living the good life for baby boomers and beyond.

A Conversation between Monica Lenches, Senior Real Estate Specialist, and Susan Bonanno, Senior Loan Consultant & Reverse Mortgage Specialist

ML: Reverse mortgages (RM) today are not what they used to be. Can you help us understand how they have evolved and the ways in which an RM might be beneficial to seniors?

SB: Reverse mortgages used to be viewed as a last resort for seniors who were 'house rich' but 'cash poor.' Much has changed. Today, most programs are regulated and insured by the Federal Housing Administration. Enhanced product offerings and options, as well as changes in the fee structure and transparency requirements, have made reverse mortgages a useful tool as part of an overall retirement plan.

ML: Under what circumstance would an RM be a viable option for a senior?
SB: Some of the most common reasons that seniors choose a reverse mortgage are to eliminate mortgage payments, to supplement their fixed income, to help offset medical or in-home care costs, or to preserve their invested assets which are income producing.

ML: Who is eligible and what are the requirements for an RM?
SB: Borrowers must be at last 62 years old to be eligible and do not have to meet the same credit and income requirements as they would for a traditional loan. We do complete an assessment of borrower's credit willingness and substantiate income necessary to pay living expenses including property taxes, insurance and home maintenance. Whether purchasing or refinancing, the borrower must also occupy the home.

ML: What are the different types of RMs available and what are their loan limits?
SB: There are both traditional, FHA mortgages like the HECM (Home Equity Conversion Mortgage) with a lending limit of 726,525 as well as Jumbo reverse products that can go up to $4,000,000. Loans can be fixed rate or adjustable, and the amount one can borrow is actually tied to their age. The older the borrower, the more they can borrow. Borrowers can choose between a lump sum upfront or a line of credit that can be drawn as needed. With lines of credit, payments are not required, but the borrower can choose to repay as much or as little as they like. Cash proceeds can be used for a variety of reasons.at the discretion of the borrower.

ML: What happens if the market declines and the value of my home drops to below the amount of the loan owed?
SB: Reverse Mortgages are non-recourse loans, meaning that the borrower can never owe more than the value of the home at the time of repayment. Add one more clarifying line here.

ML: There is a general perception that when the owners pass away with a RM recorded against their home, the bank could end up with their home. Is this true?
SB: The borrower retains ownership and title to the home, as they do with forward mortgages. At the time of death, heirs of the property can either sell it or refinance the reverse mortgage if they would like to keep the home.

ML: Are there any risks associated with a RM?
SB: Prior to obtaining a reverse mortgage, mandatory counseling with a HUD (Housing & Urban development) counselor is required to help ensure that the borrower and his/her family fully understand the product and the loan requirements. Although there are no mortgage payments with a reverse mortgage, the borrower is still being charged interest. Interest charges that accrue are added into the loan balance, which does reduce the equity over time.

ML: What happens if the market declines and the value of my home drops to below the amount of the RM owed?
SB: Reverse Mortgages are non-recourse loans, meaning that the lender does not have recourse to collect any remaining debt above and beyond the sale price after the home is sold. In other words, any shortages at the time of sale will be forgiven. This is in contrast to paying interest monthly on a forward mortgage which also reduces one's net worth only sooner rather than later.

ML: I have found that most people are not aware that a RM can be used to purchase a home. How does that work?
SB: Some seniors want to find a new home that is better suited to their physical needs but do not want to deplete their cash reserves, investments, or proceeds from the sale of their current or former home. In this situation reverse mortgage proceeds can help fund the new purchase. Required down payment for the purchase varies depending upon buyer's age, but in general, 29%-59% is typical.

ML: How will a reverse mortgage affect a borrower's financial and estate plans, and are there any tax consequences to taking cash out with a RM?
SB: Even though proceeds from a reverse mortgage can be used to supplement income, they are not taxed as income. . (We should say something here about financial/estate planning.) A financial advisor can generate cash flow projections that demonstrate how a reverse mortgage will perform and how it will affect networth over time. This is a useful tool in determining whether an RM is right for someone. An estate planning attorney can help understand if, and how, an RM might impact inheritances intended for loved ones. We strongly recommend that clients who are considering an RM consult with a CPA, financial planner, and/or estate-planning attorney as part of the exploratory process to see whether a reverse mortgage makes sense as part of their financial plan.

Susan Bonanno is a mortgage advisor with Finance of America Mortgage. She has over 14 years of experience in lending, a B.A. in economics, and an MA in counseling. Susan can be reached at (805) 979-9598 or at sbonanno@financeofamerica.com.