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Today's reverse mortgages: Flexible, with a lot of built-in protection

Peter Bell, president and CEO of the National Reverse Mortgage Lenders Association, answers homeowners' top questions about reverse mortgages.

1 What exactly is a reverse mortgage?

A reverse mortgage, in simple terms, is a home equity loan that creates liquidity for older homeowners and does not need to be repaid until the borrower moves, sells the house, or passes away. Loan amounts are determined by a formula based on the home's appraised value, the youngest borrower's age, and current interest rates. Borrowers, or their heirs, typically repay the loan with either proceeds from the sale of the house or with funds available from other assets.

Reverse mortgages were designed to help seniors, aged 62 and older, convert equity into cash that could be used to supplement a fixed retirement income and pay for medical and other daily expenses. I like to look at it as you spend a career supporting your home and then when you retire, your home supports you.

Over time and with the help of financial planning experts, we've learned reverse mortgages are a versatile and beneficial tool in a comprehensive retirement income plan.

2 What makes reverse mortgages a good way to access home equity?

Flexibility. Borrowers choose how they want to receive loan proceeds—as a lump sum, regular monthly payments, a line of credit, or some combination. Borrowers also choose whether to make principal and interest repayments, or wait until they are required to do so at the end of the loan.

And borrowers can use loan proceeds without restriction—to pay off an existing mortgage, make home improvements and modifications, bridge funding gaps to delay collecting Social Security, protect investments, or meet unanticipated expenses of aging such as medical emergencies or caregiving needs.

3 What is a Home Equity Conversion Mortgage or 'HECM'?

HECMs are simply reverse mortgages that are insured by the Federal Housing Administration (which is part of the U.S. Department of Housing and Urban Development, also known as HUD). More than one million senior households have benefitted from a HECM and nearly all reverse mortgages made today are FHA-insured. That means they are subject to the FHA's loan limit of $636,150, though some lenders do offer proprietary loans including "jumbo" reverse mortgages for high value homes.

4 Are there any risks involved in taking out a reverse mortgage?

Actually, the HECM program includes many consumer protections. HECM lenders follow HUD's guidelines including limitations on origination fees. To qualify, the applicant must have an assessment of their finances and attend a pre-application counseling session. What's more, the HECM is a non-recourse loan—which means that when the home is sold, the borrower or estate does not have to repay more than the home's current appraised value, even if the loan balance exceeds that amount.

Borrowers must remain current on property taxes, homeowners' insurance, and home maintenance, or risk defaulting on the loan.

RYAN DONNELL

5 How does an HECM line of credit compare to a typical home equity line of credit?

HECMs were designed specifically for seniors and carry certain advantages over HELOCs. To start with, HECM financial requirements are less restrictive for a retiree or self-employed worker than a HELOC would be because the loan does not require monthly principal or interest payments.

Most HELOCs will require a monthly payment during the draw period and then an increased payment once it resets. Unlike a HELOC, a HECM line of credit will never be frozen or reduced, even if the property value decreases. Perhaps the most innovative aspect of the HECM is the line of credit growth feature that applies to the unused portion of the LOC and increases the amount you can borrow over time.

6 How can I find a reputable reverse mortgage lender?

Reverse mortgage lending is a specialized field; not all lenders offer them. We recommend borrowers work with a member of the National Reverse Mortgage Lenders Association who is bound by our Code of Ethics & Professional Responsibility. A state-by-state list of NRMLA members, including those who have earned the Certified Reverse Mortgage Professional designation, is available on our consumer education website **www.reversemortgage.org**.