

California Advocates for Nursing Home Reform

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Treatment of Reverse Mortgages and Equity Loans Under Medi-Cal

Although the new federal law encourages individuals to reduce the equity value of their homes by using reverse mortgages or home equity loans, keep in mind that any equity borrowed from your home in the form of a lump sum or a line of credit may be counted as an asset for the purposes of Medi-Cal eligibility.

Lines of credit, if not drawn down, are not included in the property reserve and therefore do not count as countable assets. If the line of credit is drawn down, it is counted as a loan requiring repayment and included in the property reserve, i.e., counted as part of the assets. However, most lines of credit are drawn down for a specific purpose - to repair a roof, for example - and are spent down at the same time they are drawn down.

Annuities

Some organizations will advise that a lump sum equity loan be used to purchase an immediate annuity or even that a reverse mortgage be used to fund an annuity. Not only are the periodic proceeds from these annuities counted as income and toward the share of cost, but annuities purchased on or after September 1, 2004 are subject to estate recovery. RAMS are reverse annuity mortgages. If the lender (the bank) purchases an annuity to fund a stream of payments to the borrower from the equity in the home, then the payments to the borrower are treated as income in the month received, because they are annuity payments. However, the annuity is owned by the lender and is not subject to the state's annuity rules. If the borrower purchases the annuity, then it is also treated as income in the month received, but must meet the state's annuity rules and it will be subject to the recovery provisions.

Other Reverse Mortgage Lump Sums/Stream of Payments

Reverse mortgages may also be made in a stream of income from the lender directly to the borrower or the payment may be in the form of a lump sum payment. In either case, since an annuity has not been purchased, these payments would be considered property in the month of receipt, and any excess would have to be spent down in order to avoid being disqualified for excess property.

A new California law, effective January 1, 2007, mandates that potential borrowers receive financial counseling from a Department of Housing and Urban Development (HUD) approved counselor before applying for a reverse mortgage. The law also prohibits lenders from requiring a borrower to purchase an annuity as a condition of obtaining a reverse mortgage loan.

While reverse mortgages can be a beneficial option for some homeowners, they are rarely beneficial to those individuals who are likely to enter a nursing home in the near future. There are many reputable reverse mortgage lenders. However, consumers should beware of phone and mail solicitations and always seek third party professional advice before signing any loan documents. For more information on reverse mortgages, see CANHR's web site at www.canhr.org.