Planning For Your Future

Reverse Mortgages: Understanding The Basics

(NAPSA)—A growing number of older Americans are tapping into the valuable equity in their homes through an increasingly popular retirement product that allows them to maintain or enhance their existing standard of living and remain in their homes for as long as they wish.

A reverse mortgage enables seniors to borrow against the equity in their home without repaying the debt for as long as they live there. That's the "reverse" part of this kind of mortgage loan. Instead of making monthly payments, you can opt to receive them. Senior homeowners can use the funds anyway they wish, including paying for long-term care insurance, home repairs or even a vacation.

"It's exactly as the name implies," said Jeff Taylor, vice president, Wells Fargo Home Mortgage Senior Products Group. "You worked hard to own your home and now it is time to make your home work for you."

As an example, Taylor described a customer who was about to lose her home. Getting a reverse was the answer. With the woman's husband in a nursing home and his Social Security check diverted to pay for his skilled care, the 75-year-old woman had no money to pay the mortgage on their house. In addition, she had significant debt because she was using credit cards to pay for basic needs such as food and health care. Her reverse mortgage gave her enough money to pay off most of her bills, including her house payment. In addition, she gained immense peace of mind because it eliminated a lot of financial stress.

You may be better able to stay in your home with peace of mind than you think.

Eligibility for a reverse mortgage depends on two factors: age and homeownership. No income requirement exists and credit history is not considered. Reverse mortgages are for homeowners 62 and older. The loan draws on the equity established in the home.

"As many seniors approach retirement, they begin to realize their major asset is likely to be their home," Taylor said. "By the time the average person retires, they own a house that is usually worth more than they paid for it."

When you take out a reverse mortgage, you are not forced to relinquish ownership. You remain the owner for as long as you live there and you will never be forced to move. If you decide to sell or move from your home, the outstanding balance of your reverse mortgage becomes due just as it would with a traditional mortgage. Unlike a traditional mortgage, however, your balance can never exceed the value of your home when you sell it.

The maximum loan amount for a reverse mortgage is based primarily on four factors: the age of the youngest borrower, the location and value of the home and the current interest rate. You must occupy the home as your principal residence for a majority of the year. The property must be a single-family or two-to-four unit dwelling. Town homes, detached homes, condominium units, planned unit developments and some manufactured homes are eligible.

The home doesn't have to be owned free and clear to qualify for a reverse mortgage. You may qualify for a reverse mortgage if the home has a low remaining mortgage that can be paid off at the closing with proceeds from the reverse loan.

As a key consumer protection, all borrowers are required to participate in a free educational session with a HUD-approved counselor in order to determine if a reverse mortgage is the best option.

Wells Fargo Home Mortgage can take the application prior to counseling, however, it cannot collect any fees, order a credit report or appraisal or begin to process the loan until the borrower can show certification that the required consumer counseling was completed.

Wells Fargo Home Mortgage is the leading originator of reverse mortgages in the nation, helping senior homeowners capitalize on the equity they have built in their homes. In 2004, Wells Fargo Home Mortgage helped senior Americans secure over one-third of all reverse mortgages in the country.