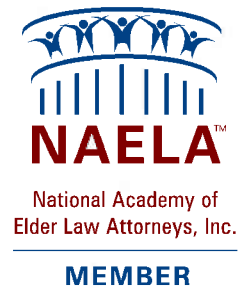


Richard A. Courtney, CELA
Certified Elder Law Attorney
4400 Old Canton Road, Suite 220
Jackson, Mississippi 39211
601-987-3000 or 1-866-ELDERLAW
For more Articles, go to: www.elderlawms.com



Costs Associated with Reverse Mortgages on the Decline

Although reverse mortgages have become quite popular in the past few years, they are generally considered an expensive proposition for most seniors who want to generate additional income by extracting cash from their homes. However, a recent article in the *Wall Street Journal* reports that the costs of reverse mortgages are declining as some of the country's largest reverse mortgage lenders are cutting closing costs, making such mortgages a more attractive option.

Homeowners at least 62 years of age can use reverse mortgages to tap into the equity in their homes without taking out home equity loans or lines of credit, or selling their homes. With a traditional mortgage, the homeowner must make monthly principal and income payments to the lender; with a reverse mortgage, the lender pays the homeowner. And with a reverse mortgage, the homeowner can opt to receive a lump sum payment, a line of credit, or monthly payments. As the debt increases, the home equity decreases. When the home is eventually sold, the lender is repaid the principal and accumulated interest payments. Any remaining equity belongs to the homeowner or the homeowner's heirs.

One of the biggest criticisms of reverse mortgages is that they can be costly. Fees can total 5% of a home's value. Lenders typically charge an origination fee, which is allowed to run as high as \$6,000 by federal law. A homeowner may also pay a monthly servicing fee which can add thousands of dollars over the life of the mortgage. Mortgage insurance is mandatory, with the premium adding further costs. Closing costs are also added and can exceed \$12,000 for a \$250,000 loan.

Earlier this year, companies such as Genworth Financial Inc., Bank of America Corp., Wells Fargo & Co., OneWest Bank's Financial Freedom unit, along with other lenders have dropped or reduced their origination or servicing fees, or both, saving some homeowners \$10,000 or more on the closing costs. Why are lenders cutting costs now? Mainly to generate business. From October 1, 2009, to March 31, 2010, home-equity-conversion mortgage volume fell 22% from the same period a year earlier. This is partly due to poor economic conditions and falling home values. The Department of Housing and Urban Development (HUD) cut the amount of equity that reverse-mortgage borrowers could extract by 10% last October. This caused some homeowners to no longer qualify for reverse-mortgages large enough to pay off their regular mortgage – a basic requirement for getting a reverse mortgage approved.

So far, the cuts in fees by lenders apply mainly to one type of reverse mortgage: the fixed-rate home-equity conversion mortgage which is backed by the Federal Housing Administration and is paid out to the borrower as a lump sum. However, there are some lenders giving borrowers relief from origination and monthly service fees for adjustable-rate reverse mortgages, allowing

homeowners to tap into their home equity as the need it. Other lenders are cutting interest rates on these loans.

Consumers should consider more than closing costs in deciding whether a reverse mortgage works for them, and if so, which type. Seniors considering using reverse mortgages to cover part of their long-term care expenses should do their homework and research these mortgages thoroughly, and they should consult with an elder law attorney before proceeding.

The Courtney Elder Law Group of Frascogna Courtney, PLLC can provide seniors with estate planning and long-term care planning advice to help them develop the best plans. Call us today at 601-987-3000 or toll-free at 866-ELDERLAW (353-3752).