

Reverse to the Future:

The Simple Truth about Reverse Mortgages

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The golden years are supposed to be the best years of our life. This can be true if our financial nest-egg holds out and we are in good health. Certainly the golden years are full of surprises. Our financial situation can change quickly sometimes beyond our control. Financial matters can weigh heavily on us at times and can even undermine our health. In the old days, if we needed additional income, we would sell our homes and live off the equity we converted to cash. There is now another way for seniors to convert some of their equity to cash income. That is a safety net provided by a reverse mortgage.

HISTORY

Prior to 1989, a few private banks were offering reverse loans to seniors on outrageous terms, eating the equity out of the home in just a few years. In 1989, the Federal Housing Administration (FHA) decided to stop this elder abuse and came out with its own reverse loan called HECM (Home Equity Conversion Mortgage). Today, 95% of all reverse loans are FHA.

OPTIONS

Reverse Mortgages make a portion of the equity available by allowing homeowners to borrow from that equity and not make payments for as long as they live in the home. A reverse mortgage can provide a monthly income for life, a lump sum in cash, a line of credit, or a combination of all. With the lifetime income, monthly payments are placed in your bank account for as long as you or your spouse lives in the home. The lump sum can be withdrawn at any time and used anyway you like. The line of credit is money available to you in 3 days as you need it. When you ask for money from your line of credit, it is wired directly into your bank account. If you don't use it, the line of credit grows currently at about 6% a year, which is a rate better than bank treasury bills. Regardless of the economy or home values, this money is guaranteed by the U.S. government. Of course, one can switch back and forth between a line of credit and a lifetime income or have some of both. As needs change through time, the options also can be changed.

COUNTY LIMIT

The county in which your home is located is very important in that each county can have a different loan limit. Stanislaus County is \$362,790 currently. No home in this county is

given more value than this limit. If the home has a loan on it, then that loan must be paid from the line of credit and will reduce the lifetime income.

QUALIFYING

One's health is not considered. All persons on title must be 62 or older, and the home must be a primary residence. No income is needed and credit scores don't count. Past bankruptcy and notice of default are not considered.

PROPERTY

Usually people have a single family residence, but that can go to 4 units if one of the units is owner occupied; however, value is only given to the owner occupied unit and yard. The home must be in good repair. If repairs are needed, usually the repairs can be completed after the loan is closed. Pest reports may be required, but usually any necessary work can be done after the close of escrow. A manufactured home on its own lot may qualify if the residence is newer than 1976 and the foundation can be FHA certified.

EXAMPLE

For example, the borrower is 62, the home is in Stanislaus County, and the home is worth \$363,000 and is free and clear of debt. The line of credit currently is \$195,200, or the monthly lifetime income is \$1,108. The older the person, the more money is available. At age 82, the line of credit is \$263,317, or the lifetime income is \$2,014. Please note that the youngest person on title determines the amount of the loan.

TITLE

Do they take your home when you die? No! What value is left for your heirs? There is usually considerable equity left in the property for the heirs after the reverse loan is paid off. The title stays just the same as before the reverse loan was taken. If the home is in a trust, it stays in the trust.

IRS AND MEDICARE

IRS and Medicare do not consider the cash you pull out as income. Medical and SSI are not affected if funds are closely monitored.

PURCHASE

A reverse loan may be used to purchase a primary residence (new or used), but it takes a considerable down payment.

DEATH

When one of the spouses passes away, nothing changes until the last person on title dies. Then the loan has to be paid off in 6 to 12 months. The heirs should be able to refinance or sell the home during this time.

LARGE EXISTING LOAN

What if I owe more than the line of credit will give me? In this case, you would have to bring in the difference in cash at the close of escrow on the reverse loan.

REFINANCE OF A REVERSE

As we have seen over the last 5 years, homes have doubled in value. It is not uncommon to refinance the reverse loan and pull out another \$50,000. The cost of a refinance is roughly half that of the initial reverse loan due in part to FHA's reduced fee.

LOAN FEES AND FHA'S MIP

Yes, the costs of a reverse loan are high. The main reason is that FHA charges MIP (Mortgage Insurance Premium) of 2% of the value of the home or the county limit, whichever is lower. This can amount to be about \$7,000. Then there are the usual loan fees and closing costs. The golden years truly are enjoyable if we can survive the never ending financial surprises of daily living, and for some, a reverse mortgage is a helpful tool. Remember this: "Money isn't everything, but it does soothe the nerves." For more information and a free AARP booklet, please contact Carrollton Mortgage Co. (209) 526-6200 1-888-730-5200 ReverseMe.com

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