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Recently I received a nasty e-mail from a bank loan officer that went like this:

"How can you recommend a reverse mortgage instead of a home equity line of credit for a senior citizen homeowner? As a loan officer, I am often frustrated by your advice. I run my lines of credit for my clients at almost zero commission to myself. With fees of only about \$175, including the appraisal, there isn't much commission room. Reverse mortgages should be outlawed. I will never do that type of mortgage for my clients. Reverse mortgages require mortgage insurance. The commissions I've seen are about four points. I am appalled. Seniors who have equity in their homes should do a cash-out refinance and have a financial adviser manage their money. This is the most cost-effective loan. And they get to keep their house."

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My reply was: "I suggest you fully study the benefits of reverse mortgages before you close your mind. Refinancing a mortgage and turning the proceeds over to a financial adviser who charges fees makes no sense (except for you because you will receive a handsome loan origination fee). How will the senior citizen homeowner on a limited income pay the monthly mortgage payments?"

"Reverse mortgages require no monthly payments. Yes, the upfront fees can be stiff. For that reason, a reverse mortgage should not be obtained unless the senior citizen homeowner plans to stay in the home at least five years. Amortized over five or more years, the upfront reverse-mortgage loan fees are quite reasonable.

"How else can senior homeowners obtain the money they need from their home equity without having to make monthly payments? Contrary to your mistaken remark, a senior citizen with a reverse mortgage keeps his or her home. The lender does not own or take it. The reverse mortgage is repaid when the homeowner sells, moves out, or dies."

Now let's summarize, in the form of questions and answers, about the pros and cons of reverse mortgages for senior citizen homeowners. As we do this, let's think about that ill-informed bank loan officer who said reverse mortgages should be outlawed. Here are the key questions you might be asking:

1. If I obtain a reverse mortgage to provide additional tax-free income and security, won't I be spending my heir's inheritance? Yes! Instead of letting your thousands of dollars of home equity sit idle doing you no good, you could be enjoying it. The early reverse mortgages were called "home equity conversion mortgages" (HECM). But that was a bit awkward so somebody came up with the better name of "reverse annuity mortgages" because they paid monthly income to the senior citizen homeowner. Later, in the mid-1990s, FHA refined the concept to offer borrowers more alternatives, such as the lump-sum and credit-line choices.

Senior citizen homeowners deserve to enjoy their home equity that they worked hard to earn, usually by making mortgage payments for many years. No place in the Bible (or any other respected authority) does it say, "Thou shalt leave a huge inheritance to thy heirs and thou must never enjoy thy home equity."

Statistics show most inheritances are spent by the heirs within five years after the decedent's death. In his best-selling book "Die Broke," well-known author Stephen Pollen advises senior citizen homeowners to obtain a reverse mortgage and spend their home equity on themselves. Maybe that's why so many bumper stickers on those huge luxury motor homes say, "We're spending our children's inheritance." Go ahead! Your heirs didn't do anything to earn an inheritance! But you did.

2. Should I consult my financial planner, attorney, tax adviser, adult child or trusted friend before obtaining a reverse mortgage? Yes, of course. But consider the source! After reading this special report, you probably know far more about reverse mortgages than they do. Also, they might have a vested interest either in preventing you from obtaining a reverse mortgage (such as selfishly protecting their inheritance) or encouraging you to obtain a reverse mortgage so they can profit from investing the proceeds for you.

Remember that bank loan officer who thought it was smart to obtain a regular home mortgage and turn the proceeds over to a financial planner? How stupid that would be! Also, watch out for insurance agents who might encourage you to get a reverse mortgage so they can sell you annuities or other insurance products.

3. Is there any source of reliable independent information and advice about reverse mortgages? Yes. And it's usually free or inexpensively priced. FHA, Fannie Mae and Financial Freedom Plan now require all reverse-mortgage borrowers to consult an independent certified reverse-mortgage counselor, either in person or by phone, and obtain a certificate of completion. A trusted friend or relative is welcome to attend the counseling session with you. It usually takes at least an hour. In some situations, the counselor might recommend the individual *not* obtain a reverse mortgage, perhaps due to dementia or inability to understand how a reverse mortgage works.

Reverse-mortgage originators can refer you to independent counselors in your area. Or you may wish to consult such a counselor before talking with a local reverse-mortgage originator. Names of local certified reverse-mortgage counselors can be obtained from: AARP (formerly the American Association of Retired Persons) at 1-800-424-3410 or 202-434-6082; Fannie Mae's Homepath service at 1-800-732-6643; or FHA's Housing Counseling Clearinghouse at 1-800-466-3487. Of course, the phone numbers are subject to change.

4. Would I be better off obtaining a home equity loan or a home equity credit line? Perhaps. If you have an income source for making the monthly payments, this could be a better choice because you can initially borrow more on a home equity loan, usually up to 80 percent of the home's current market value.

But the big drawbacks for most senior citizen homeowners are (a) qualifying for the home equity loan and (b) making the monthly payments of at least interest only. Another drawback is most home equity loans have a maturity due date of 10 years when they must either be repaid (usually by selling the home or refinancing it) or the much higher 20-year amortization monthly payments begin.

5. How will tax-free reverse-mortgage income affect my Social Security benefits, pension or Medicare? A reverse mortgage has no effect on these payments and benefits. However, if you receive SSI (supplemental security income) or Medicaid (Medi-Cal in California) welfare payments and if you don't fully spend your reverse-mortgage income received each month, your benefits can be reduced

or eliminated. If you receive these or other federal or state assistance benefits, check with your Area Agency on Aging at 1-800-667-1116 or visit www.eldercare.gov.

6. After I die and my reverse mortgage "matures," will the lender force the sale of my home or will there be any equity left for my heirs? When the reverse-mortgage principal and accrued interest must be paid, either due to your sale of the home, moving out for longer than 12 months, or your death, the reverse-mortgage lender expects to be paid. The remaining equity goes to you (if you are still alive) or your heirs. If your heirs wish to keep the home, they can obtain a new mortgage to pay off the reverse-mortgage balance.

7. If I don't have access to a computer, how can I find local reverse-mortgage originators? A visit to your local public library reference department will usually result in a helpful librarian showing you how to find the National Reverse Mortgage Lenders Association Web site at www.reversemortgage.org for their list of reputable local lenders. Or you can phone NRMLA at 1-866-264-4466 for referrals. Or you can phone Financial Freedom Plan at 1-888-REVERSE (1-888-738-3773) for referral to a local FFP representative offering all three major reverse-mortgage plans.

(For more information on Bob Bruss publications, visit his [Real Estate Center](#)).
