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REVERSE MORTGAGES MAY BE A MORE AFFORDABLE OPTION IN 2007

Reverse mortgages have become quite popular in the past few years, but they are an expensive proposition for most seniors. A recent article in the *Wall Street Journal*, however, reports that the costs for reverse mortgages may be coming down, making such mortgages a more attractive option.

Homeowners at least 62 years of age can use reverse mortgages to tap into the equity in their homes without taking out home equity loans or lines of credit, or selling their homes. With a traditional mortgage, the homeowner must make monthly principal and income payments to the lender; with a reverse mortgage, the lender pays the homeowner. And with a reverse mortgage, the homeowner can opt to receive a lump sum payment, a line of credit, or monthly payments. As the debt increases, the home equity decreases. When the home is eventually sold, the lender is repaid the principal and accumulated interest payments. Any remaining equity belongs to the homeowner or the homeowner's heirs.

Approximately 90% of all reverse mortgages are insured by the government in the form of a Home Equity Conversion Mortgage (HECM). These mortgages are capped at a certain amount, regardless of the value of the home. Other reverse mortgages are not insured by the government and are usually "jumbo" reverse mortgages for more expensive homes. These mortgages provide greater income, but at a greater cost. Half of all reverse mortgages have been issued in the past two years, with 77,351 issued in the year ending September 20, 2006.

Reverse mortgages can be costly. Lenders typically charge an origination fee of up to 2% of the home's value (not the lower loan amount). Mortgage insurance is mandatory, with the premium adding another 2% to the costs. Closing costs are also added, and these costs can exceed \$12,000 for a

\$250,000 loan. A homeowner may also pay monthly charges that can add thousands more over the life of the mortgage.

Financial counseling is mandatory for borrowers receiving a HECM. Lenders of non-HECMs usually provide financial counseling as well. Borrowers should be aware of financial product sellers who may try to sell the borrowers annuities for the large amounts of cash that the borrowers will receive. California recently enacted a law that specifically bans mortgage lenders from pitching an annuity to a borrower as part of the mortgage process. It does not make sense to obtain a reverse mortgage to invest the proceeds, particularly because the return is unlikely to be more than the cost of the loan.

Lenders will only finance a portion of a home's value. A 68-year-old owner of a \$1 million home could get a HECM between \$108,000 and \$210,000 depending on the location of the home, but the homeowner could receive a jumbo reverse mortgage of about \$386,000. At age 72, the owner of a \$1 million home could receive a \$434,000 jumbo reverse mortgage, and at age 80, the owner of a \$1 million home could receive a \$494,000 jumbo reverse mortgage.

There have been several initiatives to lower the costs of reverse mortgages. Reverse Mortgage of America has begun to waive the origination fee for its jumbo reverse mortgage or provide a credit, depending on the loan amount. Financial Freedom, a unit of IndyMac Bank, lowered its fees and restructured reverse mortgages last summer so consumers could receive about 50% more in cash than they could previously for a non-HECM.

Seniors considering using reverse mortgages to cover part of their long-term care expenses should monitor these developments closely, and they should consult with an elder law attorney before proceeding. The attorneys at Oast & Hook can provide seniors with long-term care, estate, financial and investment planning advice to assist them with developing the most affordable options.

Guest Authors

Oast & Hook would like to extend an invitation to the readers of the *Elder Law News* to submit any articles that would like to have published. Please send your article to mail@oasthook.com.

Ask the Expert

Mark your calendar to listen to the "Ask the Expert" show on WTAR radio (850 AM) from 5:00 p.m. to 6:00 p.m., Tuesday, February 13th. The guest speakers will be Oast & Hook attorney Sandra Smith and Susan Cunningham, the President of Senior Resources Group Inc.

Speakers

If you are interested in having an elder law attorney from Oast & Hook speak at an event, then please call Jennifer Lantz at 757-399-7506.

Oast & Hook

Oast & Hook is an elder law firm. We represent older persons, disabled persons, their families, and their advocates. The practice of elder law includes estate planning, investment and insurance advice, estate and trust administration, powers of attorney, advance medical directives, titling of assets and designations of beneficiaries, guardianships, conservatorships, and public entitlements such as Medicaid, Medicare, Social Security, and SSI, disability planning, income tax planning and preparation, bill paying, account management and reporting, care management, and fiduciary services. We also handle litigation involving these issues, such as will contests and estate administration disputes. For more information about Oast & Hook, please visit our website at www.oasthook.com.

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