REVERSE MORTGAGE

COUNSELING PROTOCOL

Department of
Housing and Urban
Development

Preparing for Your Counseling Session

The decision to get a reverse mortgage is an important one. The Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) want to ensure you are able to make an informed decision and that you are able to choose a course of action that will meet your needs. For this reason, housing counseling for HUD's Home Equity Conversion Mortgage (HECM) is required. The purpose of this overview is to provide introductory information on counseling and the HECM program, to help you prepare for your counseling session. After your counseling session, you will have a better understanding of the features of a reverse mortgage; the impact a reverse mortgage will have on your particular circumstances; and whether services or programs other than a reverse mortgage might better meet your needs.

What You Can Expect from Your Reverse Mortgage Counselor

Understanding what to expect from reverse mortgage counselors is an important first step in setting your expectations for your counseling session. Remember, only you can decide if a reverse mortgage is right for your situation. The counselor provides information to assist you in making that decision.

- The counselor is responsible for helping you understand reverse mortgages and the appropriateness of a reverse mortgage to meet your particular need as well as alternatives to a reverse mortgage.

- Reverse mortgage counselors will discuss your financial and other needs for remaining in your home, the features of a reverse mortgage and how it works, your responsibilities with a reverse mortgage, the impact of a reverse mortgage on you and your heirs, and the availability of other assistance you may need.

- The job of the counselor is not to "steer" or direct you towards a specific solution, a specific product, or a specific lender.

- Counselors will help you understand your options and their impacts.

Reverse mortgage counselors are required to follow specific practices, which are designed to ensure you receive quality counseling services and are protected against fraud and abuse. HUD requires that HECM counselors do the following:

- Send you required materials (i.e., this packet) prior to your counseling session,
- Follow established protocols when conducting the counseling session, and
- Follow up with you after the session has concluded.

What You Can Expect from the Reverse Mortgage Counseling Process

Step 1. Schedule an appointment. The counseling process begins when you schedule your appointment for a counseling session. You must schedule an appointment directly with the counseling agency. Your lender cannot initiate or participate in the counseling session. This session is conducted in person or over the telephone; however, HUD advises that, if possible, you meet with your counselor face-to-face to gain greater benefit from your session. North Carolina requires face-to-face counseling.

Step 2. Counselor will contact you and send information. Once you have set up an appointment, the agency sends you a packet of information so that you can prepare for your session. Before you begin, you should also know that some agencies charge a fee for counseling; if you cannot afford to pay this fee, you should discuss your inability to pay with the agency at the outset of your session to understand your options.

Step 3. The counselor will collect from you: Your name, contact and other key information, including your interest in obtaining a reverse mortgage, for the counseling session.

Step 4. Counseling session: The counselor will discuss with you your needs and circumstances; provide information about reverse mortgages and other alternative types and sources of assistance that might be available to you. During the session, you will work with the counselor to develop an assessment of your current financial situation using the Financial Interview Tool, which will assist you in determining the best course of action. You should be prepared to discuss your income, debts and expenses. You will also be offered the opportunity to obtain a BenefitsCheckUp which may provide information on funds and services in your area for which you may qualify.

Step 5. Certificate of Completion: Once you complete your session and you and your counselor are comfortable that you understand the essentials of a reverse mortgage, the counselor will issue a certificate which verifies for a lender that you have successfully completed counseling.

Step 6. Follow up: Your counselor will follow up with you to learn if you need further assistance and to understand the outcome of your counseling session. You may also call your counselor to seek further assistance after your session.

How a Reverse Mortgage Works

Before you begin your counseling session, it is helpful if you understand a few basics about a reverse mortgage.

Reverse mortgages enable homeowners age 62 or older to convert their home's equity into available cash – a lender advances you money (the loan) based upon the equity in your home. The amount of money you are eligible to receive generally depends upon the amount of equity in your home and your age at the time you get the loan.

With a reverse mortgage, you remain the owner of your home. You must continue to pay property taxes and homeowner's insurance. You are also responsible for maintaining your home in good condition.

You will not have to repay your loan balance for as long as you live in your home. You can choose to pay off the loan through the sale of the property or prepayment of the loan at any time without penalty. Your estate may retain ownership of the property and must pay off the loan in full or the property can be sold to an unrelated party for the lesser of the unpaid mortgage balance or 95% of appraised value.

Types of Reverse Mortgages

There are three types of reverse mortgages shown in the chart below.

Single purpose reverse mortgage	Typically offered by state and local government agencies to be used in only one specific way, for example, home repairs
Proprietary reverse mortgage	Can be used for any purpose and may be suitable for borrowers with high cost homes
Home Equity Conversion Mortgage (HECM)	Can be used for any purpose and is **insured by the Federal Housing Administration.**

Payment Plan Options

There are several types of HECM loan plans available, including monthly and annually adjusting interest rate loans as well as fixed interest rate loans. Borrowers can decide to take a line of credit with flexible draw down options, a term loan with fixed monthly payments for a specified number of years, or a tenure plan with guaranteed payments for life or a combination of these options.

Choosing a Reverse Mortgage to Meet your Needs

HECM payment plans are flexible. The best payment plan for you will depend on your current and future financial needs and circumstances. For example:

> *If you have a small balance on your existing mortgage and would like to pay it off with the reverse mortgage*, a line of credit plan would allow you to draw all the funds at loan closing and pay off the current mortgage.
>
> *If you need a set amount of money every month to supplement your income to help meet monthly expenses*, then a tenure or term payment plan might be a suitable option for you.
>
> *If you know you will have some large health care expenses in the near future and want to have the funds available when needed*, a line of credit may also meet your needs.

Your reverse mortgage counselor will discuss your goals for a reverse mortgage with you and will explain the different options available to help meet your needs.

Costs to Obtain a HECM

Costs associated with HECMs are the same as those for "forward" mortgages used to purchase a home. These costs include lender fees to originate the mortgage, servicing fees for ongoing administration of the loan and interest on the money you use from the loan. There are also closing costs, which include all the usual and customary expenses associated with obtaining a mortgage, for example, the appraisal, title searches and insurance. HECMs also include a fee for FHA mortgage insurance.

Impact on Tax/Social Service Benefits

Reverse mortgage loan advances are not taxable and do not affect Social Security or Medicare benefits. However, you must be careful that any loan proceeds you retain do not exceed the monthly liquid resource limits for Supplemental Security Income (SSI) and Medicaid.

Alternatives to a Reverse Mortgage

Your HECM counselor will also help you consider options available to meet your needs other than a reverse mortgage. These options include:

- selling your home and moving to a more suitable residence,
- renting as well as other financial options, and
- support services and public benefits that may be available to you in your community

HUD encourages you to learn as much as possible about your options, before you decide on a reverse mortgage. Listed below are resources you can access to learn more about reverse mortgages and elder care.

AARP's web site at www.aarp.org/money/revmort provides more information on reverse mortgages and calculators that will provide general estimates of the amount of money you might receive from a reverse mortgage. You may also contact AARP at 1 (800) 424-3410.

The National Reverse Mortgage Lenders Association provides consumer information on their website at http://www.reversemortgage.org/default.aspx and can be reached by calling (866) 264-4466.

Use Your Home to Stay at Home™

A Guide for Older Homeowners Who Need Help Now

NCOA
NATIONAL COUNCIL ON AGING

The National Council on Aging (NCOA) is committed to helping older persons to maximize all resources, public and private, so that they can be as independent as possible in the residence of their choice.

As people grow older, more and more of them face health or economic challenges that can make it more difficult for them to continue to live in their own homes. For many seniors, their homes are their biggest financial asset. This booklet is designed to help older adults to understand and assess the potential range of options, including reverse mortgages, that may be available to them for paying for the services and supports they may need.

—James Firman, CEO

The National Council on Aging is a nonprofit service and advocacy organization headquartered in Washington, DC. NCOA is a national voice for older Americans—especially those who are vulnerable and disadvantaged—and the community organizations that serve them. It brings together nonprofit organizations, businesses and government to develop creative solutions that improve the lives of all older adults. NCOA works with thousands of organizations across the country to help seniors find jobs and benefits, improve their health, live independently and remain active in their communities. For more information, visit www.ncoa.org.

Overview

Like most Americans, you probably want to stay in your home as you grow older. However, as it gets harder to do things on your own, you may need a helping hand with everyday tasks. It can be costly to pay for help at home, along with home modifications and other health needs. For many people, these extra costs are a real burden.

Older Americans often hold onto their home as a nest egg in case they need extra money. But when that "rainy day" arrives, how do you tap the equity in your home? Some people may tell you to sell the house and move to assisted living or a nursing home. There is another option. If you've owned your house for many years, it could be worth a lot more than you paid to buy it. Home equity is the difference between the appraised value of your home and what you owe on any mortgages. A reverse mortgage can help you convert some of your home equity into cash and continue to live at home for as long as you want.

Using the equity in your home can seem like a good idea. But is it right for you? It is a decision you should consider carefully, because the house may be your most valuable financial asset. This booklet will help you understand the benefits and challenges of this funding option. After reading this booklet, you should be better able to:

- Decide if staying at home is right for you.
- Understand the different ways you can pay for help at home.
- Know where to go for more information.

People who need help at home face many challenges. An ongoing health problem can make it hard to know how much longer you can continue to live at home. You should also be aware of government benefits and community programs for seniors, and how a reverse mortgage may affect your eligibility for these programs.

This booklet will give you the tools you need to make wise choices. It will help you ask the right questions and plan ahead so that you can stay at home as long as possible. Talking with family and a knowledgeable financial advisor also can help.

Challenges of Aging in Place

Living at home can become difficult as you grow older. Ongoing health conditions such as arthritis or poor eyesight can make it hard to do household chores, drive a car, or climb stairs safely. People who are forgetful may not take their medicine on time. Without extra help, older people often struggle with everyday tasks after a serious heart attack, stroke, or fall.

In the past, when an older person had trouble living alone, that was a signal that it was time to move in with family or go to a nursing home. But for most people this is no longer the case. Today, you can receive a wide range of services and supports in your home or community. New advances in medicine and technology are helping even people with complex medical problems to stay in their own homes for many years. This is often called "aging in place."

Choosing to live in your home when you need extra help can be a big decision. There are many practical and financial factors to consider. You will need to balance health and safety issues with your desire for independence and a familiar setting. It is crucial to plan ahead as much as possible. Answering these questions can help you get started:

- Will living at home work for me?
- What resources do I have to help me stay at home?
- How long can I continue to live at home?

It is important to remember that every situation is unique. What may work for one person might not be the best choice for someone else.

Will Living at Home Work for Me?

First, make sure that your home is safe and comfortable, and fits your needs. Check that the services you want are available in your area. If it is difficult for you to live by yourself, you should consider other options, such as a retirement community or assisted living.

The right housing for you

Where you live and the house itself can keep you from aging in place. Think about these factors to see if staying in your own home makes sense:

- *Changing needs*—A house that was ideal 30 years ago may now be too difficult to handle alone. Older houses often need a lot of costly maintenance, improvements, or repairs.
- *Safety*—A house with cluttered furniture or steep stairs is an accident waiting to happen. Unsafe neighborhoods may make you afraid to go shopping or attend social activities.
- *Isolation*—A trip to the grocery store, pharmacy, or place of worship can be a problem when you cannot drive. It is easy to feel lonely or trapped when family and friends are far away.
- *Ease of use*—If you need a walker or a wheelchair, it helps to have a bedroom on the first level, grab bars in the bathroom, and ramps for the entrance of the house.

You can fix some of these conditions by modifying your home. If you want to live in a safer neighborhood or closer to your family and friends, you will have to move.

Adequate help

Most older people who have health problems get help in their own homes. Family or friends who give this help are called caregivers. There are also many professional services. A homemaker can provide transportation, do household chores, and assist with daily activities. A nurse can check your medications and give medical care, while a therapist can provide rehabilitation in your home. Adult day centers may offer social activities, health checks, and rehabilitation therapies. They provide a safe and fun place to be while family caregivers are at work or take a break from caregiving.

Relying on paid services may not work if you do not want a stranger in your home. It can also be hard to find the services you want at a price you can afford. Without good quality and reliable help, people with health issues often find it hard to live at home.

Cost of supportive services

When you get help at home, usually someone comes into your house from a home health agency. Professional services in your home can be expensive. Some service providers charge by the hour, while others charge for each home visit. While services in the home and community may cost less than in a nursing home, these expenses can add up over time. If you need a few hours of help from a home health aide in the morning and at night, you could easily spend $76 per day, or $2,280 per month.

Average national cost of services, 2009

Homemaker:	$18/hour
Home health aide:	$19/hour
Adult day care:	$54/day
Assisted living	$2,825 per month
Nursing home:	$183–$203/day (semi-private and private room)

Sources: Genworth Financial 2009 Cost of Care Survey.

You also may need to make changes to the house to make it easier and safer to stay at home. Home modifications can range from a hundred dollars to install a grab bar to thousands of dollars to install a lift or add a bathroom to the main floor. Costs vary in different regions of the country. They tend to be higher in areas where the cost of living is high.

What Resources Do I Have to Help Me Stay at Home?

Look at all the resources you can use to help you live at home. You likely have three major sources of help: support from family and friends, personal income and assets, and the equity in your home.

Support from others

Most older Americans who have difficulty doing everyday tasks depend on family and friends for help. Children can run errands, provide transportation, and maintain the house. Neighbors may help with yard work or home repairs. A spouse or adult children can also provide a high level of loving care.

Family caregiving can be a rewarding experience. But think about this carefully if you expect to rely on your spouse or children as your only source of help. It can be very tiring to help someone every day, especially if they have trouble walking or have Alzheimer's disease. Caregivers may develop health problems because of the strain of these activities. Working caregivers may have to give up their job or cut the number of hours they work to give help at home.

Personal finances

Paying for in-home services and other health-related expenses can quickly use up a big part of a retirement nest egg. Review your finances carefully. They will be an important part of your decision to remain at home. Your finances include your income, savings, and investments.

- *Estimate your household budget.* Work out your income and living expenses, along with the monthly cost of any loans and credit card debt. You also have to budget for home repairs and maintenance, and keep up with insurance and tax payments.
- *Keep an eye on cash flow.* Make sure you have enough money readily available each month to pay for expenses. Your need for help may vary as your health changes.

If you have financial resources such as stocks, bonds, or property other than the home, you could sell those assets to get more money now. If you own a life insurance policy, you may be able to use part of the death benefit to pay for supportive services ("accelerated benefit"). If you have very limited finances, you may be eligible for government programs.

Home equity

Home equity is the difference between the appraised value of the home and what you owe on any mortgages. If you've owned your house for many years, it could be worth more than you paid to buy it. Tapping the equity in your home can quickly give you extra cash for a ramp or lift, or to help pay day-to-day expenses. A home loan may also be less costly than high interest rates from credit cards.

It can be a very emotional decision to tap home equity. Many people see their house as a place to live, not as a resource to pay for everyday expenses. For some, it is important to leave an inheritance for their children. You must balance your desire to preserve home equity with the risk of not having enough funds to continue to stay at home. Pinching pennies can lead to poor nutrition, health complications, or a serious accident that can put you in the nursing home.

Other Housing Options

Living with an ongoing health condition can be hard. You may need to change your living situation when you:

- Cannot take care of yourself or manage the home on your own anymore.
- Have had several falls or other accidents.
- Need round-the-clock supervision (such as in the later stages of Alzheimer's disease).

One option may be to live with your children. First, think about how this will work. How easy will it be to live together? Will your kids have to make changes to their house, such as adding grab bars or building a ramp? Who will pay for expenses such as rent?

You may not want to move because you are afraid of losing your independence. However, today there are many attractive housing choices where you can get the help you need. For example, senior housing makes it easier to live independently by offering services such as transportation and social activities. In assisted living, you can live in a private apartment and get help with everyday activities. Continuing care retirement communities (CCRCs), or life care communities, offer a full range of services from independent living, to assisted living, and nursing care.

Your House As A Resource

Once you decide to continue living at home, the next step is to make sure that you have enough money to pay for the help you need. This section describes your choices for tapping home equity. Typically, you would take out a loan that uses your home as the collateral to guarantee that you will repay the loan.

To help you decide which option may be best for you, answer these questions:

- Why do I need the money?
- How much cash can I get from my house for help at home?
- Am I prepared to tap home equity?

The equity you have built up over many years should be used wisely. It is important that you understand the costs, benefits, and risks of the different type of loans.

Why Do I Need the Money?

Since home loans can be costly, you need to be clear about how you plan to use the money. Some homeowners like to plan ahead by taking out a line of credit. These funds give them the flexibility to pay for expenses as they arise. Others want a lump sum to deal with a specific, one-time cost such as adding a bathroom or paying off an existing mortgage.

How long you will need the loan will also make a difference in your decision. Are you tapping home equity to solve an immediate problem? Or do you need funds for many years to pay ongoing household expenses? When you take out a loan to tap a portion of your home equity, you usually cannot use the remaining equity for other needs until you pay off the loan. It is important to look at your overall financial situation, or you may find yourself stuck with a loan that doesn't fit your changing needs.

Short-term solutions for immediate needs

If you want to use home equity to deal with an emergency or for specific problems that need attention right away, you can use several financial options.

SINGLE PURPOSE LOANS

Many states and communities offer special loans to help older homeowners who are struggling to live at home. These loans are designed to meet specific needs:

- *Home repair and improvement loans:* Borrowers get a one-time, lump-sum payment that can be used only for the specific repairs or improvements that each program allows.
- *Property tax deferral loans:* These programs allow older homeowners to defer payment of some or all of their property taxes until they move out of the home.

Borrowers do not need to make payments on these single-purpose loans for as long as they continue to live in the home.

Advantages

- Single purpose loans usually cost less than conventional home equity loans.
- You may not have to pay back all of the loan if you continue to live in the home for a certain period of time.

Disadvantages

- Most programs require borrowers to be at least 65 years old. Often, only homeowners with low or moderate incomes can apply.

- These loans may not be available where you live.
- The remaining equity in your home may not be available to use for other needs.

CONVENTIONAL HOME EQUITY LOANS

These loans can be useful if you are unsure how long you can continue to live at home or how much help you will need. Conventional home equity loans can also help families who have other assets they do not want to sell right away. Until you have a good sense of what's going on with your health situation, you can get extra funds from these loans without paying large fees or making drastic changes. There are two types of home equity loans:

- *Home equity line of credit:* This loan works like a credit card. You can borrow up to a certain limit for the life of the loan. During that time, you can withdraw money as needed. As you pay off the principal, your credit revolves and you can use it again.
- *Home equity loan:* You receive the money in a lump sum. You pay off the loan over a set amount of time, with a fixed interest rate and the same payments each month.

With these loans, you will pay ‘points’, appraisal fees, closing costs, and loan initiation fees. Closing costs include attorney's fees, fees for preparing and filing a mortgage, fees for title search, taxes, and insurance.

Advantages

- If you qualify and your credit is good, you can get a home equity loan quickly.
- With a line of credit, you only pay interest on what you borrow.
- Since you pay for the loan from income, your home equity does not go down.

Disadvantages

- You may not qualify for these types of loans. Lenders look carefully at your income, other debt, and credit history.
- You must be able to make monthly payments on the home equity loan. If you can't make these payments, you could lose your house.
- When your line of credit ends, you must pay off the entire loan. A lender may not let you renew the loan.

Using a conventional home equity loan to solve cash-flow problems can be risky. If your health declines, monthly loan payments along with other expenses may become more than you can handle.

Long-term solution—Reverse mortgage

If you expect to live in your current home for several years, you could consider a reverse mortgage. Reverse mortgages are designed for homeowners age 62 and older. These types of loans are called "reverse" mortgages because the lender pays the homeowner. To qualify for this loan, you must live in the home as your main residence.

Unlike conventional mortgages, there are no income requirements for these loans. You do not need to make any monthly payments for as long as you (or in the case of multiple homeowners, the last remaining borrower) continue to live in the home. When the last borrower moves out of the home or dies, the loan becomes due.

There are two types of reverse mortgages available in the market. These include:

- *Home Equity Conversion Mortgage (HECM)*—This program is offered by the Department of Housing and Urban Development (HUD) and is insured by the Federal Housing Administration. These are the most popular reverse mortgages, representing about 95% of the market.

- *Proprietary reverse mortgages*—Some banks, credit unions, and other financial companies offer reverse mortgages designed for people with very high value homes.

Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payment for a specific period or for as long as they live in their homes, or a combination of payment options. The money you receive from a reverse mortgage is tax-free, and can be used for any purpose. Reverse mortgages have unique features:

- All homeowners must first meet with a government-approved reverse mortgage counselor before their loan application can be processed.
- Older borrowers may receive more money, because lenders include life expectancy in calculating loan payments.
- The national limit on the amount you can borrow under the HECM program may change from year to year. You can check the current national limit at www.HUD.gov.

You now may use a HECM reverse mortgage to buy a home. This can make it easier for you to downsize to a house that better suits your needs, or to move closer to family caregivers.

Loan closing costs for a reverse mortgage are the same as what you would pay for a traditional "forward" mortgage. These include an origination fee, appraisal, and other closing costs (such as title search and insurance, surveys, inspections, recording fees). HECM borrowers also pay a mortgage insurance premium.

Most of these upfront costs are regulated, and there are limits on the total fees that can be charged for a reverse mortgage. The origination fee for a HECM loan is capped at 2% of the value of the property up to the first $200,000 and 1% of the value greater than $200,000. There is an overall cap on HECM origination fees of $6,000 and a minimum fee of $2,500. You can finance these costs as part of the mortgage.

Advantages

- You (or your heirs) will never owe more than the value of the home if you sell the property to repay the loan, even if the value of your home declines. If your heirs choose to keep the home, they will need to pay off the full loan balance.
- You continue to own your house and can never be forced to leave, as long as you maintain the home and pay your property taxes and insurance.
- You can get your loan funds through a combination of payment options (such as lump sum and line of credit). You can change the payment plan for a small fee.
- For HECM loans, the available balance on the line of credit may increase over time, depending upon interest rates.
- If there is in an existing mortgage on the property, the proceeds of the reverse mortgage are typically used to pay off the loan. This can increase the cash you have available each month, because you no longer have to make payments on your regular mortgage.

Disadvantages

- Because closing costs for a reverse mortgage are rarely folded into the interest rate, they can appear sizable. These costs (origination fee, mortgage insurance premium, appraisal and other upfront costs) can range from about $6,000 for a $100,000 home to over $16,000 for a $400,000 home. Closing costs can be financed into the loan.
- You may use up a large part of your home equity over time and have less to leave as an inheritance to your family.
- If you are the only homeowner and you stay in an assisted living or nursing facility for more than a year, you will be required to repay the balance of the loan.

The loan amount can vary by thousands of dollars among different reverse mortgages. So it will be important for you to consider your options carefully when selecting a loan.

How Much Cash Can I Get From My House?

Several factors control how much you can borrow. These are the value of the home, the type of loan you select, and the current interest rate. The age of the youngest homeowner is also a factor for reverse mortgages. To find out how much money you may be able to get from a reverse mortgage, use one of these simple, on-line calculators:

- AARP calculator (*http://rmc.ibisreverse.com//rmc_pages/rmc_aarp/aarp_index.aspx*)
- National Reverse Mortgage Lenders Association calculator (*http://rmc.ibisreverse.com/default_nrmla.aspx*).

The condition of the home and property values in your area may also determine how much cash you will have to pay for help at home. If you've lived in your house for many years, it will have aged considerably. The house needs to be in good repair to qualify for a reverse mortgage.

Property values may increase over time. A home that appreciates by 2% each year will increase in value from $150,000 to over $165,000 in five years. If you can continue to live at home safely, it can be worthwhile to use some of your growing equity.

How long will the reverse mortgage last?

Reverse mortgages make the most sense for you if want to stay in your current home for many years. If you have an ongoing health condition, it is important to understand how much money the loan will give you to pay for help over time.

Let's consider the situation of three families who take out a reverse mortgage. They live in a house that is in good repair and worth $150,000. They own their homes free and clear of any debt.

> *Scenario #1:* Joe and Liz Anderson (ages 69 and 65) built their 2-story dream home after retiring four years ago. Since then, Joe had a mild heart attack and has difficulty climbing the stairs. Based on Liz's age, the Andersons receive about $84,000 from their reverse mortgage. They take $20,000 of the loan to install a lift and make other home modifications. They keep the rest ($64,000) in a line of credit for future needs.

> *Scenario #2:* Melba Jones (age 75) has lived in the same town all her life. She knows she can rely on family and friends for help with her arthritis. Her big concern is using up all her retirement funds. She receives about $97,000 from the reverse mortgage and selects a tenure payment plan. This gives her $623 per month for as long as she stays in her house. This gives her peace of mind, knowing that she can pay for extra expenses and won't be a burden to her children.

> *Scenario #3:* Bill Smith (age 85) recently had a massive stroke. He condition is serious, and he could go to the nursing home. But his family is committed to keeping him at home. At his age, Bill can receive over $111,000 from a reverse mortgage. This money will be enough for his family to withdraw $4,800 each month for up to two years from the line of credit.

Interest rates change frequently, so only a mortgage lender can tell you how much you may get from a reverse mortgage.

Am I Prepared to Tap Home Equity?

Whether you are considering a loan or decide to sell the house, chances are that it will take time to get the equity in your home. Plan carefully to make sure that these funds will be available when you need them. These problems could slow the process:

- *Legal issues*—Make sure that you have a durable power of attorney that includes real estate. This allows your family or trusted friend to make decisions if you cannot do so.
- *Title to the home*—Understand who owns the home. If you add children or grandchildren to the title, you may not be able to qualify for a reverse mortgage (since all homeowners have to be at least age 62), or sell the house without their consent.
- *Home repairs*—For major repairs, it can take up to several months to find a contractor, get the necessary permits, and complete the job.
- *Finding a new place to live*—If you sell the house, you must find somewhere else to stay. Your children may need time to prepare their home if you plan to live with them. Retirement communities and senior housing apartments often have long waiting lists.

Transactions involving the home usually involve many, different people. These may include your banker, a real estate agent, lawyer, appraiser, inspector, and contractors. To avoid delays, plan ahead as much as possible.

Government Programs

Government programs provide an important safety net. They help older Americans who have limited financial resources, and who cannot pay for help at home. Several public programs help older people cope with an ongoing health condition. If you qualify for these programs, you may not need to use your home equity.

Medicaid

Medicaid is a joint Federal-state program. It pays for long-term care for older Americans with low incomes and resources, and those who have high health care expenses. Medicaid may cover case management, homemaker services, home health aide, personal care, adult day programs, respite care, and nursing home care. These services can vary by state. To qualify for Medicaid, you must meet the income and asset requirements in your state. To get help at home, you also need to have a serious physical or mental condition. If you receive Medicaid services and you pass away, the state must try to recover the money it spent on your care from your estate.

The rules for Medicaid eligibility and treatment of the house are complicated and vary from state to state. Taking out a home loan may affect your eligibility for Medicaid or other means-tested public programs. To learn more, talk to a senior counselor or knowledgeable financial advisor.

Department of Veterans Affairs (VA)

The VA provides long-term care services primarily to veterans with a service-related disability, low-income veterans, and former prisoners of war. Veterans may be eligible for nursing home care, assisted living, or help at home including respite care, homemaker services, home health care, or adult day care. If you are a veteran, you and sometimes your spouse may receive low-cost care in state veterans homes. You may also be able to pay for home repairs and modifications by refinancing your house with a low-cost VA loan.

Medicare

Medicare, the national health insurance program for seniors, mainly covers medical care (doctors and hospitals). If you have Medicare, it will pay for a home heath aide, but only while you get skilled nursing care or rehabilitation therapies at home. Once you no longer need skilled care, Medicare will stop paying for home health care. This is true even if you still need help with everyday activities.

Other Resources to Help You Live at Home

Your local Area Agency on Aging offers a wide array of services. These can include help with household chores, meals served in community locations, adult day care programs, senior centers, protective services, and legal counseling. You may be able to get these programs free or at very low rates. Many communities also provide low-cost services so that seniors can continue to live at home. These programs may include special transportation programs, friendly visits or telephone checks to seniors who live alone, light housekeeping, and help with home modifications or repairs. Faith-based organizations and charities can also help. Your pharmacy or grocery store may offer free home delivery.

Where to Go for More Information

BenefitsCheckUp is a quick, confidential, and free web service that helps you find federal, state, local, and private benefit programs for which you may be eligible: *http://www.benefits checkup.org/*

Eldercare Locator can help you find services and programs in your area: Call 1-800-677-1116 or check the web at *http://www.eldercare.gov*.

The National Resource Center on Supportive Housing and Home Modification offers tips on how to check if homes are safe for elders and how to pay for home modifications: *http://www.homemods.org/*

The Family Care Navigator can help to find resources for families who are caring for a loved one: *http://caregiver.org/caregiver/jsp/fcn_content_node.jsp?nodeid=2083*

Reverse Mortgages: Borrowing Against Your Home is a 44-page booklet on reverse mortgages from AARP. Go to *http://www.aarp.org/money/revmort/revmort_basics/a2003-04-07-homemademoney.html#*, or call 1-800-209-8085. Use AARP's calculator to estimate how much you can get from this loan: *http://rmc.ibisreverse.com//rmc_pages/rmc_aarp/aarp_index.aspx*

The National Reverse Mortgage Lenders Association has publications and a reverse mortgage calculator. Visit *http://www.reversemortgage.org*

TIPS FOR OLDER HOMEOWNERS

Look at the big picture

Your ability to live at home is likely to change over time. It is important to look at your financial situation beyond what you need right now. Short-term solutions could be risky if you require ongoing funds for several years. It helps to save some of your home equity so you have the option of moving to a better living situation.

Don’t wait until the last minute

Timing is critical when making decisions about the home. You or your family could end up facing a serious cash crunch if you wait until a crisis to start thinking about how to tap home equity. To avoid stress, disappointment, and costly delays, plan in advance. The longer you wait, the harder it can be to find a good solution.

Have ready cash for emergencies

It helps to have a three-month emergency fund of cash you can access easily, such as a money market account or short-term certificate of deposit. If this is not possible, make plans and prepare for how you would pay for an emergency. If you run short, use credit cards sensibly. Avoid salespeople who show up at your door with a quick fix to your financial problems.

Create a family budget

A sudden change in health can disrupt the best laid financial plans. You will need to monitor your finances each month to keep family affairs running. The best way to understand your family's cash flow needs is to create a budget.

Talk to your family

It can be hard to discuss personal financial matters. However, good communication can bring a family together and reduce confusion. Talk with family or other heirs before taking out a loan. They will need to pay off the loan balance or repay Medicaid if they want to keep the house.

Don't rush into any decision

If you decide to take out a home loan, weigh all the options to find the best solution for you. Shop around with different lenders to check that the interest rate and fees are competitive and fair.

Only sign papers that you understand. Ask questions if you are confused. Get help from a trusted family member or friend who understands financial matters. Agencies that offer reverse mortgage counseling can give you independent advice.

The only time you need to act fast is if you decide you do not want the loan. Federal law gives you three days to get out of a reverse mortgage or home equity loan contract. You may cancel the loan for any reason, but you must do it in writing within three days.

Notes

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