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Reverse Mortgages: Too Good To Be True?

The other day I was visiting an old friend and his wife at the hospital. They are senior citizens (defined as anyone over the age of 62). She was hospitalized after a nasty fall that resulted in a fractured femur and required orthopaedic surgery. They are both retired and covered by Medicare.

While I was there, the nurse came in. After watching her dutifully scanning the patient bracelet on my friend's wrist and then scanning each and every pill and other medical supplies into a computer on wheels, the conversation invariably turned to the cost of healthcare as we realized that the nurse was simultaneously making sure that a record was kept of what medicines were given to the patient, while automatically adding their cost to my friend's hospital bill.

My friends commented on what they were about to face when the bills for the many different copayments started to arrive in a few weeks. They have some savings left - not much, given these tough economic times - but their fixed income from Social Security and a small pension from the garment workers union to which she belonged, have not even kept up with the cost of living, so there is no extra income with which to pay for these unexpected expenses. They are certain that their savings will be gone after they are done paying for this hospitalization and the subsequent four week stay at a local rehabilitation facility for physical therapy.

Typical of many, if not most seniors today, my friends own their own condo, which they bought when they retired, prior to the recent craziness in the real estate market here in South Florida. They owe a little over twenty thousand dollars on their mortgage and their apartment is presently worth about \$190,000. She is 80 years old and he is 84. They have two adult children, one of them is an auto mechanic at a local dealership and the other a school teacher. Both children have exhorted my friends to investigate the possibility of obtaining a reverse mortgage but my friends said that, after watching the commercials for reverse mortgages on tv and seeing the ads on the Sunday paper, they think that there must be a catch. "It just sounds too good to be true," the husband said. "We're going to have to pay that back at some point and when we can't, we are going to lose our home," he added.

I told him that, in fact, in the case of a couple - such as them - a reverse mortgage only had to be paid back when the second of the two passed away. I added that the other situations that required repayment of the mortgage loan were if they decided to refinance, or if they sold their condo. I pointed out that they would still be responsible for paying the real estate taxes every year, along with the monthly condominium dues and assessments, as well as homeowners insurance if the condo association legal documents required it, which is a rarity.

We spoke some more about how a reverse mortgage works and I suggested that they contact a mutual friend who is a mortgage broker and has a lot of experience with reverse mortgages.

My friend said that he was glad that I had explained reverse mortgages to them because he saw this as a possible solution for their cash flow problems. He added that, as I knew, they had always been independent and they did not want to now become a financial burden on their children. I told him that one of the goals of a reverse mortgage is, precisely, to give seniors the ability to tap into the equity in their homes in order to make ends meet, and in some cases, in order to enjoy the benefits of a lifetime of work during their golden years when there is no other financial resource available to them.

I was careful to tell him that a reverse mortgage is not for everyone. For instance, if you have other sources of money, such as an annuity, stocks, or money in a CD and you just merely want to avoid the penalties of early withdrawal, then a reverse mortgage is not for you.

I pointed out that the federal government has put regulations into place to protect seniors in connection with reverse mortgages and one of the most important ones is that no lender can begin the process of even looking at your application until you and your spouse have completed a credit counseling session with an independent agency not connected to the lender. In fact, before doing any work on your file, the lender must receive the counseling agency's certificate showing that you have undergone the counseling session with them. The purpose of the credit counseling session is to make sure that you are aware of any other avenues that you could take instead of obtaining a reverse mortgage.

My friends said that they liked the idea of a reverse mortgage in their situation, as they had little else to tap into but they were concerned that their once stellar credit was now mediocre at best. I immediately put their minds at ease. I explained that there is no credit check necessary, as the mortgage is based exclusively on the value of their home, not on their ability to pay, since they are not required to pay anything. To clarify, I explained that once the second of them passed away, their heirs would have about a year to decide whether they wanted to keep the condo. In that case, they would refinance and payoff the reverse mortgage. If they did not wish to keep the condo, the lender would keep it and sell it. Their heirs would not be responsible for paying off the mortgage.

I added that, once they completed the credit counseling, the lender would order an appraisal and would let them know shortly thereafter the amount of the loan that was approved and would ask how they wanted to receive the funds.

"What do you mean?" she asked. I told her that a reverse mortgage is very flexible and you can choose to receive the money all up-front, or in monthly payments that in whatever amount you decide until the money runs out, or in equal monthly amounts for as long as you live. In this last case, the lender selects the amount, based on the same actuarial tables that life insurance companies use, since they are "on-the-hook" and must continue sending you the monthly amount that they select for as long as one of the property owners is alive.

My friends were smiling and cheerful. They thanked me over and over for the explanation and said that they would not have considered a reverse mortgage because they truly believed that all they saw on tv and in the newspaper was really too good to be true.

I was only too glad that I was able to make their day better in light of their difficult situation. I reminded them that if they went through with their application for a reverse mortgage, they have a choice as to who will do the closing for them and that our law firm has over twenty nine years of experience in all aspects of real estate. I added that, even though reverse mortgages are gaining more popularity these days as people begin to understand them better, we have been conducting reverse mortgage closings for many clients and for most major lenders for many, many years and I would be pleased to handle this closing for them. "Count on it," he said. "We wouldn't want it any other way!"

When I went back to the office, I ran the numbers on their situation and called my friends with the news. I told them that, assuming that their condo appraises for \$190,000 and, based on the age of the younger of the two of them (80 years old), they would be able to obtain as much as \$131,451. If they wanted to get a monthly check for life, they would receive approximately \$936 per month.

I told them that finding out how much you would can get is actually easy. You just go to one of the many websites that have an online calculator. My favorite is the AARP™ website: <http://www.aarp.org>. There is a button towards the bottom of the page that takes you to the reverse mortgage calculator. You just fill in the blanks with the information requested and it immediately gives you the results.

Well, I'm glad that I had a chance to make my friends' day a little better and I look forward to representing them in this important endeavor in their life.

If you have any questions about reverse mortgages or on any other aspect of real estate law, call us for a free consultation, or drop me a line at david.donet@donetlaw.com.

Thanks,

David A. Donet, Esq.

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