



Reverse Your Thinking: Is a Reverse Mortgage Right for You?

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When I sit down with a client who is preparing for retirement, one of the first things I ask is whether they own their home free and clear.

After all, this is what most people sweat and toil for, that day when they can write the check for their last mortgage payment. It is the one rock-solid thing they can count on in this topsy-turvy economy: no matter how bad things get, they will always have their home. So why in the world would anyone recommend taking on a new mortgage when you worked so hard and waited so patiently to pay off the first one? I'll tell you why.

Used properly, reverse mortgages may be a valuable retirement planning tool, adding a significant income stream from most clients' biggest asset: their home. A reverse mortgage allows homeowners to borrow against their equity, while still maintaining home ownership. The best part about a reverse mortgage is that unlike conventional mortgages, there are no payments involved. Instead, the lender makes payments to the borrower either through a lump sum, monthly payments, or a line of credit. The borrower must either own the home outright or use the proceeds from the reverse to pay off any existing liens against the property.

The reverse is repaid when the borrower dies, permanently moves from the residence, or the property is sold. It is exactly as it sounds, a mortgage in reverse. Instead of you paying the bank monthly and the equity growing, the bank pays you monthly, and the equity will most likely shrink, depending on the value of your house. It is also important to remember that you must be 62 in order to qualify.

Like all financial products sold today, a reverse mortgage may or may not be right for you. Let's take a look at reverse mortgages from an objective standpoint. The good, the bad, and the often-ignored side of reverse mortgages.

How Can a Reverse Mortgage Benefit Me?

A reverse mortgage can be a powerful source of funding for individuals who need additional funds in retirement to be comfortable. The largest personal asset most retirees possess is their home. In more than 70% of cases, this home is paid off. Using a reverse can provide the best of both worlds to retirees looking for additional funds. It increases income without increasing monthly payments and allows you to stay in your home.

The reverse mortgage amount is based on several things, most importantly, the value of your house, your age, and interest rates. The higher the value of the house, the more funds you're eligible for. Age is also an important factor. The older you are, the more you're eligible for. Finally, the lower the interest rates are at the time, the more funds you are eligible for.

A Look at the Negative

Now that we've discussed the benefits of the reverse mortgage, let's analyze some of the pitfalls.

The first concern I have in recommending these products is the cost. All mortgages have costs, but reverse mortgage fees, which can include the interest rate, loan origination fee, mortgage insurance fee, appraisal fee, title insurance fees, and various other closing costs, seem extremely high. Costs may vary, but I've heard of fees totaling as high as \$15,000. The total is reduced from the payment you

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receive, but that doesn't make it better. It is still your money you are spending. My hope is that as new dealers enter the business, competition alone will bring costs down over time. Only time will tell.

Another situation to be aware of is the requirement to pay back the loan if you should permanently move out of the house. This may not sound like a problem now, but if you ever need to enter a full-time care facility, the loan would become due. Many people hope to pass their home on to their children. This could become impossible if the reverse mortgage comes due and you don't have the money without selling the house.

The final downside to the reverse mortgage affects your heirs. The reverse will almost always decrease the equity in your home, which will be left to your children. This poses a problem for some people who are adamant about leaving their heirs a significant inheritance. I always try to respect my clients wishes, but in some cases, it's best to leave less to your heirs to ensure your comfort and well-being in the here and now.

Myth versus Truth

Now that we've talked about some of the pros and cons, let's dispel some of the misconceptions that many people have about a reverse mortgage.

Misconception No. 1: The lender takes title to the home.

The truth: You still retain ownership of your home. The reverse mortgage is only a lien against the property.

Misconception No. 2: The loan can exceed the value of the property, sticking you or your heirs with a large bill when you eventually leave your home.

The truth: A reverse mortgage is a "non-recourse" loan, which means that you, your heirs, or your estate will

never owe more than the appraised value of the home at loan maturity.

Misconception No. 3: You can't get a reverse mortgage if you currently have a conventional mortgage.

The truth: Although this is true, you can get a reverse if you use the proceeds to pay off your existing mortgage at close.

Misconception No. 4: A reverse mortgage can cause you to be evicted from your home.

The truth: You leave your home when you choose. No one will force you from your home. The reverse mortgage is not due until your home is no longer your primary residence.

Planning if and when to use a reverse mortgage in your retirement takes some serious evaluation. I like to leave it as a last resort for my clients because when living off your assets, you can do all the projections in the world, but the future is still unpredictable. If a seemingly secure portfolio does go bust, a reverse mortgage is a good backup to keep you solvent. Putting off the reverse mortgage until then, gives the house the benefit of more appreciation, increasing the equity you can tap into.

So, that is it in a nutshell. This is one product retirees should not be afraid of, but should also be educated about. It is probably the one topic I get questions on more than anything else. People are intrigued, but afraid, and with good reason. This product could be the best solution for those in the right circumstance. For others, it might just be an expensive way to increase your standard of living. Do some research, talk to the right people, and ultimately the decision to go forward with a reverse mortgage will be yours.

Ryan Zacharczyk is President of Zynergy Financial Planning, LLC, a financial planning firm specializing in working with mature adults 50 years old and above. Zynergy provides comprehensive financial planning services for individuals 50 and older, helping them achieve their objectives in estate planning, investment management, tax minimization, and insurance planning.