REVERSE MORTGAGES (Reverse Annuity Mortgages)

Consumers obtain reverse mortgages for a variety of reasons, from paying off an existing mortgage to paying for prescription drugs to improving the quality of their lives. However, a reverse mortgage is not for everyone; some call it the loan of last resort. It may make sense for someone in their 70s or 8Os, as the older one is, the more one will get. But it might not be such a good idea for 60-somethings who could outlive their resources in their later years and have nothing to fall back on.

Most reverse mortgages are made under FHA's Home Equity Conversion Mortgage (HECM) and are insured by the government. The loan amounts are also limited by the Maximum FHA loan limits in the area where the property is located. This ranged from $200,160 in low cost areas to $362,790 in high cost areas when this went to press. (There is a bill in congress that would raise the limit to $417,000.) There are some private lenders that make reverse mortgages as well, but do not have government backing

Reverse mortgages are growing in popularity as the HECM program had insured 345,762 loans by the end of fiscal 2007, and jumped by more than 107,000 in the last year alone. Awareness of reverse mortgages has increased from 51 percent to 70 percent and borrowers are younger, as the median age declined from 76 to 73.

Here are some basic facts about reverse mortgages that need to be known before obtaining one:

Who's eligible? Reverse mortgages are loans secured by the home that do not need to be repaid until the borrower dies, sells the home or moves out permanently. To obtain a reverse mortgage you must be at least 62 years old and own your own home, which must be your primary residence. There are no income requirements. It is OK to have an existing mortgage, but you must be able to get enough from the reverse mortgage to pay it off. The owner remains responsible for taxes, insurance and home maintenance.

What is the process for obtaining a reverse mortgage? You need some counseling, which is required for government loans, so you know what you are getting into. The property must be appraised and inspected just as if you were selling the property, but there are no income requirements or credit checks. You do not have to qualify, like when purchasing property. You already own it.

What are the loan options? There are two basic types of loans: the HECM, which accounts for 90 percent of the market, and private reverse mortgages without federal mortgage insurance. The HECM is considered the most versatile product and best for most people.

HECM loans are insured by the U.S. government; with a private loan the lenders assume the risk. You may never owe more than the value of the home when it's eventually sold; if the value declines, the shortfall is covered. The main drawback of a HECM is that the FHA caps the appraisal, which affects the loan amount. Currently, the loan amount differs from county to county, from $200,160 to $362,290, but congress may raise the limit to $417,000 or higher.

Borrowers with more expensive homes sometimes seek private loans, even though the costs may be higher.

How much can you get? The answer depends on the home's value, location, interest rates and the age of the younger borrower, if there are co-owners. You will not get anywhere near the appraised value of your house. You should expect to get between 50 and 70 percent. Appraisal fees, origination fees, legal fees, monthly service fees and mortgage insurance premiums come off the top. These fees can add up to 8-10% of the loan, which is why it is not considered wise to obtain a reverse mortgage if you plan to move in a few years.

The loan proceeds can be taken in lump sum, as monthly payments, as a line of credit or as a combination of these options. Untapped funds in a line of credit generally increase, allowing homeowners to borrow more money over time.

What are the negatives associated with obtaining a reverse mortgage? Reverse mortgages may look like the path to perfect retirement years, but there is no free lunch. The upfront costs are expensive and the amount that you borrow continues to increase as interest is added to the loan amount each month. The huge upfront costs are the main reason why many people decide against reverse mortgages. The homeowners will have less to pass to their heirs, but the reverse mortgage can allow older people to retire with dignity and continue to live in their home until they die. This is why each individual must decide if a reverse mortgage is good for him or her.