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A Kinder, Gentler Reverse Mortgage

Tighter Regulations Should Make Them Safer

By TOM LAURICELLA

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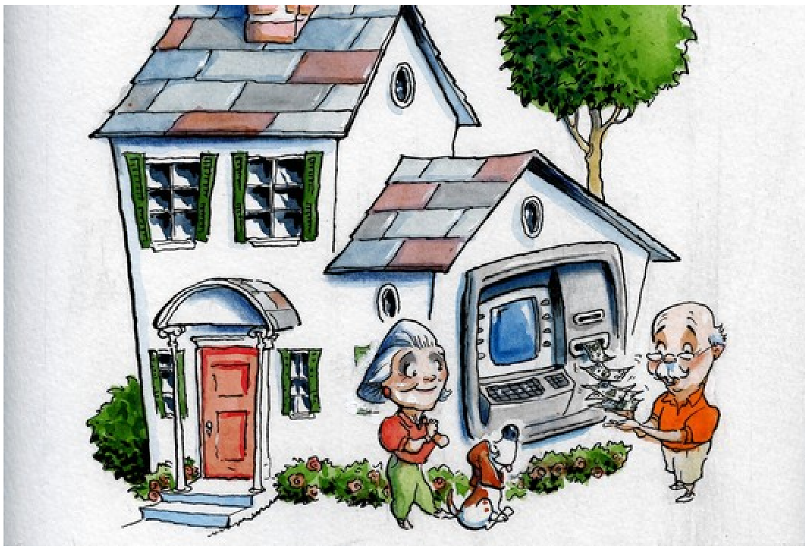

Michael Witte

The rules for securing a reverse mortgage are getting tougher. And most financial advisers say that's a good thing.

In a reverse mortgage, homeowners borrow against the equity in their house. They can take the money in a lump sum, monthly payments, or as a line of credit to be tapped when needed. Reverse mortgages are generally made by specialist lenders, and the most common loans are backed by the Federal Housing Administration's Home Equity Conversion Mortgage program, widely known as HECM loans. Borrowers must be 62 years or older to qualify.

Used wisely, reverse mortgages enable older adults to tap the value of their homes without having to uproot themselves and sell. But experts warn retirees to tread carefully with these complicated loans. Used improperly, a reverse mortgage can leave a retiree broke and without a roof over his head.

Mistake No. 1 is approaching reverse mortgages like any other loan. "But there's no question that taking out a reverse mortgage is vastly more complicated than taking out a home-equity line or a mortgage to buy a house," says Bernard Krooks, a partner of Littman Krooks LLP in New York who specializes in elder law.

The main difference between a reverse mortgage and traditional mortgage is that the loan must be repaid in full when the homeowners—as listed on the deed—no longer live in the house.

Many reverse-mortgage borrowers run into trouble, pulling all the equity out of their home, using up the cash, then finding they are unable to afford insurance, taxes and upkeep for the property. Some couples have been foreclosed on when only one spouse was listed on the deed, and that person subsequently died or moved into a nursing home.

The good news is that the federal government is tightening guidelines, which should make it harder for borrowers to dig themselves into a hole. "These changes are all positive," says Alicia Munnell, director of the Center for Retirement Research at Boston College.

The Department of Housing and Urban Development last year made regulatory changes that limit most reverse-mortgage borrowers to taking 60% of the available equity out of their house as determined by FHA standards, in the first year. In subsequent years, borrowers can tap the reminder of

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the equity in their home.

In addition, HUD is weighing a requirement that lenders first assess borrowers' ability to meet their financial obligations on the house. Based on that assessment, the new rules can require borrowers to set aside money upfront to pay property taxes and insurance.

"The important thing about these mortgages that people really need to remember is that they are loans, and as with any loans they come with a set of obligations," says Lori Trawinski, a policy adviser who specializes in reverse mortgages at AARP, the advocacy group for retirees.

Experts stress that a decision to take a reverse mortgage is best made with input from financial advisers, accountants and estate-planning attorneys. "While it can be a useful part of estate planning, it's not for everyone," says Mr. Krooks. "It shouldn't be done without being looked at in terms of overall financial needs."

Example: An elderly, low-income applicant wants a reverse mortgage to modify his home. The counseling session might determine that he is eligible for home-improvement assistance and doesn't really need a reverse mortgage.

NeighborWorks America is one organization that helps train counselors and provides referrals to counselors that specialize in reverse mortgages across the country. The group operates a hotline for those looking for general information or counseling referrals: 888-990-4326.

Karen Hoskins, senior manager for the national homeownership program at NeighborWorks, says reverse mortgages can help some older adults age in place. Still, she adds, if a potential borrower decided not to take a reverse mortgage after counseling, "We would consider that a successful outcome."

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