Reverse mortgages might be an option for you, but please pay close attention to details

Q: I'm 75 years old and I don't want to move out of my affordable little debt-free house. Because I don't qualify for insurance that will cover my long term care, my son suggested that I apply for a reverse mortgage.

A: Since you're over the age of 62, you may qualify for a home equity conversion mortgage loan (HECM).

The HECM loan can be paid to the homeowner in a lump sum, regular monthly payments for a fixed number of years, monthly payments for a lifetime, or a line of credit that may be tapped.

This is such a huge decision that borrowers are required to meet with a reverse mortgage counselor, independent from the lender, to discuss alternative options. Take your son with you to the counseling session because this is an irrevocable decision that will affect his inheritance. Only after the applicant receives the certificate will the lender process the loan.

The borrower isn't required to make payments toward the loan balance because the loan isn't due until the house is sold or vacated. Borrowed money is not considered income and is not taxable to the borrower. This loan won't affect Social Security or Medicare benefits.

The amount available to the borrower depends on (1) the homeowner's age at the time of the loan closing, (2) the amount of equity in the home as determined by an appraisal, and (3) the payment option selected.

Costs have come down since reverse mortgages were first introduced, but they're still high. There are origination fees, upfront mortgage insurance, appraisal fees and other closing costs. Interest rates are generally higher than traditional mortgage rates.

The process takes about a month and the appraisal and inspection determine the loan amount available. Closing costs can be financed along with the upfront FHA mortgage insurance premium. FHA guarantees that the lender will be repaid even if the borrower outlives the value of the home. It also protects the borrower from ever owing more than the sale price of the home.

Reverse mortgage homeowners are required to keep the property in good condition, carry homeowner's insurance and pay the property taxes on time. The homeowner retains the title and the ownership until he or she permanently moves out of the house or dies.

A reverse mortgage can be used for long term care expenses, but these mortgages are still expensive. Consider all the options before signing on the dotted line.

.

Mary Baldwin, CFP® is an independent, fee-only financial planner at Baldwin and Associates, located in Indian Harbour Beach, FL. You can contact her at 321-428-4555 or Mary@MEBaldwin.com. Send your financial questions to Business@floridatoday.com.