8 Myths About Reverse Mortgages

BY MIKE WYROSTEK

Is tapping home equity via a reverse mortgage the right choice for your retiree clients? Let's take a look at eight myths about reverse mortgages.

In July 2013, the "United States of Aging" survey stated that 53% of seniors said their biggest concern was not having enough savings and investments to last their lifetime. The next biggest is their health. Retirees face increasing medical expenses, a volatile stock market, low interest rates on their savings and decreasing pension benefits.

It is important to have multiple streams of income during retirement, and using one's home as an income source is becoming an option that many financial planners are looking at. Recently the *Wall Street Journal* and Jane Bryant Quinn ran articles about the benefits of using a reverse mortgage as a financial planning tool.

As reverse mortgages have grown in popularity, so have the misconceptions or myths about these unique loans.

This article will review these misconceptions and discuss the facts. I hope that after you read through these you can see that the reverse mortgage can be a great financial tool for your clients to use as another option as they look for income streams during their retirement years.

Myth #1: The bank can take away my home.

The borrower is the title owner when taking out a reverse mortgage. The borrower keeps it as their primary residence throughout the life of the reverse mortgage, regardless of age or time in home.

Borrowers cannot, as a result of the reverse mortgage, be forced out of their home as long as property taxes and homeowner's insurance is paid, the home is kept in reasonable living condition and at least one borrower resides in the home and keeps it as their primary residence.

The loan must be repaid once the last borrower permanently moves out of the home, through death, selling of the home or permanent stay in a nursing facility.

Myth #2: A home must be debt-free to qualify for a reverse mortgage.

Reverse mortgages convert home equity into cash. As long as there is sufficient equity in the property, the homeowner can qualify for a reverse mortgage. In fact, many seniors use a reverse mortgage to pay off an existing mortgage in order to eliminate monthly principle and interest payments and increase their monthly cash flow. The senior is still responsible for paying taxes and insurance on a monthly basis.

Myth #3: The bank sells the home when the reverse mortgage becomes due.

The borrower has title and ownership to their home, not the bank or lender. So while it's common for the borrower or heirs to sell the home to repay the loan, it's a decision the borrower or the heirs need to make. The borrower or heirs might also refinance the home in order to repay the loan.

Myth #4: My children won't be comfortable with me obtaining a reverse mortgage.

Seniors should be encouraged to talk with their children about reverse mortgages. Many Baby Boomers are faced with trying to plan for their retirement and pay for their children's education. Often the children of many seniors are happy that their parents have a financial solution available to help them become more independently and financially secure.

Myth #5: The borrower could end up owing more than the home is worth.

Two of the great built-in safeguards of reverse mortgages are:

- They are structured so that the borrower can never owe more than the fair market value of the home upon repayment. When the Home Equity Conversion Mortgage (HECM) becomes due and payable as a result of the borrower's death and the property is conveyed by a will or operation of law to the borrower's estate or heirs (including a surviving spouse who was not on title and the reverse note), that party may satisfy the HECM mortgage by paying the lesser of either the mortgage balance or 95% of the appraised property value. If the last borrower has moved out of the property or has passed away and the property will be sold in an arm's-length transaction (that is, sold to someone not related to the borrower or heirs), the property may be sold for the fair market value and neither the borrower's estate nor the heirs will be responsible for a deficiency balance. This is a non-recourse loan.
- HECM products are insured by the Federal Housing Administration, an arm of the U.S. Department of Housing and Urban Development.

Myth #6: Reverse mortgage proceeds will impact Social Security and Medicare benefits.

A reverse mortgage will generally not affect regular Social Security payments or Medicare benefits. Depending upon the borrower's situation, a reverse mortgage may affect the benefits one receives, if any, from the federal Supplemental Security Income (SSI) program or a state-administered program like Medicaid. It is recommended that the borrower speak with his or her financial advisor and appropriate governmental agencies.

Myth #7: There are restrictions on how the money is used, and taxes will have to be paid on it.

There are no restrictions on how or what one decides to do with the money. The cash proceeds from a reverse mortgage can be used for almost any purpose. Many seniors have used reverse mortgages to travel, pay off debts or help their kids — or, more importantly, they use it to create a monthly income or for life while living in their own homes. As Americans live longer, the reverse mortgage is becoming a long-term financial planning tool to secure financial independence and live more comfortably.

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Myth #8: Reverse mortgages are only for seniors in need, or for the 'house rich, cash poor.'

Reverse mortgages have been used by homeowners from all walks of life and all net worth levels to enhance their retirement years. It is being used as a way to preserve investment assets, delay Social Security benefits or pay off a traditional mortgage to increase cash flow. In fact, with reverse lending limits up to $625,000, many seniors are benefiting from increased cash benefits from a reverse mortgage.

It is important to get the correct facts about reverse mortgages. HUD and NRMLA both have good websites where you can download information about reverse mortgages. Also make sure you talk to someone who specializes in reverse mortgages, not just conventional loans.

Reverse mortgages can play an important part in retirees' lives and give them the financial security to live through their retirement years. They, and their financial advisors, should explore using a reverse mortgage as a financial planning tool with the facts in hand — not the myths. b

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