



Mortgage Insight: Reverse Mortgages: Fact and Fiction

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Recently I received a nasty e-mail from a bank loan officer that went like this:

"How can you recommend a reverse mortgage instead of a home equity line of credit for a senior citizen home owner? As a loan officer, reverse mortgages should be outlawed. I will never do that type of mortgage for my clients. Reverse mortgages require mortgage insurance. The commissions I've seen are about four points. I am appalled. Seniors who have equity in their homes should do a cash-out refinance and have a financial adviser manage their money. This is the most cost-effective loan. And they get to keep their house."

My reply was: "As a mortgage consultant, I suggest you study the benefits of reverse mortgages more carefully. Refinancing a mortgage and turning the proceeds over to a financial adviser sometimes makes no sense. How will the senior citizen home owner on a limited income pay the monthly mortgage payments?"

"Reverse mortgages require no monthly payments. And just the same as with a cash out refinance, will have similar closing costs and fees. For that reason, a reverse mortgage should not be obtained unless

the senior citizen home owner plans to stay in the home at least five years. Amortized over five or more years, a reverse-mortgage's loan fees are quite reasonable.

"How else can senior home owners obtain the money they need from their home equity without having to make monthly payments? Contrary to your mistaken remark, a senior citizen with a reverse mortgage keeps his or her home. The lender does not own or "take it" any more than a "normal" mortgage lender would. The reverse mortgage is repaid when the homeowner sells, moves out, or dies." This is no different than having any traditional mortgage on your home.

Now let's summarize, in the form of questions and answers, about the pros and cons of reverse mortgages for senior citizen home owners. Here are the key questions you might be asking:

1. If I obtain a reverse mortgage to provide additional tax-free income and security, won't I be spending my heir's inheritance?

Yes! Instead of letting your thousands of dollars of home equity sit idle doing you no good; you could be enjoying it today! Senior citizen home owners deserve to enjoy their home equity that they worked hard to earn, usually by making years and years of mortgage payments. Nowhere in the Bible (*or any other respected authority*) does it say, "Thou shalt leave a huge inheritance to thy heirs and thou must never enjoy thy home equity thyself."

Statistics show that almost seventy percent of inherited properties are liquidated by the heirs within eighteen months after the decedent's death. It's very likely that your heirs are going to blow the equity you worked so hard for, virtually overnight.

Maybe that's why so many bumper stickers on those huge luxury motor homes say, "We're spending our children's inheritance." Go ahead! Your heirs didn't do anything to earn an inheritance! But you did.

2. Should I consult my financial planner, attorney, tax adviser, adult child or trusted friend before obtaining a reverse mortgage?

Yes, of course. But consider the source! After reading this special report, you'll probably know far more about reverse mortgages than they do. Also, they might have a vested interest either in preventing you from obtaining a reverse mortgage (such as selfishly protecting their inheritance) or encouraging you to obtain a reverse mortgage so they can profit from investing (borrowing?) the proceeds for you.

There are many very good reasons for obtaining a reverse mortgage given the right circumstances; to simply improve the quality of your life right now, to pay for extended care health insurance (*before* you need it, while it's affordable,) to help pay for other serious health care costs and also to reduce the financial burden on others that may need to take care of you.

3. Is there any source of reliable independent information and advice about reverse mortgages?

Yes, and it's usually free. Your mortgage consultant can refer you to an independent reverse mortgage counselor in your area. In fact, all reverse mortgage borrowers are required to consult an independent certified reverse mortgage counselor, either in person or by phone, and obtain a certificate of completion, prior to a reverse mortgage being completed. A trusted friend or relative is welcome to attend the counseling session with you which usually takes less than an hour.

4. Would I be better off obtaining a home equity loan or a home equity credit line?

Maybe, but probably not. If you have an income source for making the monthly payments, this could be a better choice because you can initially borrow more on a home equity loan, usually up to 80 percent of the home's current market value.

However, the big drawbacks for most senior citizen homeowners are (a) qualifying for the home equity loan and (b) making the monthly payments out of whatever income you have. Another drawback is most

home equity loans have a maturity due date of 10 years when the loan must either be repaid (usually by refinancing or selling the home) or it turns into a 20-year amortized loan with a significant monthly principal and interest payment.

5. How will tax-free reverse mortgage income affect my Social Security benefits, pension or Medicare?

It won't. A reverse mortgage has no effect on your Social Security or Medicare benefits. However, if you receive SSI (supplemental security income) or Medicaid (Medi-Cal in California) welfare payments and if you don't fully spend your reverse mortgage income received each month, your benefits can be reduced or eliminated. If you receive these or other federal or state assistance benefits, check with your Area Agency on Aging at 1-800-667-1116 or visit www.eldercare.gov.

6. After I die and my reverse mortgage "matures," will the lender force the sale of my home or will there be any equity left for my heirs?

When the reverse mortgage principal and accrued interest must be

paid, either due to your sale of the home, moving out for longer than 12 months, or your death, the reverse mortgage lender expects to be paid.

The remaining equity goes to you (if you are still alive) or your heirs. Your heirs have up to one year to decide how they are going to settle or pay off the reverse mortgage on your home. If your heirs wish to keep the home, they can obtain a new mortgage to pay off the reverse mortgage balance. **Remember: A reverse mortgage doesn't necessarily use up all of your home's equity.**

7. How can I find local reverse mortgage originator?

The best place to start is with your mortgage consultant, who has received the necessary training to answer your questions about reverse mortgages in detail. As with any type of mortgage or financial transaction, it's important to take your time and carefully evaluate all your available options. An experienced mortgage consultant will be able to help you decide what's important to you and which solution would best fit your needs.

Claudio D. Varga is President of My Home Loan. The firm provides a wide variety of lending solutions for residential and commercial real estate. Claudio has been a licensed mortgage broker and consultant since 1998 and his clientele ranges from first time home buyers to professional multi-property real estate investors.

Claudio and My Home Loan are members of both the U.S. Chamber of Commerce and the Irvine Chamber of Commerce where Claudio serves on the Housing and Transportation Committee.

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