Reverse Mortgages

By Wesley E. Wright and Molly Dear Abshire, as published in the Houston Chronicle Senior Living Section on January 1, 2003.

A topic of interest to many seniors in recent years is reverse mortgages. A reverse mortgage involves borrowing against the equity in your home. It differs from home equity lending, however, in that there is no obligation to repay the loan during your lifetime, as long as you remain in the home.

How does a reverse mortgage work? You convert part of your home equity (usually between 33 and 55 per cent) into cash or annuity payments. You must be at least age 62. If married, both spouses must apply. It is called a "reverse" mortgage because rather than you paying the lender, the lender pays you. But you do incur a debt, and because you make no monthly payments, that debt increases over time. Also, reverse mortgages sometimes involve large fees and charges that can add to the loan. You retain title to your home, but the lender places a lien on it. You only have to repay the loan when you die, sell the home, or move away for a year or more. After the loan is repaid, any remaining equity goes to you (the borrower) or your heirs.

Reverse mortgages may be appropriate for certain seniors who are house rich but cash poor, and who need additional money for living expenses, travel, home improvements or repairs, unexpected medical expenses, to pay off other debts, etc. You should know, however, that the lender may foreclose on your home if you fail to live up to your obligations as borrower. These include paying your property taxes and maintaining your home properly. While reverse mortgages have no effect on your social security or Medicare benefits, they may affect your eligibility for such means-tested public benefit programs as Supplemental Security Income (SSI and Medicaid, including Medicaid payments to a nursing home for your care.

Although there are some variations, reverse mortgages are essentially of two types: home equity conversion (AHEC) loans and reverse annuity mortgages (RAMs)

HEC loans turn equity into cash without having to leave your home or to make regular loan repayments. For SSI and Medicaid eligibility purposes, cash received from such a loan is not treated as income during the month it is received. Any unspent portion, however, becomes a countable asset as of the first moment of the next month. So, any HEC loan received today has no effect on your SSI or Medicaid eligibility for the current month. Although, if not spent before the first day of the next month, you may be disqualified.

In the case of a RAM, a portion of your home equity is used to purchase an annuity issued by a life insurance company with you as payee. In effect, you convert an asset (your home equity) into a stream of income. You then receive periodic (usually monthly) payments from the annuity. For SSI and Medicaid eligibility purposes, the periodic annuity payments are countable income when received and may disqualify you for these benefits. If you are on Medicaid in a nursing home, the annuity payments may require you to set up a Miller Trust, and they may increase your applied income (or co-payment) toward the cost of nursing home care.

Also, you should remember that if you and your spouse are in a nursing home for a year or more, the loan from a reverse mortgage may become due and payable.

Because reverse mortgages are complicated, you should do your homework before deciding that one is right for you. An elder law attorney can assist you in making this and similar decisions.