"REVERSE MORTGAGES MAY BE AN OPTION FOR SOME"

A reverse mortgage is a loan against your home that you do not have to pay back for as long as you live there. For many Americans, working toward owning their own home is the dream of a lifetime. Carefully consider all your options and make an informed decision should you decide to take out a reverse mortgage on your home.

To qualify for most loans, the lender checks your income to see how much you can afford to pay back each month. With a reverse mortgage, you do not have to make monthly payments so you don't need a minimum amount of income to qualify. You could have no income and still be able to get a reverse mortgage. The loan amount is determined by the value of your home and the equity you have in it. Other than equity in your home and a clear title, the only real qualification for a reverse mortgage is to be age 62 or older. There are three different reverse mortgage plans from which you may choose and each is different from the other.

A single-purpose reverse mortgage is usually offered by state and local government agencies and non-profit organizations. While these mortgages have low up-front costs they are not available in all areas and the money they provide may only be used for a specified purpose, such as home repairs, property taxes or medical expenses.

Home Equity Conversion Mortgages (HECM) are federally insured, any change in the valuation of your home at the end of the loan period that may leave you owing more money than the original amount will be covered by HUD.

A third type of reverse mortgage is know as a proprietary reverse mortgage. These mortgages are usually offered by private companies and may have higher total cost than the previous two. Since these loans are offered by private companies, terms may vary from one company to the next.

Single-purpose reverse mortgages are usually only available to individuals who meet certain income requirements. Proprietary reverse mortgages usually benefit those with higher value homes. Careful consideration and consultation with an independent credit counseling service may be necessary to make the decision that best suits your needs.

The cash you get from a reverse mortgages can be paid as a single lump sum of cash, a regular monthly cash advance, a line of credit account that lets you decide when and how much of your available cash is paid to you or a combination of these payment methods. No matter how this loan is paid out, you typically do not have to make monthly payments. The balance of the loan is due when you die, sell your home or permanently move out of your home. Depending on the terms of your loan agreement, your heirs may be responsible for this amount.

When a reverse mortgage becomes due and payable, you may owe a lot of money and your equity may be very small. Remember, a hallmark of the reverse mortgage is decreasing equity in your home and increasing debt to the lending institution. In fact, the debt owed to the lending institution will draw interest at a rate this is usually determined by a market average. If you have the loan for a long time, or if your home's value decreases, there may not be any equity left at the end of the loan. Reverse mortgages do not always have rising debt and falling equity. If a home's value grows rapidly, your equity could increase over time. Keep in mind that most home values do not grow at consistently high rates. So the majority of reverse mortgages end up being "rising debt, falling equity" loans.

HECM applicants are required to receive counseling from an independent counseling agency prior to initiating their mortgage. It may not be a bad idea that anyone considering a reverse mortgage, no matter if counseling is required or not, receive some sort of financial counseling. HUD maintains a list of HUD-approved counselors through their website. Go to http://www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm for more information.

If you are interested in a reverse mortgage, consider the following tips from the Federal Trade Commission:

- Shop around and compare your options
- Remember that all HECM lenders must follow rules set by HUD meaning tha all fees, interest rates and other terms of the loan will be the same
- Be certain that you understand all the terms and conditions that could make the loan due and payable
- Be cautious if anyone approaches you about a reverse mortgage
- Generally, you have three business days after signing the loan document to cancel if for any reason.

A reverse mortgage is not an arrangement into which you should enter lightly. Carefully consider other alternatives and see independent, outside counsel before you may any decision regarding your home or the equity you have amassed in it.

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