Reverse mortgages are becoming a better option for seniors

Elliot Raphaelson, Tribune Content Agency - The Savings Game

In past columns, I have generally been skeptical of reverse mortgages. However, the Reverse Mortgage Stabilization Act of 2013 introduced more customer safeguards. And some lenders are offering better terms and lower upfront costs.

If you do your homework, you might find a reverse mortgage that provides you with benefits that other financing alternatives do not provide. A more reliable line of credit is one of the more important potential advantages.

I highly recommend "What's the Deal with Reverse Mortgages?" (People Tested Media), a new book by Shelley Giordano, principal of Longevity View Associates, a reverse mortgage consulting firm, and chair of the nonprofit Funding Longevity Task Force. It will help you understand options such as fixed vs. variable loans, the nuances of using credit lines and all of the mortgage fees.

Giordano discusses the merits of home equity lines of credit (HELOCs) vs. those of home equity conversion mortgages (HECMs, FHA-insured open-ended reverse mortgages). HELOCs, she argues, have significant disadvantages. Borrowers have to repay principal and interest, whereas reverse mortgage borrowers are under no such obligation. Financial institutions can cancel HELOCs if they believe that borrowers have insufficient income or assets. Borrowers with a HECM line of credit don't have this vulnerability.

In prior columns, I argued that one of the significant disadvantages of HECM's was the high initial closing costs. Giordano says that some financial institutions are offering reverse mortgages with closing costs as low as $250. However, the tradeoff is higher interest rates. In my opinion, if you intend to maintain a line of credit for a long period of time, then the HECM has significant advantages over the HELOC, if you can obtain a HECM with very low (or no) closing costs. She recommends Retirement Funding Solutions (rfslends.com) as an example of a lender with flexible terms.

The Reverse Mortgage Stabilization Act of 2013 provides some safeguards for both consumers and lenders. The act introduced financial assessments as the basis for HECM loan approvals. These assessments were developed to ensure that individuals would have the financial wherewithal to maintain their homes, pay real estate taxes and homeowner insurance. Prior to this reform, reverse mortgages had a high rate of foreclosure. As long as individuals can meet these requirements, and maintain residence in the home, they will not face foreclosure.

The Act of 2013 also addressed a prior disadvantage. Previously, if the only individual named in the mortgage agreement died, the surviving spouse would have to repay the outstanding loan in order to remain in the home. Under the new provisions of the act, a non-borrowing status (NBS) was created that allows the widow(er) to defer due and payable status provided that within 90 days after the death of the last surviving borrower, he or she establishes legal ownership or other ongoing legal right to remain in the property.

For seniors looking to alleviate tight budgets, I believe that options other than reverse mortgages should be considered, such as downsizing or selling and renting an apartment. Consider your health. Reverse mortgages lose their primary advantage if you cannot stay in the residence over the long term. If it is important for you to leave home equity to your heirs, then reconsider using a reverse mortgage, because there is no guarantee that there will be any equity left after your death.

Potential borrowers must complete a counseling session with an approved FHA counselor before applying for a reverse mortgage. However, I recommend that you don't depend on the counselor for advice. Rather, consult your own financial adviser or attorney before making a decision. Giordano's book will also help you select the best options. After you determine the type of mortgage that is best for you, comparison shop and select a lender whose terms are the most cost-effective.

(Elliot Raphaelson welcomes your questions and comments at elliotraph@gmail.com.)