

Reverse mortgage – comments from member

Dear Sir

Is Reverse mortgage all that good for seniors?

I have been reading with interest the articles in your website on reverse mortgage and how they are good for senior citizens. I would like to put in a word of caution based on the experience in USA.

Reverse mortgage, though in its initial stages in India, has been operational in USA for a few years. The experience of consumers in USA is mixed and a number of scams are reported in USA. We think that it is advisable to study the problems in USA to know what can go wrong.

The rules governing reverse mortgage are different between USA and India but essentially this is set up in both places to assist seniors. Reverse mortgages can be valuable as a last resort for seniors who want to stay in their homes which have significant equity but they need money to supplement income or banish their existing debts with high interest rates. With a reverse mortgage, they can trade some of that equity for a lump sum amount and/or monthly payouts.

In USA, only seniors above 62 are eligible for the loan. They should own the house outright and should stay in the house for the remainder of their life. They should pay the taxes/insurance and keep the house in good condition. On their death, their heirs get the option to pay off the loan and take possession of the house or the lender sells the house and returns the balance between the sale price and the total out standings to the heirs.

All fine so far. There are some fundamental assumptions here. One assumption is that the property values will continuously rise in order to get any balance. In USA, the lender insures against the risks with the federal government and these insurance premiums are treated as expenses and charged to the borrower. The monthly payments are for a fixed number of years only and if one lives beyond that period, then he/she does not get any further payments for the rest of their lives. The seniors do not fully understand how quickly the high fees and interest charges can balloon; especially after the pay-outs cease. Their equity or the residual value of their home after expenses keep reducing with increased pace.

If reverse mortgage is availed of indiscriminately, then there is a real risk of being stranded in their homes, with all their equity eroded totally.

And then there are the predators who play on the fears of the unsuspecting seniors. They entice the seniors into investing the proceeds into various “get-rich-quick” schemes; they are tempted to use the money into pampering themselves on expensive vacations – ““you can afford special things you've always wanted to do, such as travel or hobbies. You deserve it! “.

In USA, the reverse mortgage scheme was advertised widely and sold aggressively. The sales pitches emphasized the positives and played down the high costs of the loans including the fees and acquisition costs. The lawmakers are trying to take some action.

Unsuspecting borrowers have become cash cows for lenders and others who encourage them to use their mortgage proceeds to buy financial products such as deferred annuities that can be inappropriate for their situation. And the required counseling for the mortgages can be far too skimpy.

This is definitely not to say that there is no merit in the scheme. This is really a good source of financing to seniors who own significant property value but who do not have any other income. They have the option of selling their property and live on the proceeds, with the additional expense of moving out of their current abode. The reverse mortgage option, exercised judiciously is a better option and has the benefit of allowing you to live in the same house

Here are some common sense precautions.

1. Consider all the alternatives before using this option. The options may be government assistance, drawing money from other assets before touching your home equity.
2. Keep in mind the fact that the monthly payments cease after 15 years. What will be the income after that? Remember that you still have the obligation to keep paying the taxes and insurance and keep the home in good repair. It is unlikely that the property value will appreciate more than the interest and other expenses after 15 years, to leave much of a residue. Especially if floating interest rates are used.
3. Do not be influenced by emotion and slick sales talk, particularly to divert the funds secured from reverse mortgage.

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Please feel free to submit your comments to editor1.cai@gmail.com and we will publish the same in the web.

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