<u>Ea$y Money – Retirement: Reverse Mortgage</u>

What it is: Reverse mortgages or Home Equity Conversion Mortgages (HECM) are available to property owners 62 years of age and older and it can be useful way to capture equity on a property without an immediate sale of the property. Unlike traditional loans, your income and credit score don't matter. The lender pays you a monthly payment or lump sum or with a line of credit. The money is tax-free and can be used for any purpose.

How it works: Interest rates that lenders charge on reverse mortgages are adjustable and based on a US Treasury rate plus a lender margin. Interest accrues over the life of the loan. You do not have to repay anything until you move out or die, at which point the house is sold to pay off your debt. The amount of debt you owe, including interest, cannot exceed the market value of the home. If your home loses value, you or your heirs aren't responsible for any shortfall. You are required to maintain your home while you live in it and pay your property taxes, homeowner's insurance and utility bills. If you do not, the loan comes due immediately.

The amount you can borrow is calculated based on the value of the home, interest rate, age of the borrower and location. While the payouts you receive are tax-free, reverse mortgage income can make you ineligible for certain state and federal supplemental benefits, including Medicaid, though not Medicare.

Why it matters? Reverse mortgages are complex. Careful consideration and consultation with an advisor is critical. Federal law mandates that you attend a session with an independent financial counselor to ensure that you understand all the implications of what you're doing. As always with big decisions, compare offers including interest rates and check the lender's credentials with state regulators.

Because of the complicated nature of these mortgages, scams are becoming more common. If a broker or lender tries to get you to invest your reverse mortgage loan money in a costly financial products, such as deferred annuities or you are asked to sign paper work that is not completely filled out, be cautious.

Who should care? Reverse Mortgages are not for everyone. Spending money on the up-front fees usually makes sense only if you need the cash and you do not have another readily available source. The downside to reverse mortgages is that although you will have to pay an origination fee of not more than $6000, you will also have to pay an up-front insurance premium that could amount to thousands of dollars. In addition, closing costs on a $400,000 reverse mortgage typically are $2,000 or more. For these reasons, it's often a better deal to take out a traditional home-equity loan or a loan from a family member.

NOTE: This information is provided as an educational service and is not intended as, nor should it be considered legal advice but provides general information.

For more information:

- Iowa State University Extension and Outreach Money Blogs tips, http://blogs.extension.iastate.edu/moneytips/
- Iowa State University Extension and Outreach publication PM1825A, *Retirement Transitions: Strategies for Retirement Income -- Retirement: Secure Your Future*
- Iowa State University Extension and Outreach Human Sciences website at www.extension.iastate.edu/humansciences/
- Social Security, https://www.socialsecurity.gov/pubs/EN-05-10043.pdf