

## Treatment of Reverse Mortgage/ Home Equity Payments Under the Medi-Cal Program

CANHR is a private, nonprofit 501(c)(3) organization dedicated to improving the quality of care and the quality of life for long term care consumers in California.

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 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. Lines of credit, if not drawn down, are not included in the property reserve and therefore do not count as countable assets.

### Annuities:

Some promoters of reverse mortgages will advise that a lump sum equity loan be used to purchase an immediate annuity or even that a reverse mortgage loan be taken out and used to fund an annuity. Not only are the periodic proceeds from these annuities counted as income and included in 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 of reverse mortgage 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. If the annuity is owned by the lender it is not subject to the state's annuity rules. However, if the borrower purchases the annuity, then it is treated as income in the month received, and must meet the state's annuity rules, and it will be subject to the recovery provisions. Income generated through the use of home equity will create state and federal taxes obligations. California law prohibits lenders from requiring a borrower to purchase an annuity as a condition of obtaining a reverse mortgage loan.

### Other Reverse Mortgage Lump Sums/Stream of Payments:

Reverse mortgages disbursements may come from a line of credit to the borrower or in a lump sum payment. In either case, these payments would be considered property in the month of receipt, and any excess would have to be spent down before the month ends in order to avoid being disqualified for excess property.

If a reverse mortgage borrower goes into a nursing home for an extended period of time the reverse mortgage loan will become due, the home may be sold to pay off the loan, and any proceeds from the sale of the home may make the borrower ineligible for government benefits.

If the homeowner is a Medi-Cal beneficiary, a reverse mortgage will make it difficult to transfer ownership of the home to another and may result in a Medi-Cal recovery.

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.

Consumers should beware of phone and mail solicitations and always seek third party professional advice before signing any loan documents. [Click here](#) for more information on reverse mortgage suitability.