposite would undoubtedly be true. But I wonder how many would understand all the choices that are available to them today.

Senior homeowners face more difficult challenges with the financial pressures throughout the economy. Today there is wisdom in looking at ways in which home equity can be put to work. Reverse Mortgage loans were designed specifically for senior-aged homeowners to access the money that has built up over the years as equity.

Seniors (age 62+) obtain reverse mortgages for many reasons, but the most important is that a reverse mortgage makes it possible for people to stay in their own home at a time when the cost of living is getting higher and higher. Other reasons include paying property taxes or medical and prescription costs; paying off a current mortgage; making home repairs; assisting relatives; traveling or just enjoying life a bit more.

Today the reverse mortgage world provides a number of options.

For the homeowner who wants to use a reverse mortgage to stay in their homes, there are now Federal Housing Administration (FHA) loans which currently cap the appraised value of your home at \$625,500 and non-FHA jumbo loans which are for higher valued homes.

The FHA loans are the Home Equity Conversion Mortgages (HECM) and can be obtained either as a variable rate loan or a fixed rate loan.

How would you like to receive your funds? If you elect a variable rate depending on your needs and qualifications you can receive your funds in a lump-sum distribution, line of credit, monthly disbursements paid to you, or any combination of these methods.

Monthly methods can be term or tenure and that decision can make a sufficient difference in monthly income to require understanding the alternatives.

Unless you have selected a fixed rate plan, you can change payment plans as frequently as you wish for a very small fee. If you elect a fixed rate, you will be receiving all your available funds in a lump-sum distribution and interest starts accruing on the total loan balance immediately.

A new choice: And very recently announced, there is the new "HECM Saver," which is a low cost reverse mortgage product insured by the FHA. The HECM Saver offers borrowers the option of obtaining less money than the standard HECM product but with lower closing costs. It lowers the upfront loan closing costs by reducing the required upfront Mortgage Insurance Premium (MIP). It will provide all payment options.

Did you know that you can use a reverse mortgage to purchase a new primary residence?

If a senior wants to downsize, upgrade or just make a change, a reverse mortgage for purchase can help make that happen.

There are two pieces to the purchase transaction: (1) the amount of money available through the reverse mortgage and (2) the remaining dollar investment the homeowner brings to purchase the home. You are required to make a monetary investment with your own funds (most often from the sale of an existing residence) and the HECM is used for the remainder of the purchase.

This could enable you to make your move without having to tap into your savings and potentially have extra cash when the purchase is complete. There are now also non-HECM jumbo reverse mortgage loans for higher valued homes that are also available for primary residence home purchases.

What should I know about the new jumbo loans? A new reverse mortgage is available once again for seniors who own higher valued homes.

It is a fixed-rate loan that is available as a one-time payment to you and contains provisions to help you tailor the loan to your specific needs.

This can be used both to help you stay in your home more comfortably as well as to refinance your existing reverse mortgage or purchase a new single family residence or PUD as your primary residence.

As you can see, there are a number of decisions that need to be made when you are considering a reverse mortgage, for example: What matters most in your situation: rate? Highest dollar amount? Lowest upfront costs? If you want monthly payments do you want them "forever" versus a specified period of time? Should you be including a line of credit? The good news is that all these questions mean that you have choices to tailor this to suit you best.

Here are some of the questions we've been asked when consulting with our customers.

Do I qualify for a reverse mortgage?

You must be age 62 or older. And you must occupy the home as your primary residence -- for the majority of the year. Borrowers must own the home outright or have a low enough balance on the existing mortgage that it can be paid off from the proceeds of the reverse mortgage.

What if my spouse is not yet 62 years old?

Ultimately, the person who remains in the house will need to have sufficient funds to pay off the reverse mortgage, or will need to move out. If the spouse is not sixty two at the time the reverse mortgage is obtained he or she would not be able to be on title for the new loan. If that creates an issue, then a reverse mortgage may not be a reasonable alternative. While the spouse may be named in a will or trust as inheriting the home, the loan still needs to be paid. If you still decide to initially leave the younger spouse off of the loan until they reach age 62, bear in mind that you will have to refinance the loan in order to have him/her added.

If I have a reverse mortgage, who holds the title to my home?

This is one of the biggest misconceptions. You retain ownership of your home just as you would if you were to take a "regular" mortgage. However, if you permanently move out or the home passes to your estate, the loan must be repaid.

Are there restrictions on how I use the money?

There are generally no restrictions on how the proceeds of the loan are used. From paying bills to buying a boat, to travel abroad or visiting the family -- it is your money to spend.

Do I need to make payments to the bank during the term of the mortgage?

You don't make payments, because the loan is not due as long as the house is your principal residence.

What are my obligations during the course of the loan?

Borrowers must continue to pay homeowner's insurance and property taxes during the loan period. It is also the borrower's responsibility to keep up with repairs. In fact, if a borrower fails to adhere to any of these obligations, it may become immediate cause for the loan to become due. In which case, it would become payable in full.

Do I owe any interest on the reverse mortgage?

Yes, interest accrues monthly based on the current amount borrowed. HECM borrowers can choose an adjustable interest rate or a fixed rate. Interest is due at the point in time when the loan is repaid.

Who gets the remaining equity when the house is sold?

When the loan must be repaid, you or your heirs can either pay the balance due on the reverse mortgage or sell the home and use the proceeds to pay off the reverse mortgage. Remaining equity belongs to the borrower or the borrower's estate and not the bank. Down the road, if you wanted to leave your house to your children and they wished to live in it, they would have to repay the reverse mortgage with either cash or through refinancing with another mortgage.

How much money can I receive?

The amount of money you can receive from a reverse mortgage is determined by your home value, the number and age of the homeowner(s) and the current interest rate.

Am I eligible for a reverse mortgage if I have an existing mortgage on my home?

Even seniors who have an outstanding mortgage or some other debt on their home may qualify. The proceeds of the reverse mortgage would be used to pay off such debts and the remainder would be available to you.

Will a reverse mortgage affect my public benefits?

A reverse mortgage will not affect Social Security or Medicare but may affect Medicaid. You should seek specific advice on your situation.

Clearly a reverse mortgage deserves serious consideration as a way to provide financial flexibility and today there are a variety of options available. A first step would be a discussion with a trusted mortgage professional to better understand your choices. This is in addition to any other advice you have chosen to see from your accountant, lawyer, financial planner or children. A reverse mortgage is a way to have your home equity contribute to your retirement planning.

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