

# IS A REVERSE MORTGAGE RIGHT FOR YOU?

Courtesy of the Elder Law Firm of Anderson Associates, P.C.

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**Q: Mr. Anderson, I have been hearing a lot about reverse mortgages. Are they really as good as advertised?**

No, they are not. There are many disadvantages, but in certain circumstances they can be a godsend when you really need the cash and have nowhere to turn.

**Instant cash – with strings.** A reverse mortgage is a loan against your home. Tapping home equity to finance your golden years is growing in popularity. It is a good way for house-rich but cash-poor seniors to pay off an existing mortgage, help with living expenses, and can help you stay at home by paying for home care costs when a serious illness or a decline in capacity occurs. After you pay a variety of fees on the loan, you can get a lump sum, monthly payments, a credit line, or a combination of these options based on the value of your house. If the home is sold, the loan must be repaid with the proceeds, and any equity that remains after that is distributed to you or your heirs.



**Consumer protection.** Most reverse mortgages are backed by the Federal Housing Administration's (FHA) Home Equity Conversion Mortgage (HECM) program. HECM rules require the applicant to go through counseling, and limits the charges the lender can assess. The HECM rules also prohibit a lender from requiring the borrower to use the loan to buy annuities or other financial products. The AARP reports that 9% of reverse mortgage borrowers were asked by the lender to buy annuities or long term care insurance with the loan proceeds.

**Disadvantages.** The origination fee and other costs are expensive. Because you make no monthly payments, the amount owed grows quite large over time. Unless you intend to die in your home, you should be careful about these products because they can be a never-ending pit of debt. If you are forced to leave your home for longer than 12 months, the loan is due. Any equity remaining in your home after the loan is completely repaid belongs to the homeowner or heirs.

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But if you're considering moving or have a health problem that will require you to leave your home indefinitely, reverse mortgages aren't worth the fees. If you can't stay home for quite a few years, then it's a bad deal. This Medicaid problem can be corrected if the lender agrees to allow you to transfer your home into a special trust, exempt from Medicaid, so that the net sale proceeds will be protected. However, the trust must be established for a 5-year period before a nursing home admission.

**Family Loan Alternatives.** Rather than using a reverse mortgage for extra cash, consider asking a family member to lend you funds and give that family member a mortgage with interest.

**Recommendation.** Before you sign up for a reverse mortgage, consult with an experienced elder law attorney or CPA.



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*For Your Peace of Mind*