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# The *Advisor*

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► OCTOBER 2007

## **The Reverse Mortgage: They Pay You**

You have lived in your house for a long time and are sitting on substantial equity. But you don't want to take out a mortgage or equity loan and saddle yourself with payments, and you don't want to sell your house and move. There is a third possibility: the reverse mortgage. It's not for everyone and it has a down side, but it may be the way for you to tap your equity.

Homeowners of all ages have seen the equity in their homes increase, sometimes significantly, in the wake of rising housing values. Older Americans especially, who may have lived in their homes a long time, often find that they have substantial equity.

Even if you have a lot of equity, though, you may not want to take out a loan and have to make monthly payments, or sell your house and move. But there is a third option: the reverse mortgage.

A reverse mortgage is exactly what it sounds like. With a traditional mortgage, you pay the lender; with a reverse mortgage, the lender pays you. Basically, you take out a loan against your house that you don't have to pay back until you sell your house or die. The lender pays you the amount of the loan.

Reverse mortgages are designed to serve the needs of older homeowners who have paid off all or almost all their original mortgage. The amount of the loan depends on several factors, including the value of your home, your age and the age of any co-borrowers. In general, the older you are and the more your house is worth, the more money you can get.

You make no payment on the loan as long as you or any co-borrowers continue to live in the house and meet a few other requirements. But when the house is sold – either by you or by your heirs – the loan must be repaid, including all interest and other charges. If the value of your house at that time exceeds the amount of the loan and related costs, you or your heirs get the difference. However, the lender can never get more than the value of your house when it is sold, even if that is not equal to the value of the loan.

In order to get a reverse mortgage, all borrowers usually must be at least 62 years old and occupy the home as their principal residence. Usually only single-family dwellings are eligible for a reverse mortgage, although some programs accept condominiums, townhomes, etc. Mobile homes generally are not eligible. You usually can get the money all at once, in a monthly payment or as a line of credit. You must continue to pay property taxes and insurance and keep the home in good repair.

The only federally insured reverse mortgage is the Home Equity Conversion Mortgage (HECM), insured by the Federal Housing Administration. HECM loans usually are less costly than many other types of reverse mortgages, according to the AARP, which includes information about reverse mortgages in general and about HECM loans on its Web site.

A reverse mortgage is not for everyone. For example, it may not be a good idea if you want to leave your house to your children, unless they can afford to pay off the loan, either on their own or through some other assets of your estate. You also need to look closely at the total cost of the loan.

As with any financial decision, you should consider a reverse mortgage in the context of your overall financial situation. Your financial adviser can help you examine options for a reverse mortgage and see if the approach makes sense for you.