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Reverse Mortgages Provide for Your Security But Not Your Heirs

One of the fastest growing trends in the mortgage market today is the increase in reverse mortgages. Based on figures from the Washington-based National Reverse Mortgage Lenders Association, there was a 77% jump in the number of Federal Housing Administration-insured reverse mortgages last year, from 43,131 in 2005 to 76,351 in 2006. They are becoming so popular now because as living costs continue to increase, retirees without other savings plans are finding it more and more difficult to live on social security payments alone. As information has become more readily available about reverse mortgages, seniors are taking advantage of them like never before.

A reverse mortgage is not the perfect solution for everyone though, especially if you are more worried about protecting your children's financial future than your own. Here's how a reverse mortgage works:

You must be a homeowner with considerable equity in your home. The loan cannot be more than the value of the house and currently there are national limits on how much you can receive from a reverse mortgage. Exactly how much you will be able to borrow will depend on how old you are at the time of application, how much equity you own, and the value of your home relative to the region and neighborhood. You must be 62 years or older in order to qualify. The home with the reverse mortgage must be your primary residence. You must have a counseling session with a mortgage professional about the risks and benefits before you can be approved. You do not have to give up your home title or make new mortgage payments. You can receive your loan from the lender in monthly installments, an equity line of credit, or in a lump sum. You can use the funds for any purpose. The loan does not come due until you sell the home, move out for good, or die. At that point the lender takes possession of your home and sells it to recover the loan, or your heirs must pay off the reverse mortgage in order to keep the home.

You can see then, why a reverse mortgage will not be helpful if you have high hopes of leaving your home to your children. Upon your death, they would be responsible for repaying the reverse mortgage if they wanted to retain the home. If they were to sell the home to split the profits among them, a large percentage would first have to be given to the lender to repay the loan.

If you really have your heart set on bequeathing your home to your posterity, but you still need some extra cash, you may want to consider other home equity options. A home equity line of credit may be much cheaper for you when you have home repair or improvements you need to make. Make sure you talk with a financial advisor (and with your children – they may not want or need you to leave them the home) before deciding whether a reverse mortgage is right for you.