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Business

## Reverse mortgages offer benefits, at a price

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By Eric Tyson

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**Q:** As we enter retirement, I wonder if we should consider a reverse mortgage. We have home equity and enjoy our home, and we don't wish to move. But, we don't have a lot of investments to live on. What is your take on reverse mortgages?

**A:** Reverse mortgages — which enable you, through a loan, to receive tax-free income on your home's equity while still living in the home — fill a void and are just beginning to tap into growing demand.

The lender pays you — via lump sum, monthly payments or a credit line — and the accumulated loan balance and interest is paid off when your home is sold or you pass away.

With their high upfront costs, though, the effective interest rate on most reverse mortgages easily jumps into the double-digit realm if you stay only a few years into the loan. And reverse mortgages can be complicated to understand and compare.

Your effective interest rate varies greatly depending upon: how long you're in the home and using the loan, the timing and size of payments you receive and your home's value over time. One unknown that you can't control is if an extended nursing-home stay keeps you out of your home for 12 months and forces the sale of your home.

In such a situation, at least the proceeds from the sale could be used toward the nursing home.

To qualify for a reverse mortgage, all of the home's owners (co-op apartments generally aren't eligible) must be at least 62 years old and use the home as their principal residence. Any outstanding debts against the home must be extinguished.

Unlike a traditional mortgage, you need not have any income or even good credit to qualify for a reverse mortgage.

And, unlike a conventional mortgage, reverse mortgages are non-recourse loans — you can't lose your home for failing to make payments, since there are none.

Many retirees I speak with say that taking out a reverse mortgage was a good experience for them.

Part of the appeal of a reverse mortgage is the lack of attractiveness of alternatives if you'd like to stay in your home. With a home equity loan, the big challenge is the required payments. Home equity loans are recourse loans, and if you're unable to keep up with payments later in retirement, the lender can foreclose. Also know that any money used to generate investment income would be taxed.

Given the lack of risk-taking desires of most seniors with their investments, invested home-equity money would be unlikely to generate high-enough returns to cover the loan's interest costs.

In addition to using AARP's useful Web tools ([www.aarp.org/revmort](http://www.aarp.org/revmort)), take advantage of the increasing numbers of free, independent reverse-mortgage counselors around the country. Call 800-209-8085 and ask for counselors in your area.

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