Welcome to the beginning of your new, financially independent life. Simply by picking up this book, you’ve taken a proactive step to ensure a safe, stress-free retirement by using the equity in your home today. Congratulations! You’ve probably heard a lot about reverse mortgages lately, as they’re quickly becoming a popular, safe, simple way to supplement seniors’ retirement income. In this chapter, you can see the basics of modern reverse mortgages and get a feel for whether these loans are right for you or someone you love. By the end of this chapter, you should be able to explain the rudiments of reverse mortgages to anyone like a pro.

Understanding Reverse Mortgages

People tend to shy away from the very idea of reverse mortgages, in part because of their former bad rap, and in part because of all the scary terminology. If you’re one of millions of people who are unfamiliar with real estate terms, when someone starts spouting off about how you can “utilize the equity in your home on deferred payments with a conversion mortgage,” chances are pretty good you’re going to tune it out. In fact, that’s why we wrote this book: to give seniors and their families facts and tips about reverse mortgages in language that’s as approachable as a big-eyed puppy (unless you’re a cat person, then just think of it as a little fluffy kitten). We want you to fully understand the benefits and disadvantages of
getting a reverse mortgage. We want you to walk into that loan originator’s office knowing exactly what you want. And most importantly, we want you to feel good about whatever decision you make for your financial future.

**Checking out how it works**

Reverse mortgages pay you to continue living in your home. You can think of your home as the Bank of You: You’re borrowing money that you would have earned had you sold your house. You can then use the money for whatever you want. Anything your heart desires (and your wallet can handle) is yours for the taking, whether it’s a vacation in Switzerland, moving your master bedroom to the first floor, or sending yourself to college!

The concept is kind of abstract if you’ve been paying a lender for the past 30 years or so, and it may be difficult to grasp at first. Take a look at the quick reference points below. Once you get the gist of it, you can educate your friends and family about reverse mortgages. Next time you’re at a cocktail party, holiday dinner, social lunch, or any time reverse mortgages come up in conversation, you can dazzle everyone with your knowledge.

Here’s a quick rundown:

- You’re a homeowner who owes little or nothing on your home. You decide you need more money to live the lifestyle you want, but your biggest asset is your home and you certainly don’t want to sell it to get the money you need.

- A reverse mortgage lender figures out how much it can lend you based on your home value, your age, and interest rates, and loans you some percentage of the money you would have gotten if you’d decided to sell your home.

- You still own your home and continue to live in it, but now you’re getting payments from the lender, so your cash flow problem is solved.

- You pay the loan back (with interest) only when you don’t live in the house full time anymore, usually due to moving out or death.

- You never owe more than your home is worth, no matter how much you’ve accumulated in debt.

- You keep any leftover equity after the sale of the house; if you owe the lender $67,000 and your home sells for $200,000, you put the difference in your pocket and walk away smiling.
A reverse mortgage is sometimes called a deferred payment loan, and for a very good reason. Instead of paying off the home loan as you borrow money, the payments are put off (deferred). This is why reverse mortgages can be such a good choice for seniors; when you’re on a fixed income or living off of your savings, it can help to have some extra cash in hand to supplement. Because payment is deferred, you are spending the equity in your home, rather than earning it (as you would with a traditional forward mortgage). Since equity is an intangible value, you never feel the effects of the equity going down, but you sure feel the money flowing steadily into your checking account!

**Being over the hill pays off**

There is a lot of ageism in society today, especially from employers and retailers. Even Hollywood starlets have a hard time finding work at a certain age. After a while you may start to think that the only advantage to old age is the 10-percent-off discount on Tuesdays at the local Bar & Grille. But reverse mortgages operate for seniors and seniors only — whippersnappers need not apply. If you are a homeowner age 62 or older, you will probably qualify for a reverse mortgage. There are no credit checks, and no income requirements.

Even better, the older you are, the more money you can usually get from your reverse mortgage. That’s because the reverse mortgage lenders (big companies like the department of Housing and Urban Development, Fannie Mae, and Financial Freedom) are playing the odds. If you’re 86, chances are good that they won’t have to service your loan for very long — you may need to move to assisted living or pass away within only a few years, thus ending the loan. A 62-year-old, by contrast, probably has about 20 good years before the lender even needs to think about ending the loan. When has your age ever worked to your advantage like this?

**Getting rid of common misconceptions**

Seniors often tell us that they were considering a reverse mortgage until a friend or relative said something like, “Reverse mortgage?! Don’t you dare! They’ll take your house! Stay away!” We’d like to say that these fears are completely unfounded; unfortunately, they stem from a very old version of reverse mortgages (which are no longer done) that, in hindsight, weren’t such a hot idea. Today’s reverse mortgages are safe, effective, and definitely in the best interest of the borrower. It’s a whole new generation of loans.
Although they were revamped and vastly improved in the past 20 or so years, people still tend to think of them as a poor choice for seniors. We’re here to fix that. Take a look at the misconceptions below, and the truths that follow:

- **The lender gets your house.** This is by far the most widely misunderstood fallacies about reverse mortgages. In fact, you keep ownership of your home. The lender has no rights to your home and can’t foreclose on you as long as you keep up with your taxes and insurance. Part of the confusion about this area stems from the fact that many reverse mortgage borrowers choose to sell their homes to pay off the loan when they move. And it makes perfect sense — what do you need with that house if you’re not living there? But remember, you’re selling to another regular buyer, not the lender.

- **You’ll have no estate left.** This one is sort of up to you. If you own anything when you die, you’ll have an estate left. If you spent all your money on pinball machines and then donated everything else to charity, you won’t. Many seniors are concerned that a reverse mortgage keeps them from leaving anything to their children. The fact is, the way you pay off your loan is up to you and your heirs. Chapters 7 and 13 go into detail about this and show you several options for fulfilling your repayment obligations. It’s also up to you to decide who you want to leave your estate to. Unless you form an emotional bond with your lender and leave your estate to them, your family or whomever you name in your will is the inheritor of your estate. Of course, they need to pay back the loan, but it’s up to them how they carry out that responsibility.

- **You won’t qualify because of poor credit.** If you have bad credit, or even moderate credit, you may have been turned down for a loan in the past. It’s embarrassing, frustrating, and inconvenient. Reverse mortgages work differently: You can never be denied a loan because of bad credit — it’s not even a consideration in your approval. The originator or lender runs a credit report, but it’s only to make sure you don’t owe the government any money (usually in back taxes). If you do, you have to use a portion of your reverse mortgage money to pay back those debts before you can start spending on yourself.

- **You have to be debt free.** While you are required to own a home in order to get a reverse mortgage, you do not have to own it “free and clear.” One of the benefits of a reverse mortgage is that it can help pay off your remaining forward mortgage, leaving you without house payments for what may be the first time in your adult life. Here’s how it works: The lender determines how much it can let you borrow and then deducts the amount you still owe from your available funds.
That money pays off the first loan, and then you’re free to do what you wish with the rest of the money.

✓ **Only desperate people get reverse mortgages.** At one time, this may have been true. However, today’s reverse mortgage borrower is more likely to get a loan out of want, rather than need. In fact, a growing number of people who have no immediate need are taking out these loans because they like the security of having a financial cushion, or are planning for future expenses. Take a look around and ask yourself if you could use several thousand dollars. Who doesn’t? Don’t let an antiquated stigma keep you from getting the money you want or need.

**Knowing what it isn’t**

A reverse mortgage can be a lot of things: a way to make ends meet, a nice chunk of change for a rainy day, a fabulous dream vacation, or a remodeled kitchen. But there’s one thing it’s definitely not — free money. There’s no free lunch here. While reverse mortgages offer many wonderful benefits, your loan will need to be paid back, just like any other loan (whether it’s due when you move or upon your death).

There are fees involved that are explained in more detail in Part II, but they can include payments to the originator, the appraiser, postage fees, flood certificate fees, recording fees . . . the list goes on and on. Of course, these are the same sort of fees you paid for the mortgage that bought you the home you live in now. You also have to pay interest on your loan, which is generally right around the interest rates on traditional mortgages. You only pay interest on what you borrow, so any money that you don’t use from your pool of reverse mortgage funds isn’t charged. People still get the idea, however, that lenders simply hand you checks every month out of the goodness of their hearts. Now, they’re not bad people, but they certainly aren’t looking to give away billions of dollars per year in reverse mortgages.

Because it’s not a cheap loan, a reverse mortgage is also not the best way to pay off a small debt. Would you really want to spend several thousand dollars in fees and closing costs just to pay back a $900 credit card debt? You know that wouldn’t make sense. But what if you owed the IRS $12,000 in back taxes? In most cases, a reverse mortgage is still too costly for this kind of debt. Okay, that’s easy for us to say, and if it looks like the best option then by all means take the first step and call a reverse mortgage counselor (see Chapter 8 for more). If you’re in a similar situation, you may also contact a financial planner who specializes in seniors’ money.
In fact, you can probably ask a reverse mortgage originator to refer you to someone good. They love to hand out referrals.

A reverse mortgage is also not a direct value-to-dollar loan. In other words, they aren’t going to lend you the actual value of your home; what they lend is a percentage of that value, based on age, interest rates, and area. For example, a 66-year-old in a high-end county with a $500,000 home may expect to receive around $163,000 with a Home Equity Conversion Mortgage (depending on interest rates). Don’t expect the full value of your home, or you’ll be very disappointed. Before you make plans to spend money you don’t yet have, go online to www.reversemortgage.org and click on the reverse mortgage calculator. This very cool tool gives you an estimate of what you may be able to borrow. Remember, you’re not selling your home for the amount you’re lent — you are simply borrowing equity that you already own.

Lastly, a reverse mortgage is not a panacea, or some kind of all-encompassing loan that’s right for everyone. Just because you qualify by being a 62-year-old homeowner doesn’t mean you’re an ideal candidate. The next chapter lays out some questions you can ask yourself to find out whether or not a reverse mortgage is right for you, but here are a few of the basics:

- Are you at least 62 and own your own home?
- Do you plan to be in your home for at least 5 years?
- If you’re getting the loan to purchase or pay off something specific, have you looked into other options for financing those expenses?
- Are you comfortable with the terms of the loan?

The more of these questions you can answer “yes” to, the more ready you are for a reverse mortgage. When you feel you meet all of these suggested criteria, you’re ready to seek out a reverse mortgage counselor (see Chapter 8).

**Choosing a Loan Product**

There are two ways to pick a reverse mortgage loan product:

- Throw darts at a list of mortgage products and see which one fate chooses for you.
- Talk to your counselor and originator and let them lay out your options for you in an easy-to-understand, straightforward manner.
We suggest the last one. Besides, you could put an eye out with those darts.

Part of the reverse mortgage process involves using your best judgment and the tools at your disposal (the plethora of information your counselor and originator give you) to make an informed and wise decision. No pressure, right? Actually, it can be a pretty easy choice to make once you see what each loan product has to offer and how each fits into with your goals and financial plans. Keep in mind that all loans have the same basic requirements, but they each have their little idiosyncrasies that may make one a clear choice for you.

**Home Equity Conversion Mortgage**

By far the most prevalent of the three main options, the Home Equity Conversion Mortgage (HECM, sometimes pronounced heck-um; look in Chapter 5 for more details) provides the most payment choices, low interest rates, and the added mental security of being insured by the Department of Housing and Urban Development (HUD), a government organization. Take a look at some of the main points of an HECM loan:

- The loan is calculated based on the age of the youngest qualified borrower.
- Eligible homes include most single-family, condos, townhouses, and manufactured homes built after 1976 (ask your originator about HUD guidelines and requirements for manufactured homes).
- Lending limits (the amount you can borrow, also called the principal) are lower than other options, yet you can often get a higher principal than you would with others because of lower interest rates.
- Loans top out at $312,896 in high-home-value areas, $172,632 in lower-home-value areas (based on 2005 county lending limits).
- Interest rates can be based on monthly interest adjustments or annual adjustments (you won’t pay anything until the loan is due, it just accumulates).
- Your money is easily accessible and payment options are very flexible.

Do these benefits sound like a good fit for you? If so, what the heck-um are you waiting for? Flip to Chapter 8 and make an appointment with a reverse mortgage counselor today.
Home Keeper

There are two loans created by Fannie Mae, America’s largest loan funder, but they both have the same basic foundation. Since the Home Keeper and the Home Keeper for Purchase were modeled after the HECM, you may see lots of similarities when you look closer in Chapter 6. There are, however, some quirks that separate these loans from the pack:

- Home Keeper for Purchase lets you use a reverse mortgage to help buy a new home.
- Loan calculations are based on the combined ages of the qualifying borrowers, so married couples get less than singles.
- Eligible homes are single-family homes, condos, homes in planned unit development projects, townhouses, or manufactured homes that meet Fannie Mae requirements.
- Lending limits are based on an adjusted property value, which is a national lending limit rather than a county limit.
- The national lending limit is $359,650 (based on 2005 lending limits).
- Home Keeper often costs less than HECM but you’ll probably receive less money in the long run.

Although Fannie Mae’s Home Keeper loans may not bring you as much income as an HECM, their benefits (such as the ability to buy a new house with the reverse mortgage money) may make these the loans for you.

Jumbo Cash Accounts

For the house-rich among you, the Financial Freedom Cash Account is probably your best bet. Although it doesn’t offer the flexibility of the other two major loans, Financial Freedom’s reverse mortgage provides bundles of cash that HECM and Home Keeper only dream of. Chapter 7 goes into detail about the loan, but here are some of its general characteristics:

- There’s no maximum lending limit; in theory, you could get a cash account reverse mortgage on a $20 million mansion and expect to receive a pretty hefty amount.
- Designed for homes valued at $359,651 or above (but is best when your home is worth at least $700,000).
- Almost all homes will qualify, including some co-ops.
Interest rates and fees are usually higher than other loans.

There are three types of Cash Accounts — each with different costs involved — that may generate different available funds for you.

If reverse mortgages aren’t for everyone, then the Cash Account is for even fewer — rates and fees are higher, and there are some restrictions to the ways you can withdraw your money. However, if you own a high-priced home the tradeoff is probably worth it. Consult your counselor and financial planner about your Cash Account choices.

**Figuring Out the People in Your Mortgage**

Unlike most loans in today’s Internet-crazy world, you can’t simply go online and get a reverse mortgage from a pool of competing lenders. Reverse mortgages are a highly personal, interactive loan, and there are several people who make them happen and help you out along the way. Work closely with these people and let yourself be helped. You know what’s best for you, but they know reverse mortgages. Together, you’re an unstoppable equity-borrowing machine.

**Counselor**

Your first stop on the road to reverse mortgages is the counselor. They’re not here to analyze your childhood or interpret your dreams; instead, these counselors offer up sound advice and the information necessary for you to make an informed decision about your own loan. They are required to remain completely unbiased and can only give you the facts — they never tell you what to choose or take away your power to make the best choice for you. It sounds great now, but come choosing time, you may probably wish someone would just tell you what to do!

Even the most independent homeowners are required to seek the advice and educational offerings of an approved counselor. Typically, an “approved” counselor refers to HUD-approved, but Fannie Mae and Financial Freedom each have their own set of preferred counselors. Unless you know for a fact that you need the Home Keeper or Cash Account loan, it’s usually best to see a HUD counselor. These professionals are acceptable for any of the major loans discussed in this book, and if you decide to get an HECM
(even after you’ve been to a Fannie Mae or Financial Freedom counselor) you still need to make an appointment with a HUD counselor as well. You can save time and energy by going to a HUD-approved counselor from the get-go.

Many counselors (especially HUD) operate free of charge, although some have a nominal fee for their services (usually around $75). Unless you live in an area where the only counselor for 50 miles charges a fee, try to use one who’s free. The ones who charge offer the same exact information, so if you have a choice, go with the free ride.

During your counseling session, the counselor asks you all sorts of personal questions about your finances, your health, your family, your home, and your lifestyle. Don’t keep anything from them or stretch the truth even a little bit. Counselors only have about an hour with you and need all the information they can get in that time to show you the options that may work best for you. It can be a bit off-putting to spill the beans to a stranger, but it’s necessary to make a smart decision regarding your loan. You can rest assured that counselor sessions are completely confidential — only you and your counselor have access to the information you provide, unless, of course, you bring someone with you to the meeting.

It’s a good idea to bring along any trusted family members or friends who may be able to help you get a better perspective, supply information, ask questions you hadn’t even thought of, or just lend you some moral support. Counselors encourage families to come together, and you may probably find that you’re glad to have someone else there. This isn’t a requirement by any means, but consider it when you make your appointment. For more on counselors, how to find them, and what to expect at an appointment, flip ahead to Chapter 8.

**Originator**

Your originator is the person who sets your loan in motion. The originator meets with you to determine whether the loan you’ve decided on is really the best for your unique circumstances, helps you fill out the application, and submits it to the underwriters (who verify your information) and the lender (who actually signs your checks). You’ll probably have at least two meetings with the originator: one to fill out the application and another to finalize details at closing. However, most people end up at their originator’s office three, four, or more times over the course of their loan process. You may not choose a loan to apply to right away, have questions regarding your loan in progress, need to bring in
additional information, or a whole host of other reasons to visit. That’s why you and your originator become such close friends before your loan is completed.

Time is money, and although originators don’t charge by the hour, there are fees involved for originators’ services. Many of the fees you see on the Good Faith Estimate originators are required to provide are additional closing costs unrelated to the originator’s efforts. A Good Faith Estimate lists all of the approximate costs involved in getting your loan, from appraisal services to stamps. All told, these fees can add up to several thousand dollars. That’s a whole lotta cash to plunk down all at once, and the originators and lenders realize that it may present a burden. After all, if you had a few thousand dollars to spend, you may not need this loan. Because of this, you can roll the amount of most, if not all of your fees and closing costs into your loan. That way, the costs are absorbed into the reverse mortgage and become spread out over several years.

Finding a reverse mortgage originator is easy once you know where to look. Chapter 9 gives you all the tools you need to find a great originator, but keep these points in mind when you’re narrowing down the search:

- **Originators should be experienced in reverse mortgages.** Do not pick a traditional loan originator, because they probably don’t have the expertise that a reverse mortgage originator has.

- **While it’s not a requirement, you may feel better if your originator is a member of the National Reverse Mortgage Lenders Association (NRMLA).** They have access to all kinds of resources and materials that others may not.

- **Your originator should be patient, never pressure you, and encourage your family to attend your meetings (if you feel comfortable having them there).**

- **Most of all, you have to feel comfortable with your originator.** If he or she doesn’t feel like someone you’d trust with your future financial well being, trust your instincts. You won’t hurt his or her feelings.

**Appraiser**

Unlike the counselor and originator (who hold meetings at their office), the appraiser comes to you. No matter which reverse mortgage product you decide on, an appraiser is required to come out to your home and give it the once over to determine its value.
Depending on home values in your area and the last time you had your home appraised, you may be pleasantly surprised to find out what your home is worth in today’s market. Keep in mind that appraisals are largely subjective, and although they follow a certain protocol, appraisers have to simply use their best judgment to set your home’s fair market value. Chapter 10 gives a full description of what goes on in the appraisal, including what the appraiser looks for.

The appraisal visit is nothing to worry about, as long as you’ve kept up your home maintenance over the years. Either way, it couldn’t hurt to do a bit of sprucing up; clear your yard of any debris, clean your home the way you would if very special company was coming over, and fix any little things that you’ve been putting off if you can reasonably afford to do it. Also, gather up your home records — if you’ve ever had work done on the home (and who hasn’t?) try to find those statements. The appraiser will be impressed by a home that’s well-kept, but they won’t be impressed by receipts for granite countertops. Don’t start waving your credit card statement under the appraiser’s nose to prove how much you spent refurbishing the master suite. The money you put into a home never fetches an equal value when it’s appraised.

Since you can’t sway the appraiser’s evaluation with cookies or compliments, the best thing you can do during the process is sit back and let him or her work. Be ready to answer questions, but don’t hover or even follow the appraiser from room to room. If you need something to do, make a list of all the fabulous things you can do with your reverse mortgage income.
Getting Paid

Of course, what you’re really interested in is the money. This is one time in your life when it’s perfectly okay to be focused on material things. After all, that’s what a reverse mortgage is all about — lending you the money you need to buy the things you want. This is also the easiest part of getting a reverse mortgage: The lender determines how much you can borrow and you simply pick your payment option and start receiving money. No sweat. Still, there are some things you need to know about payments, your current financial issues, and the country’s financial issues before you make a decision.

Figuring out how much you can get

Without sitting down with an originator, there’s no way to tell you for sure what you can borrow from a reverse mortgage. We wish we could give you a simple formula, but there just isn’t one. As we mention in this chapter (and elsewhere), the amount you can borrow is calculated using:

- **Your age**: Generally, the older you are, the better off your loan situations because the lender figures it won’t have to work on your loan as long as if you were a spring chicken.
- **Your home value**: More equity equals more money available to borrow.
- **Your area**: Higher home values in the area means higher loan values for you if you choose an HECM or Home Keeper (which both use county medians to determine your loan principal).
- **Interest rates**: This is the one factor where less is more — the lower the interest rates, the higher the principal.

If you can wait a few years to get your loan, it will be worth it in the increased principal. Most people who wait at least five years are pleasantly surprised to find their loan amount has gone up . . . to the tune of a few thousand dollars. Don’t wait so long that you can’t enjoy the cash flow — that trip down the canals of Venice will probably be a lot more fun at 68 than at 98 — but don’t rush out and get a loan on your 62nd birthday if you don’t really need it yet.

Also, each loan has its own system of determining loan value. For example, no matter what your home is worth, Fannie Mae’s Home Keeper bases the amount available to you on a scale as compared to the national lending limit ($359,650). On the other hand, the
Cash Account has no set limit. It bases its principal solely on your age, home value, and interest rates.

You can get an estimate of what each loan may be able to offer you using online reverse mortgage calculators. The NRMLA calculator (find it at www.reversemortgage.org) is a good indicator because it breaks down the entire loan, from what your estimated costs are to how much you get per month. However, they don’t show you what you could get with a Cash Account, only HECM and Home Keeper. For a side-by-side comparison of all three loans, visit www.financialfreedom.com and take a spin on its reverse mortgage calculator.

**Checking out payment options**

You know how lottery winners get to choose whether they want their money in installments or one lump sum? Well you may feel like you won the lottery when you decide how you want your reverse mortgage funds to arrive. Each loan has its own set of payment options (that’s payment to you, from the lender). Listed here are the main payment options, along with which loans offer them. As you read down the list, think about which one would fit best in your lifestyle.

- **Tenure** (HECM and Home Keeper): If you like the security of having stable, steady monthly checks deposited in your bank account, monthly tenure payments may be for you. The biggest advantage of this option is that no matter how long you have the loan (stay in your home), the lender continues to pay you — even if you’ve gone beyond what the lender originally agreed to lend you, and even if you live 30 years longer than anyone expected. The downside is that fixed monthly payments don’t allow for sudden large expenses and don’t adjust for inflation down the road.

- **Term** (HECM and Home Keeper): A monthly term payment has the security of getting equal monthly checks like the tenure plan, but you decide how long you continue to receive payments. The shorter the term, the more money you get per check. For example, if a lender sets your principal at $100,000 and you want to receive it over eight years, that’s about $1,041 per month. If you decide instead to get your payments over five years, you’re looking at $1,666 per month. That’s a sizeable difference! But remember, once that term is over, you’re out of money.

- **Lump sum** (HECM, Home Keeper, and one Cash Account option): Have you always dreamed of rolling around on a pile...
of money? Choosing a lump sum means you get the entire amount of the loan in one big check. It’s up to you how you want to budget it per month, and it’s up to you to make sure it lasts as long as you plan to live in your home. If you have a very large expense that you absolutely must pay in full, a lump sum could do the trick, although a better option is often a line of credit (see the next bullet).

айн of credit (HECM, Home Keeper, Cash Account): A line of credit (also called a credit line) works very much like a savings account. You have access to the entire loan amount, but since you have to send in a form to get it, people are often more mindful of how their money is spent than they may be with a lump sum. In addition, depending on the loan, you can earn interest on the money you haven’t yet borrowed.

Combination (HECM and Home Keeper): Can’t decide? Maybe a combination of payment options is your best bet. You can choose how much you want to receive upfront (through a lump sum, line of credit, or both) and designate the rest to a monthly payment. Or work backward — figure out how much you need per month, multiply that by the number of months you expect to stay in your home, and leave the rest in a line of credit. The combinations are virtually endless because they’re tailor-made for you.

Discovering the effect of the funds on your finances

Seniors, especially those who have gone through hoops trying to get their fair share of Social Security, pensions, Medicaid, and various other programs, are often concerned that a reverse mortgage may cancel out those benefits. People often ask us if they have to choose between those programs and a reverse mortgage. You should be glad to know that the answer is no. The income from a reverse mortgage has no bearing on your current benefits. What’s better, it has no effect on your taxes because equity isn’t considered income by the IRS.

Of course, every rule has an exception. Although most people won’t have any trouble maintaining their current benefits, some government programs (such as Supplemental Security Income) may include reverse mortgage payments in their income limits. If so, there are usually ways around this. Talk to your counselor and originator about working out a system to circumvent this issue. If you want to err on the side of caution, talk to your tax advisor or financial planner about how your newfound income may impact
your finances. In the vast majority of cases, the only effect is a positive one.

**Dealing with inflation and interest rates**

Any time you’re investigating a mortgage, you’re sure to have your eye on interest rates. In recent years, rates have been quite low, although they are slowly creeping back up again. What does this mean for reverse mortgages? Just as in traditional mortgages, the lower interest rates are, the more money you can borrow. But unlike traditional mortgages, you don’t pay a penny of that interest until the loan is over. It accumulates over time and is paid all at once when you repay the entire loan.

Aside from the initial closing costs and originator’s fees, interest can be thought of as the price of borrowing money. The longer you have your reverse mortgage, the more you pay over the years in interest. Rates will fluctuate up and down during your loan — you can drive yourself crazy trying to follow the trends and track rates. But there’s really no point. Once you have the loan, the best thing to do is forget about it. You can’t control the market, and although you’ll see your interest rate on your monthly or quarterly statement, you won’t feel its effects until you end the loan.

One financial indicator that you may notice as the years go by is inflation. Think about the cost of your staple items 20 years ago — prices rise on an average of about 1.5 percent per year. It may not sound like much, but when you consider it on a large scale, it makes a big difference. A loan worth $75,000 this year only buys $73,875 worth of goods and services the next year. Why is this important to reverse mortgage borrowers? Unlike income from a job, you won’t get a raise for cost of living with a reverse mortgage. That means if you’re on a fixed $900 per month payment option, that $900 isn’t going to go as far if you hold the loan for 10 or 20 years. A line of credit is a good way to beat inflation since, on an HECM loan, you actually earn interest on unused funds, which will help you keep up with rising prices.

The very savvy among you may see a great opportunity here to get the best of both worlds: stable monthly payments and an easy way to combat inflation. The solution is a combination of payment options. An HECM loan lets you set aside a portion of your principal for a line of credit and then receive the rest as monthly income. You can access the line of credit funds at any time, but by leaving them where they are, you build a greater equity savings. Skip ahead to Chapter 5 to see an example of how this could work for you.