

Could a reverse mortgage help you?

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In this tough economy, more seniors, whose retirement funds have been sorely depleted by the downturn, are turning to the reverse mortgage, a special home loan that lets a homeowner convert the equity in his or her house into cash.

If you or an elderly parent are contemplating such a move, you have until Dec. 31, 2010, to take advantage of higher loan limits -- topping out at \$625,500. Unless Congress extends the legislation again, that limit reverts to \$417,000 on Jan. 1, 2011.

Reverse mortgages enable homeowners age 62 and older to get money from their home equity in three ways -- as a lump-sum payment, as a monthly payment over time and/or as a flexible line of credit used when needed. Those with steep medical bills or who find it increasingly difficult to live on a fixed income may want to tap into that money source. Once the loan is in place, borrowers don't have to make any more mortgage payments, and the loan's balance doesn't become due until they sell the house, move or die. New legislation also lets seniors use reverse mortgages to buy a new home, such as in a retirement community.

However, you must proceed cautiously, because reverse mortgages are governed by complicated rules and involve higher fees and interest rates than traditional mortgages. Some unsuspecting homeowners have found themselves in financial hot water as a result of not understanding the fine print. Because these loans target vulnerable seniors, some lawmakers and consumer groups are pushing for added protection to prevent potential abuse and fraud from lenders.

So before making any moves, talk to a trusted financial adviser (find one through napfa.org or fpanet.org). Or find a housing-mortgage counselor who specializes in working with older Americans to walk you through all of your options (go online and search for the National HECM Counseling Network).