

Reverse Mortgages: Money From Home

by ElderLawAnswers.com

Under our “system” of paying for long-term care, you may be able to qualify for Medicaid to pay for nursing home care, but in most states there’s little public assistance for home care. Most people want to stay at home as long as possible, but few can afford the high cost of home care for very long. One solution is to tap into the equity built up in your home.

If you own a home and are at least 62 years old, you may be able to quickly get money to pay for home care (or for anything else) by taking out a reverse mortgage. Reverse mortgages, financial arrangements designed specifically for older homeowners, are a way of borrowing that transforms the equity in a home into liquid cash without having to either move or make regular loan repayments. They permit house-rich but cash-poor elders to use their housing equity to, for example, pay for home care while they remain in the home, or for nursing home care later on. The loans do not have to be repaid until the last surviving borrower dies, sells the home or permanently moves out.

Reverse mortgages are somewhat underutilized now -- only an estimated 60,000 to 75,000 of the loans have been made. But financial institutions, sensing an opportunity as the population ages and people live longer lives, are expanding their reverse mortgage programs.

In a reverse mortgage, the homeowner receives a sum of money from the lender, usually a bank, based largely on the value of the house, the age of the borrower, and current interest rates. For example, a 70-year-old borrower with a \$200,000 house in Westchester County, New York, would currently be able to receive a maximum loan of \$103,483. The lower the interest rate and the older the borrower, the more that can be borrowed.

Homeowners can receive the money in one of three ways (or in any combination of the three): in a lump sum, as a line of credit that can be drawn on at the borrower’s option, or in a series of regular payments, called a “reverse annuity mortgage”. The most popular choice is the line of credit because it allows a borrower to decide when he or she needs the money and how much. Moreover, no interest is charged on the untapped balance of the loan.

Although it is often assumed that an elderly person would want to use the funds from a reverse mortgage loan for health care, there are no restrictions--the funds can be used in any way. All borrowers must be at least 62 years of age to qualify for most reverse mortgages. In addition, a reverse mortgage cannot be taken out if there is prior debt against the home. Thus, either the old mortgage must be paid off before taking out a reverse mortgage or some of the proceeds from the reverse mortgage used to retire the old debt.