

Just What Is a Reverse Mortgage?

Could It Be Right for You?

There's a lot to like about reverse mortgages. A woman who is age 62 or older, owns her own home, and needs to supplement her retirement income can use a reverse mortgage to obtain needed cash to support herself and still remain in her home.

In a nutshell, a reverse mortgage pays the homeowner by tapping into the value of her home. If you own your home free and clear—that is if you've paid off the mortgage—or if you have only a small mortgage, then you can qualify for this loan against your home no matter what the rest of your financial picture looks like. There are no income requirements, and no credit check. It is important to know that as long as you live in your house, you don't have to pay the loan back, as long as you stay current with real estate taxes and insurance payments. The loan comes due when you sell the house, move to other living arrangements or pass away. If you haven't used up all the equity in your house, you or your heirs get the balance back, after interest has been paid (calculated over the life of the loan), along with other loan costs.

Many older persons are reluctant to take a reverse mortgage because they feel they would be getting in over their heads with more debt than they can handle. However, this is a misunderstanding about the program, and since no payments are due while the



homeowner is living in the house, there is no chance of losing the house due to an inability to make loan payments.

The cash you get from a reverse mortgage can be paid out as a lump sum, a regular monthly cash advance or a "creditline" to draw upon when needed. The amount you can get depends on your age, the value and location of

your home, and current interest rates. Depending upon the type of reverse mortgage you obtain, you can use the cash for everyday expenses, prescription drugs, in-home care, or home improvements and repairs. Choose the loan type carefully. Some public sector loan programs are less expensive than private loans but limit the use of the

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From WISER's Executive Director



In September, Congressional negotiators will try to finalize a bill giving seniors prescription drug coverage. A meaningful benefit would be an historic victory for the Medicare program, but it's unlikely.

Low-income individuals and seniors with very high drug costs would get significant help. But, most seniors will see only moderate assistance. The bills do nothing to control double-digit inflation in drug prices, and the House bill might well make it more expensive to stay in the traditional Medicare program, instead of enrolling in a private plan.

The final bill may well not do enough for the increasing numbers of older women without any income other than Social Security, who must cut back on necessities in order to afford their drugs.



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funds to home repairs or property taxes. You should seek the advice of a financial advisor before taking a reverse mortgage. Lump sum payments or overly large monthly payments might affect your eligibility for other important benefit programs such as state pharmacy assistance programs.

Given their benefits, you would think that reverse mortgages would be selling like hotcakes—even though there are several kinds of these loans (see box on p.4), they are all designed to solve a big problem for the elderly: a shortfall in their income as they age. But in fact, while growing in popularity, fewer than 80,000 have been made nationwide over the roughly 15 years they have been in existence.

Experts who study the program cite a couple of reasons why reverse mortgages aren't more popular. The most basic is that many people don't know about them. After that, the biggest reason is that most seniors want to leave their house—usually their largest asset—to their children. Other reasons may have to do with the details of the loan. The costs, even if they can be

deferred until the loan is paid off, are substantial. The Center for Retirement Research at Boston College notes that in 1999 costs for the average borrower could total \$10,000 against a loan of roughly \$50,000 to \$60,000 dollars—nearly 20 percent of the loan's principal. (Mortgage interest rates were higher then; today's lower rates would lower these costs.)

Another limiting factor is that FHA-backed reverse mortgages are capped in how much they can lend. The amount varies; it is lower in rural areas (\$154,896) and higher in metropolitan areas (\$280,749), with shades in between according to the local real estate market.

One final thought: If you take a reverse mortgage and later decide to sell your home and move into a smaller home or apartment or assisted living, money that you've already borrowed and spent won't be available. Be sure that you really want to stay in your home long-term before taking a reverse mortgage.

See back cover for more information on reverse mortgages.

Where's WISER?

House Committee on Financial Services

Hounsell Gives Testimony in a Hearing on Retirement Security

May 15th—Testifying before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, WISER's executive director Cindy Hounsell hammered home the necessity of providing adequate, understandable financial retirement information to Americans of all ages. "Retirement issues are difficult issues to understand and the conflicting financial advice, among the millions of pages available on the Internet, seems to make it more confusing for both men and women". With women living longer but earning less than men, Hounsell went on to demonstrate to the subcommittee the importance of providing women with better financial information to ensure "that their income will last over a lifetime".

Medicare Alert

Lack of Prescription Drug Coverage Presents Major Problem for Aging Women

Most of us have heard the horror stories about seniors forced to choose between medicine and food or rent. Since Medicare doesn't cover the costs of prescription drugs, there's no shortage of tragic stories about older women skipping doses of important medicines or splitting pills or charging the drug costs to credit cards and getting in over their heads in debt.

The average Medicare beneficiary spends about \$1000 annually in out-of-pocket expenses for prescription drugs. However, the figures vary widely among seniors, about 15% have annual expenses over \$2000, and about 5% of all beneficiaries are extremely hard hit—with annual costs exceeding \$4000. Costs tend to increase with age and health status, so that the oldest and frailest seniors—predominantly women—are struggling the most. Compare these costs to the median income of women over 65—\$10,899 in 2001—and it's not hard to see why the lack of prescription drug coverage is a crisis.

Significant relief won't occur until Congress passes a meaningful prescription drug bill for Medicare.

As this issue went to press, both the House and the Senate had passed bills creating a prescription drug benefit in Medicare. However, the bills are different. A conference committee is expected to reconcile the bills in September in preparation for a final vote.

The House and Senate bills provide different levels of coverage, and the resulting bill could be modeled on either one, or a compromise. Here are a couple examples of what benefits the current House and Senate versions would provide:

Your Annual Drug Cost	Senate	House (income under \$60,000)
\$2,000	\$1,137.50	\$600
\$5,000	\$2,887.50	\$3,500

In addition to the above costs, the individual will also pay a \$420 premium each year. There are additional subsidies to low-income beneficiaries, and upper-income beneficiaries with individual income over \$60,000 annually would pay more.

Senior advocates are unhappy with the size of the benefit and are working to improve the bills. The House bill contains a provision that some advocates say will penalize older Americans by making it more expensive to stay in traditional Medicare instead of joining a private plan. The House bill also introduces income testing for the drug benefit—something some advocates say will kill the spirit of Medicare. The effective date for both bills is 2006. Drug discount cards would be made available in 2004 and 2005 as interim help.

What to do in the meanwhile? WISER's newly released special report "Five Questions to Ask Your Mother or Grandmother" gives an overview of public and private prescription drug programs around the country. You can find this report on WISER's website at www.wiser.heinz.org.

Pharmaceutical Programs Offer Free Drugs to Eligible Seniors

Millions of seniors across the country are eligible for free drugs from pharmaceutical companies, but do not apply for the help. These programs, operated independently by pharmaceutical manufacturers, offer many of the drugs most commonly prescribed for seniors for free to low-income seniors with no insurance coverage for drugs.

Unfortunately, despite their potential for offering significant help to low-income seniors, they are underutilized with millions of eligible seniors never applying for help. If you know a low-income senior who is struggling with the cost of drugs pass this information along—many seniors

simply do not know about the programs. Some seniors may be deterred by the paperwork—the plans generally require a physician to fill out part of the application and seniors must send proof of income to be approved. In most cases, after each shipment of medicine is used—generally a three-month supply—the patient and physician must reapply. It's worth the effort; eligible seniors can improve their health and financial picture by obtaining needed medicine they would not be able to purchase. For more information about these programs consult one of these two excellent websites: www.needymeds.com or rxassist.org/

Four choices in reverse mortgages:

- ☒ *Federally insured Home Equity Conversion Mortgage (HECM)*. Insured by the Federal Housing Administration, a part of the U.S. Department of Housing and Urban Development. HECMs are available in every state. Nine out of ten reverse mortgages are made through HECMs.
- ☒ *Fannie Mae Home Keeper loan*. Launched in 1996 with somewhat higher loan limits than HECMs. Also available in every state.
- ☒ A proprietary “jumbo” loan from the private Financial Freedom Senior Funding Corp., Irvine, California. Available in roughly half the states.
- ☒ *Public sector loans* are offered in limited areas and are often the lowest cost loans on the market. Call your local government or state housing agency or a local aging organization for information.

Where to get more information on reverse mortgages:

- ☒ HUD, the federal agency that houses the Federal Housing Administration (FHA), which insures the loans. See www.hud.gov/buying/reverse.cfm.
- ☒ National Reverse Mortgage Lenders Association has a free booklet, “Just the FAQs: Answers to Common Questions About Reverse Mortgages.” Call toll-free to request a copy: 1-866-264-4466
- ☒ AARP, which has a booklet on the subject, “Home Made Money.” See AARPs extensive Website: www.aarp.org/revmort.

Next Issue:

- ☒ Update on prescription drug legislation in Congress.
- ☒ Predatory lending, consumer fraud issues, and identity theft.



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A QUARTERLY NEWSLETTER FROM THE
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