

## Moving Forward With A Reverse Mortgage?

No one *plans* to go broke during retirement. Most seniors fill up their retirement's gas tank and get ready to cruise. But with today's longer life spans, seniors often need more cash to help them motor through their golden years. No one can predict the financial roadblocks that may arise, such as the need for expensive prescriptions or medical procedures. Just one major setback could drain more of those hard-earned retirement dollars than anyone expects.

Fortunately, seniors have some options to keep the financial engine running during retirement. One option is the reverse mortgage. This loan allows senior Texans to liquidate the equity in their homes for cash without selling the home or incurring a monthly loan payment. The money can be used to supplement an income, make a purchase, or cover upcoming expenses.

### How does a reverse mortgage work?

The borrower typically chooses from three payment options: 1) one lump sum in cash, 2) equal monthly payments for as long as both borrowers live in the home, or 3) equal monthly payments over time. Repayment is not required until both borrowers move, sell their home, or are deceased. At that time, the lender may exercise its security interest and foreclose on the property, or the owner or the heirs of the owner may pay off the lien. Naturally, heirs may object to a reverse mortgage for that reason.

Like any other loan, a reverse mortgage accrues interest charges, beginning when the first payment is made to the borrower. Usually a reverse mortgage is an Adjustable Rate Mortgage (ARM), with interest compounded monthly.

### Are you eligible?

To be eligible for a reverse mortgage, a borrower must be 62 or older, own the home outright (or have a low loan balance), and have no other liens against the home. A borrower continues to be responsible for property taxes, homeowners insurance, and upkeep of the home; failure to do so can result in foreclosure.

Borrowers are also required to attend financial counseling before closing—a crucial step that helps a borrower learn more about the loan. You can view a list of HUD-approved local credit counseling agencies at [www.hud.gov/groups/seniors.cfm](http://www.hud.gov/groups/seniors.cfm).

Using the equity a homeowner has built up over the years can help a borrower detour away from public assistance programs. Seniors who rely on public assistance need to research the impact reverse mortgage payouts may have on their benefits.

### What about your heirs?

Certainly a borrower should discuss the reverse mortgage loan option with family or other heirs before closing on the loan. An heir will need to be prepared to pay off the loan balance if the heir would like to keep the home. An open line of communication, along with strong monthly financial planning, is necessary to keep family affairs running smoothly. One possible financial plan is for the family or heirs to obtain and maintain life insurance on the borrower, with proceeds designated for paying off the loan balance.

### A reverse mortgage is not for everyone

If you are running low on cash, put on the brakes and carefully analyze cash flow before obtaining a reverse mortgage. Because of the high closing costs, a reverse mortgage is a bad idea if you plan to move in a couple years, or if you have a temporary financial emergency that might be better resolved with a home equity loan. Carefully weigh the pros and cons of all cash flow options. Folks in early retirement should remember that the younger they are, the less money they are eligible to receive because of the life expectancy factor in the loan payment formula.

If you would like to learn more about reverse mortgage lending in Texas, contact the Office of Consumer Credit Commissioner:

- ☎ 2601 North Lamar Boulevard, Austin TX 78705
- ☎ Consumer Helpline (800) 538-1579
- ☎ E-mail [info@occc.state.tx.us](mailto:info@occc.state.tx.us)
- ☎ Web site [www.occc.state.tx.us](http://www.occc.state.tx.us).

### Consider Your Alternatives

A reverse mortgage is not an answer to every senior's situation; these loans can be complicated and expensive. Consider other strategies before fully committing to a reverse mortgage:

- Take out a home equity loan
- Decrease expenses by moving into a smaller home or an apartment
- Seek property tax credit or abatement based on your senior status