

Cashing in on your home

It's no surprise that reverse mortgages are becoming popular among seniors

By Leonard Wiener

For many of today's retirees, a home can seem like Fort Knox without the key. Escalating real-estate prices have caused many seniors' homes to skyrocket in value. But unless they're willing to sell, it may be an inaccessible gain during a time in their lives when extra income and liquid assets would be most welcome. There is a way to tap those profits--a reverse mortgage. "Many seniors are sitting on home equity they never dreamed of," says realty expert Tom Kelly, whose recent book, *The New Reverse Mortgage Formula*, is a guide to what a growing number of elderly homeowners see as a way to have their home and cash in on it, too.

A reverse mortgage allows a homeowner to borrow against the equity in a home, but unlike a home-equity loan, the loan and interest do not have to be repaid until the home is sold. The loan might be in the form of a line of credit that can increase over time and be drawn on as needed, a lump sum payout, a fixed monthly check for as long as you live in the home, or a mix of options. There is minimal or no upfront cost, as closing and other fees can be wrapped into the loan. The reverse mortgage also pays off any existing mortgage, ending that monthly bite on income. Cleo Dunn, an 88-year-old widow in Leawood, Kan., says the \$1,200 a month she receives from her reverse mortgage supplements her Social Security check. That helps her pay medical and other bills while remaining in the home she loves. "I have this most beautiful garden," she says. "I have a life here I could not have anyplace else."

Reverse mortgages have been around for years, but it wasn't until the early '90s that they began earning respectability after the Federal Housing Administration started insuring the mortgages for repayment to lenders. Even so, they've been a niche product; only about 40,000 were done last year. But an aging population is expected to begin tapping into home equity more aggressively. New loans have doubled since 2003. Interest rates on reverse mortgages are mostly about 5.3 percent now but can also be about 6.5 or 8.5 percent, depending on the type and size of the loan.

Bolstering demand are seniors who see the loans not as a lifeline but as a route to a more active life. Francisco and Joanne Santana-Montez of Antelope, Calif., 69 and 68, will use their reverse mortgage line of credit to finance a dream trip to Cancun, Mexico. "Our adviser told us we're spending our kids' inheritance, but our children are delighted," says Joanne.

A prime consideration when getting a reverse mortgage: age. The older you--and a spouse--are, the more cash you can get since the loan will presumably be shorter in duration. A 75-year-old with a fully paid-off \$250,000 home in suburban Cleveland, for example, might receive about \$917 a month. Or, as is more popular these days, the homeowner would qualify for a line of credit of about \$140,000. A 70-year-old Clevelander would nail down less, about \$791 a month or a \$130,000 line of credit; an 80-year-old would draw more, a monthly check of about \$1,099 or a \$152,000 line of credit.

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Other variables, such as lending limits and interest rates, also determine how much of a home's equity you can borrow. But the homeowner can never end up owing more than the home eventually sells for, even if the sale doesn't cover the borrowing and accrued interest. If a sale more than covers the debt, you (or your heirs) get the excess.

About 95 percent of reverse loans, made by mortgage brokers and banks, are an FHA-insured home equity conversion mortgage, or HECM. The insurance enables HECMs to carry a low interest rate and yield more to borrowers, even with a fee included for the coverage. Impeding some borrowers are geographic limits on the amount of a home's value, regardless of market worth, that will be considered in the calculation. While a value cap of \$312,895 applies in the Long Island suburbs of New York, for example, the lid for homes in Iowa is \$172,632, according to Ibis Capital, a reverse-mortgage software and data firm in San Francisco. One result: A \$300,000 home in Iowa that might qualify for a \$100,000 line of credit could get \$178,000 if it were in Long Island.

Handy help. Homeowners in costly abodes, perhaps \$600,000 and up, may do better with the Cash Account reverse mortgage created by Financial Freedom Senior Funding Corp. in Irvine, Calif. Since there is no valuation cap, borrowing is unlimited. Mortgage giant Fannie Mae offers a reverse-mortgage option with a twist: A senior can buy a new home and get a reverse loan in a single transaction. AARP offers a calculator and a guide at aarp.org/money/revmort to help clarify the choices (and a free booklet for those who call 800-209-8085). Help is also available from Financial Freedom (financialfreedom.com) and at reversemortgage.org , the website of the National Reverse Mortgage Lenders Association (866-264-4466 for a brochure by mail).

Reverse mortgages should be utilized with great care. That's why modern loans include consumer safeguards such as counseling. You're eating up equity in the home--funds you may later need for healthcare or sudden bills, or to move to assisted living. Closing costs and fees can make the deal costly if the loan is held for only a few years, especially if you use just a small part of the line of credit or opt for monthly disbursements. If interest rates trend higher, reverse loans will pay less to new borrowers and existing borrowers will rack up heftier interest charges.

Experts say some people may do better selling their home to raise cash and moving to a smaller, less expensive place. Still, being able to stay put when finances might dictate otherwise and discovering you can go to Cancun have a value all their own.