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REAL ESTATE

Retiring on the House

Reverse Mortgages for Baby Boomers

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Mortgages

By LISA PREVOST

As baby boomers age, reverse mortgages are expected to gain popularity as a means of covering living expenses. Hence, in the future, more homes passed on to children will come with a bill attached — the balance due on these equity loans.

Federally insured reverse mortgages, officially issued as part of the Home Equity Conversion Mortgage program, are a way for homeowners 62 and older to borrow money using their home equity as collateral. The proceeds must first be used to pay off any remaining balance on the mortgage, which frees homeowners from monthly payments. Interest and monthly insurance premiums are charged throughout the life of the loan, and the total becomes due when the borrower dies (or permanently moves out of the home).

A common misconception about reverse mortgages is that the lender takes an equity share in the house, said Vivian Dye, a reverse-mortgage consultant at Atlantic Residential Mortgage in Westport, Conn. “It’s a relationship between the bank and the borrower,” she said, “and it’s the same kind of relationship as a regular loan.”

As the first lien holder on the property title, however, the lender must be repaid when the property changes hands. How the heirs handle repayment depends on how much equity is left in the home and whether they want to keep it.

Under federal regulations, after the last borrower named on the loan has died, the lender must provide up to 30 days for the heirs to decide on a repayment method. Heirs then have up to six months to sell or arrange financing, said Colin Cushman, the chief executive of Generation Mortgage, a reverse-mortgage originator and servicer based in Atlanta. But, he noted, as many as two 90-day extensions are allowed if the heirs can show they are actively trying to sell the property.

Should they wish to retain ownership, the heirs might choose to get a separate mortgage to refinance the home and pay off the reverse mortgage. Or, if there is enough equity in the home, they might choose to sell it and use the proceeds to pay off the loan.

The heirs will not be on the hook for any shortfall should the home fail to sell for enough to pay the loan in full. If the loan balance exceeds the value of the home, the amount owed is limited to 95 percent of the appraised value.

Mr. Cushman offered an example: On a home with an appraised value of $100,000, and a reverse mortgage balance of $120,000, the amount owed the lender would be $95,000. (No short sale would be approved for less than that amount.) Government-backed insurance on the loan would cover the $25,000 gap.

In such “underwater” situations, the heirs may instead choose a deed in lieu of foreclosure, in which they simply deed the property over to the lender.

Heirs should be aware that the ability to draw on the reverse mortgage ceases once the borrower dies. For that reason, Ms. Dye recommends that the family consider whether enough money has been set aside for things like funeral expenses while funds are still accessible — that is, if the family discusses finances at all.

“Some people don’t even know their parents had a reverse mortgage,” said Vincent Liberti, an estate planning and elder law lawyer in Hartford.

He frequently sees financially precarious people who haven’t planned for retirement take on a reverse mortgage as a last resort, as well as those who go through the funds too quickly. It’s one of the last “tools” he recommends using.

But Mr. Cushman says his firm is trying to change such negative perceptions, most recently with an app planning tool, “nu62,” that shows how to use home equity strategically to meet long-term financial goals.

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