

Decoding the Real Estate Market
Reverse Mortgages-What Are They? How Can They Help? What Can Go Wrong?
By Sandy Hayes

A Reverse Mortgage is a home loan for seniors (one owner on title must be at least aged 62 or older) that uses a percentage of the home's equity as collateral. The home must be your primary residence. Income and credit history are not required or considered. The loan generally does not have to be repaid until the last surviving homeowner permanently moves out of the property or passes away. The estate has approximately 6 months to repay the balance of the Reverse Mortgage or sell the home to pay off the balance. Any remaining equity is inherited by the estate. The estate is not personally liable if the home sells for less than the balance of the Reverse Mortgage. There is no health requirement; your health status is not a factor.

Almost all home types are eligible. However, mobile homes must have been built in the last 30 years, the land must be owned, it must be on a permanent foundation, and it must meet an FHA inspection. Some condos and townhomes may be eligible as well.

The funds from a Reverse Mortgage are non-taxable. They do not count toward income or affect Social Security or Medicare benefits or count as income for Medicaid benefits eligibility as long as the Reverse Mortgage payments you receive are spent within the month that you receive them.

Until recently, there were three types of Reverse Mortgage loans from which to choose. Two of the three programs have been discontinued, leaving the Home Equity Conversion Mortgage (HECM). This program is offered by the Department of Housing and Urban Development (HUD) and is insured by the FHA.

Reverse Mortgage funds must first be used to pay off any existing mortgage or other debt against the home and to make required home repairs. You can use any remaining funds for any purpose. You must have little or no outstanding balance on your current mortgage. A Reverse Mortgage must be in first lien position, which makes it very difficult to borrow any more against your home once you have a Reverse Mortgage. You can refinance a Reverse Mortgage if the house increases significantly in value.

The [fees](#) on a reverse mortgage are the same as a traditional FHA mortgage but are higher than a conventional mortgage because of the insurance cost. The largest costs are the [FHA mortgage insurance](#) and the [Origination fee](#). These costs are rolled into the loan and will decrease the amount available to the home owner.

If the homeowner moves out or does not meet requirements for maintenance and paying property taxes and insurance the Reverse Mortgage can be "called" by the lender. This can lead to foreclosure if the homeowner is unable to sell the property for the amount owed.

The loan balance gets larger over time and the value of the estate/inheritance may decrease over time. While this may simply be a disappointment to the heirs, it can be financially devastating to a surviving spouse who wishes to sell the house and has no equity to buy another or who needs to move into an assisted living situation and has no money from the sale to pay for it.

All potential borrowers must first meet with a HUD-approved Reverse Mortgage counselor before they can start the loan process. These counselors can give you information to help decide whether a Reverse Mortgage is right for you.

The next installment of **Decoding the Real Estate Market** will discuss Buying A Foreclosure.