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Rules for reverse mortgages are likely to change

For many older persons, their home is their largest asset, especially since many retirement accounts lost significant value in the economic recession. For some, being able to stay in their homes requires more money than is available from income and/or savings, especially for large repair bills and property taxes. To date, nearly everyone who is age 62 or older and applied for a reverse mortgage qualified for one. However, *The New York Times* reports that change is coming in the reverse mortgage arena that may significantly change the qualification rules for older homeowners to tap into their home equity (http://www.nytimes.com/2013/07/13/your-money/rules-for-reverse-mortgages-may-become-more-restrictive.html?pagewanted=all&r=0).

A reverse mortgage allows homeowners who are 62 and older to use their home equity without making any payments until they die or move out. Interest accrues over the life of the loan. When repaid, the financial institution that made the loan is repaid first from the proceeds of the sale, and the homeowner, or family, receives the remainder, if any. The borrower is required to maintain the property, pay the property taxes and maintain homeowners insurance. Ramsey Alwin, senior director of economic security at the National Council on Aging told Tara Siegel Bernard from *The New York Times* "It's not a matter of if they [baby boomers] will tap their home equity. It is a matter of when. And the when and the way they tap their home equity is really critical."

Most reverse mortgages are made through the Department of Housing and Urban Development, whose Federal Housing Administration (F.H.A.) division insures the loans. However, the housing crisis and declining home prices took its toll on the federal program. The type of reverse mortgage that allowed homeowners to take all of the equity available in one lump sum was eliminated this year. The agency has raised its fees and reduced the amounts that people can borrow. Now, the F.H.A. is working with Congress to change more rules in order to further stabilize the program. They want to require borrowers to complete a financial assessment, and possibly factor in their credit scores, neither of which was required in the past. The agency is finding that borrowers do not have enough money to pay property taxes and homeowners insurance over the long term, and wish to determine before issuing the loan if certain borrowers should be eliminated based on their financial status.

If Congressional approval is not forthcoming, the F.H.A. is considering eliminating the HECM product standard (home equity conversion mortgage) product may disappear as of October 1. Right now, using the HECM, a 65 year old borrower with a home worth $400,000 could tap about $226,800 in cash or line of credit after various fees. Borrowers can also request payments over the life of the loan or in installments in higher amounts over a specific term. If the "standard" mortgage is eliminated, this same borrower might only be able to use a "saver" mortgage which only permits a lower withdrawal amount, about $194,800 or 14 percent less. Since all existing mortgages must be paid off first, this might limit the utility of a reverse mortgage for many. The F.H.A. would like to fast-track the proposed changes through Congress to avoid eliminating another reverse mortgage loan product. It remains to be seen how this situation will play out over the next few months.