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Reverse mortgages getting more popular in tough economy

By Elizabeth Rhodes

Seattle Times business reporter

Like many retirees, Marlene Laffoon, 73, watches in dismay as both her home's value and her investments slide southward. And yet everyday costs aren't falling correspondingly.

So Laffoon's spirits rose last month on an unexpected windfall of good news: Loan amounts on reverse mortgages have been increased, and the fees decreased.

A reverse mortgage allows homeowners 62 or older to borrow up to \$417,000 of their home's equity to use any way they wish; the old limit was \$352,790. They don't have to repay it as long as they stay in the home.

Laffoon promptly asked her reverse-mortgage officer, Frontier Bank's Jerry Dawson, how much cash she could get if she took out a new reverse mortgage. "I really don't want to touch anything in my investments now, and yet I can't wait 10 years to have something to draw on," says Laffoon. As the economy unwinds, Dawson says he's increasingly been hearing from older homeowners who are anxious about their finances and looking for cash.

A lot of people rely on liquidating their portfolios over their lifetime to supplement their income. Now they're asking if there's a way to use the equity in their home instead of selling their portfolio in a bad time.

In Mountlake Terrace, Golf Savings Bank reverse-mortgage officer Chris Anderson also is seeing increased interest. Some is coming from older workers.

"They're concerned their job will be gone, and their chances of finding a new job over age 62 aren't good," says Anderson. "They want to be able to put a reverse mortgage in motion. It does take away the anxiety knowing there's an option, whether you need to take it or not."

Reverse mortgages have been growing in popularity for some years now, with more than 100,000 homeowners nationally taking them out so far this year. They've been offered by private lenders, by quasi-governmental mortgage backer Fannie Mae and by the Federal Housing Administration (FHA).

Following the turmoil in the mortgage industry, both private-lender and Fannie Mae reverse mortgages have either ceased or cut back substantially, says Darryl Hicks, associate director of the National Reverse Mortgage Lenders Association in Washington, D.C. That leaves the FHA as the biggest player on the block. It announced the new across-the-board national \$417,000 limit for its reverse, called Home Equity Conversion Mortgage, or HECM.

"It's going to allow those people who own higher-priced homes to access a lot more of the equity of their homes for whatever need they may have," notes Hicks.

A borrower's age and home equity determine the amount of money available to them. There are no income or credit score requirements, the older the borrower, and the more equity they have, the more money they can access. They can take it in monthly payments, in a lump sum or as a line of credit to be drawn on as needed.

Anderson ran hypothetical numbers for an owner whose home, worth \$400,000, is paid off. At age 62, \$228,581 would be available. By age 80, the amount would climb to \$290,186. The money is tax-free.

The typical borrower is in his or her 70s. Getting a reverse doesn't affect the borrower's ability to get Social Security or Medicare. A home needn't be paid off for its owner to get a HECM reverse. However the owner must pay off the outstanding mortgage balance as part of the process.

The FHA requires counseling for those considering a reverse so they clearly understand the pros and cons. There are a lot of misconceptions about reverse mortgages, which counseling clears up.

A common fallacy: Homeowners who get a reverse are signing their house over to the government or a loan company. That's incorrect; they still own it.

Another one: Owners will have monthly mortgage payments. That's not true, nor can the seller (or the seller's estate) ever owe more than the total loan amount (including interest, which can be either variable or fixed).

The loan, which requires all the normal closing costs plus mortgage insurance, can be expensive relative to the amount borrowers get, particularly if they're near the 62 age limit or they have little equity in their home.

And finally, a reverse may not be the best solution for everyone.

As for Marlene Laffoon, she doesn't have a pressing need for cash right now, so she's taking a line of credit.

"There's always the old washer and dryer," she said. "You don't know when they'll go."

Getting a reverse mortgage "was a win-win as far as I was concerned."