

## REVERSE MORTGAGES, THE GOOD, THE BAD AND THE UGLY!

By Ben Kiniry

A reverse mortgage is a type of loan, and also a retirement planning tool, that may be utilized by seniors to tap into the equity of their homes. In a nutshell, a homeowner, over the age of 62, may utilize a reverse mortgage to borrow against their home's equity. Under the terms of this type of mortgage, the owner continues to hold title to their home. A reverse mortgage can be a valuable retirement resource as many seniors' largest asset is their home. Imagine if you could open up a line of credit, like a checking account, and be able to utilize the value of your home to pay for your cost of living, all while still residing in your home. It is like a two for one sale, and who doesn't like getting a bargain?

We all know how a conventional mortgage works. Money is borrowed from a lender in order to purchase our homes. Then most of us make payments for anywhere from fifteen to thirty years. With each payment made, the borrower's amount of ownership increases, and then one day the home is paid off. I have a vague childhood memory of my mother burning her discharge of mortgage as a way of celebrating this major life event.

**So, how does a reverse mortgage work?** It is kind of the reverse of the conventional mortgage. Instead of making payments and increasing your principal, you receive payments (can be lump sum, monthly amount, or line of credit) and as you

receive the payments the equity in your home decreases. You don't make a payment on the funds you receive, you just receive payments from the lender. During the course of a reverse mortgage, you may sell the home at any time, subject to the reverse mortgage, of course.

**Since I don't make payments, what am I responsible for?** You will need to continue to keep your home in good repair, maintain homeowner's insurance and pay your property taxes. You also need to keep your home as your primary residence.

**When does a reverse mortgage need to be paid back?** The reverse mortgage lender is repaid when the you die, no longer utilize the home as your residence, or your home is sold. Upon your death, the lender would sell your home, repay the debt you owe and the remainder would become part of your estate. What if you become ill and need to leave the home and cannot return, such as in the case of needing nursing home care? Same result more or less, the home is sold, the debt is paid and, in this case, the remainder would go to you.

**What does this mean for you?** Unfortunately, many seniors who are living on a fixed income don't have enough income to fully enjoy retirement, and may even fall short of being able to pay for necessities, like food and medication. **If utilized wisely** (this is not Vegas money), a reverse mortgage can be a powerful tool for those who need to increase their incomes on a monthly basis or whom incur an expense they could not otherwise afford (like a new roof, furnace or automobile). Tapping into their biggest resource may alleviate the shortfall and improve quality of life significantly, perhaps allowing the senior to stay in their home, which may be their strong preference.

**How do I qualify for a reverse mortgage?** First off, as stated previously, you need to be at least 62 years old. Second, you will need to have equity in your home. Beyond that, a formula is done in regards to the amount of equity you own in your home, interest rates, your age, etcetera. Note: if you have a conventional mortgage in place, the reverse mortgage may be utilized to pay off your traditional mortgage.

**Hold on, it is not all fun and games.** Reverse mortgage lenders are taking on significant risk. How is that you ask? When they make a loan to you based on your life expectancy, then every year you live is another year they don't get paid. For example, what if you borrowed at age 62 in an up market, then live to be 105 years of age and at the time of your passing the markets are



down. The lender may likely lose financially speaking, as their lien is only on the property itself. Well, the reality of this risk is not lost on lenders, and therefore the cost of setting up the reverse mortgage can be rather expensive as compared to a conventional mortgage. It is true that all mortgages have costs, which can include the interest rate, loan origination fee, mortgage insurance fee, appraisal fee, title insurance fees, and various other closing costs, but reverse mortgage fees are extremely high when compared with the traditional mortgage. I'm sure costs are all over the map, but the last two reverse mortgages I aided client's in acquiring cost those clients between \$10,000 and \$12,000 (I have heard of costs between \$20,000 and \$30,000). If the fee scares you, it should. If you still need to utilize this tool, however, then you will want to know that the fees can be added into the loan. An obvious downside of utilizing a reverse mortgage is the impact it has on the size of your estate when you are gone. As I'm sure you surmise on your own, every dollar you take out of the equity of your home through a reverse mortgage will not only decrease the remaining value of your estate dollar for dollar, but it will also incur interest and don't forget those start up fees.

In my practice, I see a reverse mortgage as a tool for my clients. That being said, I typically see this as a tool of last resort.

The information provided in this article does not constitute legal advice, not that you thought it did.

## NATIONAL PRESERVATION MONTH

By Kathy Northrup  
Hooksett Heritage Commission

"This. Place. Matters." is the theme for National Preservation Month 2016 sponsored by the National Trust for Historic Preservation. The Town Council recently declared May as National Preservation Month in Hooksett. They cited the importance of recognizing the role of history in our lives and the contributions made by dedicated individuals in helping to preserve the tangible aspects of the heritage that have shaped us as a people.

**In celebration of Preservation Month, the Heritage Commission, Robie's Country Store Historic Preservation Corp., Town Hall Preservation Committee, and Robie's Country Store will co-sponsor the 12th Annual Hooksett Heritage Day on Saturday, May 21, 2016, with activities from 9 a.m. to 3 p.m.**

Amber and Josh Enright, new operators of Robie's Country Store, will be offering samplings of menu items and other food products from 9 a.m. to 3 p.m. in addition to a luncheon special to celebrate the day. Their full menu will also be available. If you haven't yet checked out the new old Robie's, stop in for breakfast, lunch, takeout, or a sweet treat. Don't miss the great new selection of unique gifts.

From 10 a.m. to 1 p.m. members of the Town Hall Preservation Committee and Heritage Commission will be available at the old Hooksett town hall to talk about the history and future of this treasured building. Visitors will be really surprised by what's been done in the past year.

The Robie's Country Store Historic Preservation Corp. will be hosting a program at the store at 2 p.m. Jim Donison, Town Engineer, will talk about our Lilac Bridge-its past and future. Come and hear about the plans to memorialize this piece of Hooksett history and how the replacement bridge will open new opportunities for the Village to our south.



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