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FAMILY VALUE | By Kelly Greene

A Reverse-Mortgage Rethink

Reverse mortgages aren't just for people struggling to keep their homes anymore.

The loans also can work for well-heeled retirees looking for a buffer to keep them from selling investments at the wrong time, according to academic researchers. And Congress last month gave a boost to the type of reverse mortgage that works best for that purpose.

Reverse mortgages let homeowners who are at least 62 years old borrow against their home equity. The loans don't have to be used for a specific purpose, but typically are used for home modifications, repairs, medical expenses or home care that elderly people might not otherwise be able to afford.

The loan is due, with interest, when homeowners move out, sell the home, die or fail to pay property taxes or homeowner's insurance premiums. The homeowner's heirs typically sell the house, pay the balance and keep what is left.

At least 595,000 households have an outstanding reverse-mortgage loan, according to the National Reverse Mortgage Lenders Association, a Washington industry group.

In the past, many financial planners recommended reverse mortgages for their clients only as a last resort because fees were relatively high—as much as 5% of the loan amount. That changed a few years ago, when a new product was developed by the industry and insured by the Federal Housing Administration called the HECM Saver, which typically has lower upfront borrowing costs than earlier types of reverse mortgages. (HECM stands for "home equity conversion mortgage.")

With lower borrowing costs, some planners are finding new ways to use reverse mortgages to avoid selling depressed investments or to lower tax bills.

"Retirement is really about cash flow," says Martin James, a certified public accountant in Mooresville, Ind. "Even for a person who's got their mortgage paid off, it's nice to have a line of credit sitting there."

Earlier this year, the HECM program was eyed by federal lawmakers as a financial risk to the FHA, and lawmakers considered curtailing the program. The bill passed by Congress is intended to give the Department of Housing and Urban Development the leeway to make changes to keep the program going, probably after Oct. 1, says Peter Bell, chief executive of the lenders' group.

Interested in tapping your home as a security blanket? A few things to consider:

◆ **Your house could be a reliable credit line.** If your home-equity line of credit gets canceled, a reverse mortgage might be a good substitute.

Three certified financial planners at Texas Tech University in Lubbock and Edinboro University of Pennsylvania published a paper last year in the Journal of Financial Planning that recommends using a reverse-mortgage line of credit to meet retirement-income needs during a big market drop, rather than selling investments. "A few years ago, we were starting to get calls from clients saying, 'Hey, my line of credit's been canceled.' They have plenty of resources, but that was an emergency pot of money," says John Salter, the paper's lead author.

The researchers used what they called a "standby" reverse-mortgage strategy, meaning the reverse-mortgage line of credit served as a source of readily available cash when retirees' portfolio values dropped below the level where they could meet their goals.

Using a portfolio worth $500,000 and a home value of $250,000, among other assumptions, the researchers found that using a reverse mortgage's line of credit significantly improved the chances the portfolio would last through the retiree's lifetime, because it reduced the risk of having to sell investments when they had fallen in value.

◆ **Tapping home equity could lower tax bills.** Some retirees pay off their mortgages with taxable withdrawals from their 401(k) or other accounts. Yet they might be able to lower their income taxes by using reverse mortgages to pay off their traditional mortgages, Mr. James says, if they have substantial equity. That means they wouldn't need to withdraw as much tax-deferred retirement savings, which are subject to income tax and can bump retirees into higher tax brackets.

Plus, without investment distributions needed to make mortgage payments, they might be able to keep their overall incomes under the income threshold at which Social Security retirement benefits are taxed, Mr. James says.

◆ **Consult an expert.** Before you start talking to lenders, consider getting advice from a reverse-mortgage counselor certified by HUD to learn more about the options and mechanics. The National Council on Aging and other nonprofit groups sometimes offer such counseling.

◆ **Keep the kids in the loop.** When Mr. James broaches the idea of a reverse mortgage with clients, "the first thing they do is wrinkle their nose," he says. One big reason: Many parents want to leave their home, often their biggest asset, to their children as their inheritance.

Still, he contends that many adult children "don't really want the house" and that they are eager for their parents to use their assets to have "a better rest of their life."

"Using a reverse mortgage allows for a little more diversification," meaning retirees could leave other investments with potential for better returns to their families, Mr. James says.

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