

Beware of cons offering reverse mortgage plans

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While one government agency advises seniors to watch for swindlers asking for big fees to help find reverse mortgage lenders, the reverse mortgage itself could be ideal for people in need of ready cash.

The reverse mortgage is a way to borrow money against the amount of a home's value and cash equity built up through the years.

But unlike a home equity loan, borrowers don't make payments on the reverse mortgage. Instead, they spend the money while they live, rather than pass it on to their heirs after death. At the same time, reverse mortgage borrowers may continue living in the home for the rest of their lives, including the remainder of the life of a surviving spouse.

After both spouses die, the bank receives title to the house and sells the property to pay off the reverse mortgage. Any amount left over after the sale would go to the heirs of deceased owners. Or, the heirs could choose to pay off the reverse mortgage themselves and keep the house.

While a number of banks and mortgage companies offer this type of loan to seniors, the U.S. Department of Housing and Urban Development has a reverse mortgage program for homeowners who are 62 or older. The federally insured program can be found through HUD -- approved lenders nationwide.

For several years, seniors have tapped home equity through the reverse mortgage to get a lump sum of cash. The money can be used for anything from unexpected medical expenses and home improvements to a prolonged stream of income for greater financial security.

Interested seniors are meanwhile advised to watch out for con artists.

In exchange for a so-called "minimal fee" or percentage, the scammers offer to "help" you get a reverse mortgage. In reality, they tend to charge outrageous fees just to give you the name of a lender providing reverse mortgages. You can easily do that yourself by cruising the Yellow Pages of the telephone book, where many lenders advertise reverse mortgages. Look for "mortgages" or "mortgage lenders" and call those with HUD's Equal Opportunity Housing Lender's symbol.

HUD recently began a crackdown on the not-so-helpful con artists and provides a toll-free number for information about its reverse mortgage programs: (888) 466-3487. The HUD information line not only provides lists of HUD-approved lenders, it also gives referrals for free or low-cost counseling agencies that help seniors with housing issues.

If that isn't enough, HUD will give you free lists of names and addresses of approved lenders in your area. All you have to do is look under the U.S. Government section of your telephone directory and find the number of your local HUD office.

Costs vary from lender to lender, but you should expect to pay standard fees associated with any mortgage. Those include the usual fees for appraisal and title insurance. The lender adds a fee for mortgage insurance. Additional charges are basically the same as those charged for financing the purchase of a home.

You won't have to pull cash out of your own pocket. Reverse mortgage expenses are covered by the equity you already have in the property.

Limits on reverse mortgages are based on the appraised value of the property, local FHA lending limits in your area and the age of the borrower. The older one is, the more one tends to get. For example, a borrower might get 26 percent of a home's appraised value at age 65, while a 75-year-old would get up to 39 percent. Someone older than 85 could borrow more than 50 percent.

Call HUD at (888) 466-3487 for free information about reverse mortgage programs and counseling from approved housing agencies.