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The stock market setback has awakened the fear for many people that they might, in fact, outlive their money. For many of these folks, the only asset they own that has truly appreciated is their home. Suddenly, they are looking at their home as a source of wealth to be tapped for retirement income.

Being able to tap the equity in their homes for retirement income or financial support may be their saving grace. Reverse mortgages provide a way to do this, while ensuring homeowners can continue to reside in their homes for the remainder of their lives.

A reverse mortgage is exactly the reverse of a regular mortgage; instead of you paying the lender each month, the lender pays you. Instead of you ending up with all the equity in your home, the lender ends up with a share of the equity in your home in exchange for a lifetime of occupancy and the payments made to you.

With a reverse mortgage, the lender pays either a lump sum, a stream of payments, or provides a line of credit to the homeowner. Each payment or advance reduces the homeowner's equity.

When the homeowner dies or moves from the home, the home is usually sold, and the lender is entitled to collect his share of the equity.

Unlike conventional home equity financing, the homeowner has no payments to make and retains the right to live out his life in the home. The only obligation is to pay the taxes, the insurance and keep up the maintenance.

Lenders calculate the amount they are willing to advance on the home based upon the value of the home, the anticipated appreciation, the age of homeowners, and current interest rates.

Since the lenders are offering a lifetime estate, the ages of the homeowners are important. If there are two lives, as would be the case with a married couple, the lenders will offer less, since the life expectancy of a couple is greater than the life expectancy of a single person. If the homeowner is older, more will be advanced; younger, less.

If property is likely to appreciate faster, a higher appreciation factor will allow more money to be advanced. Or, if interest rates are lower, as they are today, more will be advanced.

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There are three basic types of loans. An FHA-insured loan guarantees that you will not have to repay the loan as long as you live in the house. The interest rate used to compute the lender's portion of the equity is adjustable, and you have the choice of payment options: lump sum, monthly payments or line of credit.

A lender-insured loan will usually provide a greater amount than an FHA-backed loan. Some lender-insured loans will keep on paying even if you are no longer living at home.

An uninsured loan may offer the most, but it carries the largest risk. Most of these loans provide for a fixed number of payments and when the term of the loan is up you must sell the house.

As in all things in our financial lives, there are no free lunches, and that is the case with reverse mortgages. If you are young, still have a mortgage, and/or determined to leave the family homestead to the next generation, reverse mortgages may not make sense. The fees are high, and the loans are probably not worth the cost if you plan to move within a few years.

For more information, I suggest you visit www.aarp.org.

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