



Need More Income? You May Want to Access the Equity in Your Home.

Many seniors have or will experience the need for more income to meet expenses such as utilities, medications, or a new furnace or car. However, often seniors can't afford more debt, and the thought of getting a part-time job is even less appealing. So what's another answer?

You may be sitting in it: that's right, it's your home!

If you're like most seniors, you probably owe very little, if anything, on your home. That means you have a lot of untapped equity. This equity can be accessed, without increasing your current debt, by means of a reverse mortgage. Only mobile homes and cooperatives are ineligible.

The loan funds from a reverse mortgage can usually be disbursed to you in a lump sum or on a periodic basis as needed, as an equity line of credit.

A reverse mortgage is different from a regular mortgage in two main ways. First, as long as you pay the taxes and keep the property insured, the reverse mortgage does not usually have to be repaid until you sell, vacate the premises, or die. Second, you are not personally responsible for its payment if the house has insufficient value to repay the lender.

To take out a reverse mortgage, all home owners must be at least 62 years old and sign the loan, agreeing to its terms. If there is more than one owner, the reverse mortgage will have to be repaid, at the latest, when the last owner dies.

There are two types of reverse mortgages: proprietary and Home Equity Conversion Mortgages (HECM).

Proprietary mortgages are issued by private lenders on homes with a value in excess of HUD's 203-b limit (median home value) for the county in which the home is located. Proprietary mortgages usually have higher fees and interest rates than HECMs, but no income limits for borrowers, and may also loan a larger percentage of the home's equity.

HECMs are backed by the federal government and offered by lenders approved by the Federal Housing Administration. HECMs have income limits for borrowers, and a cap on the value of the residence.

Many state or local government agencies also offer loans that have the same characteristics as a reverse mortgage. These loans are sometimes called deferred payment loans (DPLs) or property tax deferral (PTD) loans. The funds received from these loans can only be used to make repairs to a residence, and to pay the property taxes. (Contact your local government housing agency for more details about DPLs and PTD loans.)

Here are pertinent questions to ask about any type of reverse mortgage you may be considering:

- Are there any restrictions on use of the loan proceeds?
- What are the lender's fees (application, appraisal, closing and servicing costs)?
- What is the interest rate on the loan?

As always, it pays to do your homework and get bids from several different lenders.

Mortgage proceeds should not be used to purchase securities. When you buy securities with mortgage money, you are investing with borrowed funds. This is a high-risk strategy in which you could potentially lose more than your principal.

For more information, visit:

www.aarp.org/revmort/, which offers a basic discussion of reverse mortgages.

www.reverse.org/index.htm for a more detailed discussion and comparison of different reverse mortgages.

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