

Consumer Alert: Reverse Mortgages

If you are 65 or over and you have a house, you are probably a target of a reverse mortgage sales campaign!

It is estimated that the current senior population has over two trillion dollars worth of home equity. With the rise in property values, senior homeowners have become the target of choice of insurance agents, who are now sponsoring reverse mortgage seminars hoping to entice equity-rich seniors into the reverse mortgage market. The goal of the insurance agent is to get at the senior's equity to fund the purchases of annuities.

Before you are tempted to attend a seminar or to respond to an ad to “*find out more about reverse mortgages*,” first decide how long you expect to stay in your home. If you don't plan to stay in your home for at least three years, *a reverse mortgage is probably not for you*.

Reverse mortgage loans are expensive and usually involve hidden, sizable upfront costs that are added to the overall costs of the loan. Although the lender does not call in the loan until you die or leave your house for more than twelve months, the amount of the loan at that time is likely to be far higher than what you thought you borrowed. So, if you're looking for a short-term solution to get ready cash, a reverse mortgage may not be your best choice.

Points to Remember

- If you intend to leave your home to family members, it might be a good idea to consult with them before you encumber the house with debt. If you are in need of cash, try to work something out with your heirs. Pencil out a plan, do the math: your heirs will probably be better off paying something to you now, than paying off a loan later.
- Do not pay anyone a finder's fees to help you to get the loan. That is a scam. Information about reverse mortgages is available for free from AARP, HUD and a number of other organizations.

- Never use house equity to fund an annuity. The annuity cannot generate enough interest to offset the fees and charges needed to pay off the reverse mortgage loan. With an annuity you end up losing much more than you gain.
- Be sure to determine if and how proceeds from a reverse mortgage might affect your eligibility for assistance programs such as Medi-Cal, Food Stamps or other Low-Income subsidies.

The Typical Reverse Mortgage

Right out of the box, a \$200,000 reverse mortgage loan will have fees exceeding \$10,000. The typical reverse mortgage charges a 2% origination fee plus a 2% insurance fee, which will be immediately added to the loan balance. There are also ongoing services fees that will be added to the loan balance on a continuous basis – for the life of the loan. In the case of an equity line or periodic payment loan, this means that the borrower would owe \$10,000 before any money from the loan had actually been received.

Consumer Resources:

National Consumer Law Center (www.nclc.org)

Reverse Mortgages: Spending the House, A Quick Guide for Advocates on Reverse Mortgages; Tips for Consumers on Reverse Mortgages with CD-Rom.

AARP (www.aarp.org)

Home Made Money: A Consumer Guide to Reverse Mortgages and other resources on reverse mortgages.

For more information and resources on reverse mortgages, see CANHR's web site www.canhr.org.