

Reverse Mortgages Get Better

New FHA rules allow seniors to borrow more and even buy a new home.

Kiplinger's Personal Finance published an article on October 29, 2008, by Senior Editor, Mary Beth Franklin entitled "Reverse mortgages get better: New rules allow seniors to borrow more and even buy a new home."

Excerpts from the longer article are shown below in black type and quotation marks. I have added some additional information which I hope will be useful to you, which is shown in blue type. The full text of the Kiplinger article may be found at:

www.kiplinger.com/features/archives/2008/10/reverse_mortgages_get_better.html

— Mary Jo Lafaye

***Kiplinger's Personal Finance* on the recently-announced changes to the FHA Reverse Mortgage Program:**

"Retirees concerned about their decimated savings should take a second look at reverse mortgages. Beginning November 1, 2008, homeowners everywhere may borrow up to \$417,000. Previously, the Home Equity Conversion Mortgage program assigned various lending limits, ranging from \$200,160 in rural areas to \$362,790 in the most expensive housing markets. Existing reverse-mortgage borrowers may be able to refinance their loans to take advantage of the higher lending limit. Plus, the new rules cap the origination fee, previously set at 2% of the loan value, at \$6,000.

And, in a major policy change, retirees will be able to use a reverse mortgage to buy a new home starting in 2009. 'This provision could really transform the industry,' says Peter Bell, president of the National Reverse Mortgage Lenders Association, in Washington, D.C."

***Kiplinger's Personal Finance* explains the benefits of a reverse mortgage:**

"With a reverse mortgage, homeowners 62 or older can tap the equity in their home in the form of a lump sum, line of credit, monthly payout or a combination of all three. You retain the title to your property and must continue to pay property taxes, insurance premiums and home-maintenance costs. Payouts are tax-free.

A reverse mortgage need not be repaid until the last homeowner moves out or dies, at which point the home may be sold or refinanced to pay off the debt."

Another huge benefit: All Reverse Mortgages are “non-recourse loans.” This is of critical importance because of the extra protection it provides the homeowner and their estate.

“Non-Recourse” means that the amount that is due on a reverse mortgage can never be greater than the home’s market value. Even if the market declines, and home values are less than amount owed on the loan, *no other asset owned by the borrower or their heirs can ever be required to pay a reverse mortgage.*

***Kiplinger’s Personal Finance* on why a Reverse Mortgage can be an excellent source of income during retirement:**

“John and Phyllis Harper decided to take out a reverse mortgage to tap the equity in their paid-off home near Denver, valued at about \$300,000. They’re using the money to finance about \$60,000 worth of needed improvements and to boost their monthly retirement income. “We can do some extra things now, such as travel,” says John, 75, who enjoys working in his home sculpture studio and cruising in his '82 T-top Corvette. “We discussed it with our children and they said, ‘It’s your money -- enjoy it,’” says Phyllis, 72.

As baby-boomers move into their retirement years with fewer pensions, inadequate savings and increasing health-care costs, reverse mortgages are well positioned to serve as a financial solution, says Brian Montgomery, commissioner of the Federal Housing Administration. Bell agrees. “We expect the growth of reverse mortgages to accelerate as seniors look for additional sources of income,” he says, “and because the new provisions of the Homeownership Act of 2008 broaden the market and make them more attractive.”

Want to see how much money you or a senior homeowner you know could get from a Reverse Mortgage? Find out fast by using the calculator on my website: www.MaryJoLafaye.com or call my office for a personalized analysis.

***Kiplinger’s Personal Finance* on using Reverse Mortgage to purchase a new home:**

“The Department of Housing and Urban Development’s new rules allowing a reverse mortgage to be used to buy a home are expected to take effect January 1, 2009. Like traditional reverse mortgages, the maximum loan amount will be based on a combination of the value of the home, the homeowner’s age and prevailing interest rates.

Say an elderly couple lives in an old, two-story house. The house needs repairs, and they're having a hard time negotiating the stairs. Instead of having to stay in a house that no longer meets their needs, they could sell the old house and use a reverse mortgage plus cash to buy a new, single-story home.”

Here’s an example of how a reverse mortgage can be used to purchase a home even if there’s already a mortgage on the existing home:

Assume the couple's current home is worth \$700,000, and they can no longer afford their \$300,000 mortgage which has a payment of \$1,700 per month. They want to downsize to eliminate their monthly payment.

After fees, they’ll net \$250,000 from the sale of their home—but that’s not enough to buy a condo in the area where they want to live. By taking the proceeds from the sale of their existing home and combining that money with the \$250,000 they can get from a reverse mortgage, they will have enough to purchase the condo and solve their monthly shortfall.

Homeownership, without the burden of monthly debt —how is this possible? Because the equity in the home is going to pay off the reverse mortgage—*not* the homeowner’s income. That’s why there’s no income or credit score needed to qualify for a reverse mortgage, and why no repayment is required as long as the homeowner(s) live in the house.