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Seniors Plug Income Gaps With Reverse Mortgages

by Carrie E. Gillette

The recent sluggish economy has wreaked havoc on the lives of many Americans of varying races, ages, and financial backgrounds. Senior citizens, in particular, have suffered due to losses in the stock market over the past few years. Steep drops in interest rates have decreased their share certificate/CD (certificate of deposit) and money market investment earnings considerably. With many of their incomes also depleted by rising out-of-pocket expenses for prescription drugs, medical care, and supplemental insurance premiums, older Americans are looking to alternative means to cover living expenses.

One option to gain recent awareness is reverse mortgages. Reverse mortgages emerged in the 1950s as proprietary products, different from the products available today. Today, reverse mortgages are loans available to homeowners 62 years of age or older who borrow against the equity in their homes. Borrowers can use loan proceeds for any purpose, including but not limited to supplemental income, home repairs, education, and travel.

Reversing reverse mortgage myths

Many misconceptions about reverse mortgages help explain why they didn't catch on as a financial planning tool until recently. Some people mistakenly assume the lender takes possession of the home--or the lender sells the home--once a reverse mortgage comes due. Neither assumption is true.

According to *Just the FAQs: Answers to Common Questions about*

- [Mortgage and Home Equity Loan Information](#)
- [How to build retirement income](#)

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Reverse Mortgages, a free consumer booklet from the National Reverse Mortgage Lenders Association (NRMLA), a reverse mortgage allows you to continue to live in your house as well as retain the title throughout the life of the reverse mortgage. Repayment of the loan only begins once you permanently move out of the home or pass it to your estate.

"The loan repayment amount can never exceed the value of the home," says Glenn Petherick, director of communications for the NRMLA. "When the loan must be repaid, the borrowers (or their heirs or estate) decide whether to sell the home and pay off the reverse mortgage, or to keep the home and pay off the reverse mortgage using some other source of funds."

Reverse mortgage options

*Older Americans
look to alternative
means for extra
funds.*

The versatility of reverse mortgages, combined with the lowest mortgage rates most consumers have seen in their lifetimes, demonstrates reverse mortgages' increased popularity since 2001. Older homeowners now are looking to reverse mortgages for the variety of advantages available.

There are three reverse mortgage products:

- **Home Equity Conversion Mortgage (HECM)**, which is federally insured by the Federal Housing Administration, part of the U.S. Department of Housing and Urban Development. Available in every state, the HECM is the most popular reverse mortgage product today. Interest rates are adjusted monthly or annually, depending on the borrower's choice, and the rate is determined using an index called the weekly regulated "One-Year U.S. Treasury Constant Maturity Rate."
- The **Fannie Mae Home Keeper loan** is also available in every state. The interest charged on the loan for the following month is the current "[One-Month Certificate of Deposit Secondary Market Rate](#)" plus 3.4%.
- The **Cash Account loan** is a proprietary "jumbo" reverse mortgage developed by the Financial Freedom Senior Funding Corporation. This loan can be much larger than the other two products, but is not available in all states.

One advantage of reverse mortgages is you decide how to receive the money. Payment options include:

- One lump sum payment

Eligibility depends

- A line of credit
 - Fixed monthly income for a predetermined period of time or for as long as you remain in your home
 - A combination of fixed monthly income and a line of credit
- Eligibility depends on two factors: age and home ownership.*

Is a reverse mortgage right for you or a loved one?

According to the NRMLA, more than 13,000 homeowners took out reverse mortgages in 2002--a 68% increase from 2001. "Reverse mortgages are being taken out by a variety of seniors from a wide range of incomes, and for many different purposes," says Petherick. "The typical borrower today is a widow in her mid-70s, but the average age this year has been getting lower. Certainly it makes sense for a person who is on a modest or tight-fixed income, such as someone whose spouse has died. But there are also people who are more well-off who get a reverse mortgage to buy a new car, a camper, or to travel."

Eligibility for a reverse mortgage depends on two factors: age and home ownership. No income requirements exist, and credit and medical histories are not considered.

- You must be at least 62 years old. In the case of a couple where one person is older than 62 and the other is younger than 62, the title of the home can only list the older person to qualify.
- As a homeowner with equity established in your home, you may qualify as long as the home is the principal residence. Eligibility extends to single-family homes, qualified condominiums, town houses, manufactured homes, and one-to four-family owner-occupied residences.

Buyer beware

While some credit unions, banks, and state and local housing agencies offer reverse mortgages, consumers usually acquire them through mortgage banking companies. Before taking out a reverse mortgage, Petherick says to keep in mind the following:

- **Educate yourself.** Information is available through organizations such as the NRMLA, as well as
- You can use loan proceeds for any*

mortgage banking companies. *purpose.*

Never pay for information

concerning reverse mortgages--this information is free.

- **Calculate.** Use a reverse mortgage [calculator](#) to find out how much money is available to you through different products and disbursement options.
- **Get advice.** Reverse mortgage lenders, nonprofit counselors, accountants, tax attorneys, and financial planners may be able to answer questions about your individual situation.
- **Think it through.** Don't take out a reverse mortgage until you feel comfortable and trust that it is a good decision for you.
- **Know your lender.** Make sure you are getting your reverse mortgage from a reputable lender. The NRMLA lists members that must meet a Code of Conduct.

Some credit unions offer reverse mortgages. Check with a loan officer at your credit union today.



Internet resources

- [National Reverse Mortgage Lenders Association \(NRMLA\)](#)
- [NRMLA reverse mortgage calculator](#)
- [AARP](#)
- [FannieMae](#)
- [Financial Freedom](#)
- [U.S. Department of Housing and Urban Development](#)
- [Independent Information on Reverse Mortgages](#)
- [Finance for Seniors](#)

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