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Reverse mortgages growing in popularity

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More than a year ago, Dee Lewis was struggling to afford her escalating property taxes, plus pay the mortgage on the small Glenville farmhouse where she's lived since 1982.

Lewis, now 64, had been considering a reverse mortgage, which allows senior citizens to tap into the equity of their homes, providing them access to money without the burden of monthly payments. The loan is repaid when the borrower sells the house or dies.

Last April, Lewis took the plunge, becoming one of a growing number of people to take advantage of the government-backed program.

Last month nationwide, there were 9,830 reverse mortgages endorsed by the Federal Housing Administration, which insures most of the loans. That's up from 9,484 loans endorsed in July of last year, according to the U.S. Department of Housing and Urban Development. In March, there was a national monthly record of 11,261 FHA-endorsed reverse mortgages, a jump of 17 percent from the same month in 2008.

Lewis borrowed about $230,000, a portion of which went toward paying off her mortgage and car. If Lewis were to sell her house now, she estimates she would owe about $200,000.

"If I pay both my property tax and my mortgage, I would have a couple hundred a month to live on," said Lewis, who works as a cook at Greenwich High School. "I really felt I didn't have any other option."

D. Steve Boland, senior vice president and reverse mortgage executive for Bank of America, said lenders have recently seen an increase in popularity in reverse mortgages because people's retirement accounts are losing money and people want to maintain their standard of living.

Also, as part of the economic stimulus package, the lending limit for reverse mortgages was increased from $417,000 to $625,500 through the end of 2009.

"Before, it was considered a last resort," Boland said. "Now, it's part of retirement."

Sara Cornwall, a Southport-based reverse mortgage specialist with Wells Fargo, said some people are taking out reverse mortgages to wait out the sluggish real estate market.

In order to qualify for a reverse mortgage, a borrower must be 62 or older, the home must be the person's primary residence and they must own the property outright, or pay off the existing mortgage with the proceeds from the loan.

Borrowers have four options, used in any combination, when taking out a reverse mortgage: They can take the money in a lump sum; get fixed monthly amounts for a set period of time; receive funds in equal monthly allotments for as long as at least one homeowner lives in the house; or have access to a line of credit.

Senior advocates say some people shy away from the program because they want to leave their home to their children. Lewis, a divorced mother of two adult daughters, said her children were supportive. In fact, Lewis' younger daughter lost her job earlier

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this year and moved back home, which she couldn't have done if Lewis had downsized to a one-bedroom condo.

Lewis had considered selling the house, which was valued at $1 million.

"I wanted to be there for my children," Lewis said. "In hindsight, I did do the right thing. Given the economy right now, if I had waited and put my house on the market, it wouldn't have been a good time."

There are also high closing costs involved, which include title insurance, attorney fees and an appraisal. They vary according to the value of the home, and can range from $15,000 to $18,000. Lewis's loan included $17,000 in fees.

The Federal Housing Administration, which insures most reverse mortgages, mandates that interested seniors receive financial counseling from a HUD-approved agency before getting the loan.

Should someone owe more than value of home at end of the loan, the FHA insurance covers that gap.

Richard Fisher, an attorney who works in the elder law and estate planning field for Cacace, Tusch & Santagata in Stamford, said seniors should explore their alternatives, such as getting a home equity loan, which doesn't have the high fees of a reverse mortgage and generally has lower interest rates, or selling the house and moving to a smaller accommodation.

One concern is that some financial professionals have been aggressively marketing investments to seniors for their reverse mortgage proceeds, such as deferred annuities, that are inappropriate for many older people because they tie up retirement savings, but Fisher said none of his clients have run into that.

Christina Crain, director of programs for the Bridgeport-based Southwestern Connecticut Agency on Aging, has worked with seniors who have taken out reverse mortgages, and advises people to take a close look at their situation before going forward.

"I think people really need to do their homework, go and talk to multiple lending sources and do their own research," Crain said. "I think the important thing is people ask a lot of questions and know all the costs up front."

Reverse mortgages can be good for seniors who want to stay in their homes, and don't have family members to help financially support them, Crain said. But, they're not for everyone, such as seniors who want to leave their home -- without the burden of paying off the loan -- to their children or grandchildren. The loan also could affect a person's eligibility for need-based programs, such as Medicaid.

"It's really a personal decision," Crain said. "I think it is a good option for some people. I think people should at least explore it as an option because for some people it could be a way to remain in their homes and get the resources they need.