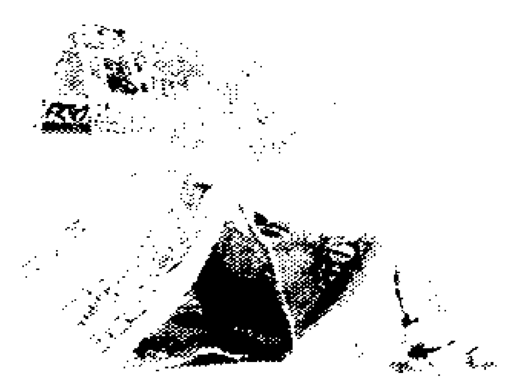
Is a reverse mortgage right for you?

Sterling Raskie, AdviceIQ *2 p.m. EDT July 25, 2015* USA Today 07/25/2015



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As you near retirement, you may foresee a need for more money in the golden years than your savings can handle. You look to use Social Security, careful withdrawals from qualified accounts and maybe annuities. Can you also use one of your biggest assets: your home and its equity in the form of a reverse mortgage?

With a second mortgage, or a home equity line of credit, you must make monthly payments on the principal and interest. In a reverse mortgage, you use the equity in your home to receive monthly income payments. Generally, once you die or sell the home, you or your survivors use the remaining equity to pay off the loan.

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You must live in the home as a primary residence – no renting it out – for the life of the loan. There's also a limit on the amount you can borrow from such sources as the U.S. Department of Housing and Urban Development (HUD). Among other conditions:

■ Lenders generally charge an origination fee and other closing costs, as well as servicing fees over the life of the mortgage. Some also charge mortgage insurance premiums.
■ You can't deduct interest on your reverse mortgage on your income tax returns.
■ You remain responsible for property taxes, insurance, utilities, fuel, maintenance and other home expenses. Fail to keep any of these up and the lender might require you to repay your loan.
■ A financial assessment is required when you apply. Your lender may require a set-aside amount to pay your taxes and insurance during the loan. The set-aside reduces the amount of funds you can get in payments.
■ Reverse mortgages can use up the equity in your home, which means fewer assets for you and your heirs.

One popular form of a reverse mortgage is HUD's home equity conversion mortgage (HECM). To qualify, you must be 62 or older, live in a single family home or a 2-to-4-unit home where you occupy one unit (HUD-approved condominiums and some manufactured are also eligible) and receive advice from a HECM-approved counselor who educates you on the advantages and disadvantages of such a mortgage.

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With a HECM, you also still own your home. HECM loans are non-recourse, meaning you'll never owe more than the value of your home at its sale regardless of whether the home's value declines.

Other types, according to the U.S. Federal Trade Commission (FTC):

Single-purpose reverse mortgages are often a least-expensive option, offered through some (not all) state and local government agencies, as well as nonprofit organizations. You use these loans for only one purpose, which the lender specifies (for example, home repairs, improvements or property taxes).

Proprietary reverse mortgages are private loans backed through lending companies. If you own a higher-valued home, you may get a bigger loan advance.

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Shop around carefully for a good reverse mortgage for you, the FTC recommends:

■ Compare fees and costs. While the mortgage insurance premium is usually the same lender to lender, most loan costs – including origination fees, interest rates, closing costs and servicing fees – vary.
■ Understand total costs and loan repayment. Ask a counselor or lender to explain the total annual loan cost (TALC) rates, which show your projected annual average cost of a reverse mortgage, including all the itemized costs.
■ No matter what type of reverse mortgage you consider, understand all the reasons you might have to repay your loan before you planned.

When you sell or convey title of the property, die or do not maintain the property as principal residence for longer than 12 months due to physical or mental illness, you reach what's called the maturity event, meaning your reverse mortgage becomes due and payable.

Pitchmen often dangle these loans as easy tools to fund maintenance and other home costs. Inflation can also eat away the buying power of fixed payment amount.

Nevertheless, when you do the deal right a reverse mortgage can increase your chances of a healthy income in your golden years, especially if you use the money in conjunction with other income such as Social Security, pensions and payouts from your retirement accounts.

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