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Reverse mortgages: Deal or no deal?



Television game show host and comedian Howie Mandel asks contestants, “Deal or no deal?” Consider the hypothetical situation of a woman in Arizona who, after she had already made a decision to get a reverse mortgage, wondered if she had made such a good deal.

Assume she has about \$300,000 in assets, does not live off the income and would not assume any significant tax liability if she wanted to liquidate. She’s in her early 80s, excellent health, travels, lives a nice lifestyle, and has no debt.

So what’s the problem?

She needed less than \$100,000 for various purposes and decided to take a reverse mortgage loan for \$171,500, more than what she needed. A reverse mortgage lets you borrow money against the equity in your home. You don’t have payments, but interest accrues.

In addition, reverse mortgages have associated fees and charges that can be fairly steep. In her situation, the fees exceeded \$14,000, netting her a check for \$157,000.

The loan does not require repayment as long as she lives in the house. However, when adjustable rates climb, the interest eats away at the equity in the home.

Exactly one year has passed since she took the reverse mortgage. Every month, the rate climbs and she loses more sleep. Her options are to pay off the mortgage, which is now more than \$180,000, or dread opening her statement every month.

Today, many retirees have insufficient cash flow to meet their high monthly expenses, such as property taxes, and they fear losing their family home. The available options to them include selling their home, taking home equity loans, withdrawing from assets if available, transferring their home to children, and obtaining reverse mortgages. Many of these strategies can appear overwhelming and may not meet the retiree’s goals.

Reverse mortgages are growing in popularity, and under the proper circumstances can provide cash flow. However, the majority of people should not look at this instrument as part of their retirement plan. Anyone who is considering this type of mortgage should do a great deal of research and seek independent advice from someone who is not compensated by this arrangement. The fees should surprise no one if they’ve first consulted with a competent adviser.

If you are in your 60s and considering a reverse mortgage, think again. You don't know what your 70s, 80s, or, if you live long enough, 90s will bring. If you want to get out and pay it back, the process gets complicated.

"Tread lightly, make it a quality of life decision," said Dee Lee, author of several books on retirement planning. "This does not mean that at age 65 you say, 'Wow, we didn't save anything and have not traveled. Let's go for it.' This is not a reason to take the reverse mortgage."

The bottom line is that you need to understand the full ramifications. Most people don't. And that applies to any mortgage you take.

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