Understanding the Myths and Truths About Reverse Mortgages

By Scott Kaul

There's a saying that old habits die hard; I think the same thing can be said for old stereo types. There has been a lot of national attention surrounding Reverse Mortgages recently, from NBC Nightly News, to CNN, to the Rush Limbaugh show, to AARP, to local newspapers nd other radio shows. The common theme among most of these programs has been that Reverse Mortgages make sense, but that many people aren't willing to learn about them because of a pre-conceived negative stereotype.

The fact is, however, that Reverse Mortgages are up in volume 109% compared to last year, and over 500% the past four years. Why? Most Seniors would prefer to live at home the rest of their lives. A 2005 study by The National Council on Aging (NCOA) shows that 85% of seniors would prefer to remain at home, but of those, 74% are living with physical and mental impairments making it hard to remain home. Considering the fact that most seniors live on a fixed income and a limited budget, finding the money to make these home modifications is difficult. The senior is then left with the difficult decision of selling the home and moving into a retirement facility, or obtaining a conventional loan from the bank to make home modifications and being forced to make monthly payments on that loan.

Many people are either unaware of the third option…….a Reverse Mortgage……or based on pre-conceived notions, are unwilling to investigate it further in order to determine for themselves if the product meets their needs. As with any negative stereotype, it's important to understand how and why it was formed, whether the facts remain the same, and then form an informed opinion. Here are some commonly asked questions that may help determine if this product is right for you.

What is a HUD Reverse Mortgage?

A HUD Reverse Mortgage is a U.S. Government backed loan based on the value of your home, the age of the youngest borrower, and the area in which you live. There are no income, credit or health requirements, and there are no monthly payments; instead, the payments are made to you, hence the word "reverse".

Designed exclusively for homeowners age 62 and older, a Reverse Mortgage enables the homeowner to borrow from the equity in their home, but make no loan payments until they sell their home or permanently leave their residence. This mortgage program was designed and is insured by the Federal Government to assist seniors and allow seniors to maintain their financial independence.

Why Have Reverse Mortgages Developed a Bad Reputation?

Although Reverse Mortgages have been around since the mid 1960's, it was a fairly unregulated industry until the 1980's. A few unscrupulous lenders used Reverse Mortgages to take advantage of seniors, and in many cases, ended up taking their houses away from them. Because of the actions of these dishonest lenders, the bad reputation Reverse Mortgages received was definitely deserved.

Realizing that the concept of a Reverse Mortgage was right, but the application was wrong, the U.S. Government became involved with them in the 1980's and regulated the industry through The Department of Housing and Urban Development. Strict government restrictions were implemented assuring such occurrences won't happen again. However, old stereotypes die hard, and the misguided belief that the senior will lose their home is still the single largest misconception, and the industry as a whole is still struggling to overcome that stigma.

How Can I Be Sure I'm Not Being Taken Advantage Of?

First and foremost, confirm the type of Reverse Mortgage you are looking at is a HUD insured Reverse Mortgage. The majority of Reverse Mortgages (roughly 95%) are HUD insured, but a handful of them are not. Just because a Reverse Mortgage isn't HUD insured doesn't necessarily mean it's a bad product, but with HUD Reverse Mortgages you can be assured that both the lender and the loan broker adhere to stringent HUD standards, and that it is backed by the Federal Government.

Secondly, confirm the loan broker you are dealing with is approved by HUD and is a member of the National Reverse Mortgage Lenders Association (NRMLA). In order to be HUD certified, a broker must agree to have an independent audit performed on their business on an annual basis covering financials, policies, procedures, employment practices, and various other internal operations. Needless to say, maintaining a HUD certification is no easy task. Those loan brokers who are also a member of NRMLA should provide an additional level of confidence for the borrower, as NRMLA members are required to adhere to a strict Code of Conduct which are in addition to the standards imposed by HUD.

And finally, all HUD Reverse Mortgage candidates are required to meet with an independent HUD certified counselor. The counselor is not an employee of either the lender or the broker, and is charged with the responsibility of ensuring the senior understands all the options available to them (including options to obtain money other than through a Reverse Mortgage).

How Can I Be Assured My Home Won't Be Taken From Me?

One of the biggest changes HUD made when regulating the Reverse Mortgage industry was to keep the homeowner on title to the home. Whereas this didn't use to be the case, the homeowner who has a HUD insured Reverse Mortgage remains on title to the home. The loan isn't paid back until both the occupants (or the single occupant for those living alone) leave the home permanently. Since there are no payments to make on a Reverse Mortgage, defaulting on the payment isn't a possibility. Even if the amount of the loan ends up being greater than the value of the home, HUD guarantees the senior (or their estate) will never owe more than the value of the home, and that no other assets will be used to pay off that debt.

When Does a Reverse Mortgage Not Make Sense?

Although many of the loan costs are similar to a standard Home Equity Loan or a conventional mortgage, depending upon how the senior wants the money distributed (either in a lump sum, monthly payments, or in a line of credit) can make the cost of a Reverse Mortgage a little more expensive. For that reason, if a senior is not planning to remain in the home for a period of 3-5 years after the loan is taken out, it may be advisable to consider other alternatives. These loan costs, however, can be included in the loan itself, thus eliminating any out-ofpocket expenses.

If you have further questions about Reverse Mortgages, or would like to speak with someone regarding your particular situation, please call Senior Life Solutions at 360-944-9004, or toll free 877-944-9004.

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