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Are reverse mortgages a financial resource for senior home owners?

Most seniors would prefer to remain in their homes, which is usually also their largest asset. However, since many people are living far beyond the life expectancy for which they planned (or did not plan in some instances), remaining the home is becoming a financial burden, especially for elderly widows. A reverse mortgage is sometimes a way for a senior to stay in his or her home, tapping into the value of the real estate to give the homeowner the ability to pay the real estate taxes, make necessary repairs, pay off debt, or pay for long term care. The recent announcement that MetLife is leaving the reverse mortgage business offers an opportunity for seniors and their families to look at reverse mortgages and if such products remain a good option for seniors.

MetLife has decided to leave the mortgage lending arena altogether, and is selling its business to Nationstar Mortgage LLC. It was apparently a corporate decision for the company to stick with what it does best, that is, sell insurance. However, there are still many reputable companies in the reverse mortgage business. It is vital that the senior deals with a reputable company, and to make sure that he or she fully understands the product and its suitability to that individual.

Reverse mortgages are HUD/FHA non-recourse loans for those over age 62 years. These loans are similar to a conventional mortgage or home equity loan, in that the real estate is collateral for the debt, and you are not personally responsible to pay back more than the collateral is worth at the time the loan comes due (non-recourse). However, instead of making monthly payments with interest, the lender gives the homeowner money, either in a lump sum, as a line of credit, or in monthly installments. The borrower is not required to re-pay anything until she sells the house, moves out, or dies. The title of the house remains with the homeowner, and the debt is a lien against the property. If there is equity remaining in the home (for instance, if the sum borrowed is less than the value of the property when it is sold), the homeowner or his heirs receives the excess equity value.

There are no income, asset or credit requirements. The youngest homeowner on the deed must be age 62 years, and the homeowner must live in the home and use it as her primary residence, maintain it, and pay the taxes and homeowners insurance. The reverse mortgage must be the primary mortgage; all other liens must be paid off before any additional payments are given to the homeowner/applicant. The proceeds are tax free, since it is not income but a loan. There is a requirement to participate in an Independent Counseling session with a FHA approved counselor early in the application process, especially for HECM (Home Equity Conversion Mortgage) mortgages, the most popular type.

Reverse mortgages are not for every senior who finds themselves "house rich and cash poor." Careful consideration should be given to the reasons that a reverse mortgage is being considered. They are often expensive initially, limiting the amount of available cash the homeowner can expect. A lump sum payment can prevent a senior from obtaining Medicaid benefits. A home is not an available asset in most cases in Pennsylvania for Medicaid purposes, but cash may be depending upon the situation. The particular needs of the borrower must be assessed, as each situation is different. The borrower should consult with her attorney, her financial advisor, and her family before undertaking such a course of action.