Reverse Mortgages

A Quick Financial Fix?

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Reverse mortgages are a touchy subject. Intended as a monetary tool to help Americans over the age of 62 age in place, the loan releases home equity to cover expenses. Proceeds can be used to pay bills or provide in-home care. Nevertheless, critics are quick to point out the drawbacks, including high up-front costs, a complicated loan structure that can be difficult to understand, and devaluation of the owner's property that affects what's left for heirs.

A reverse mortgage is a loan available to American homeowners aged 62 and older that doesn't have to be repaid until the borrower permanently moves out, sells the home, or dies. "The product was designed to provide a source of funding for older people to stay in their homes," says Patricia Kauker, CSA, vice president of reverse mortgages at WSFS Bank in Hockessin, DE. "As the population ages and our economy struggles, expenses such as utility bills, homeowners insurance, and taxes are going up at a faster rate than Social Security and pension incomes. In the early stages, reverse mortgages were thought of as a needs-based product. Now we see more people looking at these loans as part of their overall retirement financial planning."

According to figures from the Lenders Association, reverse mortgages have seen a steady uptrend each year since 2001. Loan production has grown from 43,131 in fiscal year 2005 to 76,351 in fiscal year 2006 before climbing to 107,558 in 2007.

5 Questions Clients Should Ask Before Considering a Reverse Mortgage:

1. Does an older person really need a reverse mortgage? If anyone is trying to sell your family member something and recommending use of a reverse mortgage to pay for it, that's generally a good sign that he or she doesn't need it and shouldn't be buying it.

2. Can your family member afford a reverse mortgage? These loans are very expensive, and the amount clients owe grows larger every month. The younger people are when they take out a reverse mortgage, the more compound interest will grow and the more they will owe. On the other hand, due to high up-front costs, these loans can be especially costly if a person sells and moves just a few years after taking the loan.

3. Can an older person afford to start using up their home equity now? The more a person uses it now, the less they'll have later when they may need it more, such as to pay for future emergencies, healthcare needs, or everyday living expenses.

4. Are there less costly options? Are there other financial resources available? If not, and if the person could make the monthly repayments on a home equity loan or a home equity line of credit, these alternatives are much less costly than a reverse mortgage.

5. Does the older person fully understand how these loans work? Reverse mortgages are quite different from any other loans, and the risks to borrowers are unique. Before considering one, families should do the homework carefully and thoroughly.

Quest EAP offers you one free telephonic consultation with our Eldercare Specialist, Peggy McFarland, PhD., per year. For professional and confidential guidance regarding eldercare concerns call 1-800-253-9236.

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