

Reverse Mortgages

by Attorney Michael Hooker

When you don't have cash to buy a house (and who does?) you go to a bank and borrow the money. You sign a Promissory Note to pay the bank back periodically. They in turn file a mortgage at the Registry of Deeds to protect their loan. Then you start making payments. If you don't pay on the note, they foreclose on the mortgage. That is essentially what is happening in the recent sub-prime mortgage crisis.

Many elders have accumulated equity in their home. Let's say, for example an elder purchased a home for \$27,000 in 1961 and paid off the mortgage in 1991. The house is now worth \$245,000. The elder is just getting by on his/her income, and has only modest savings, if any. The elder is therefore house rich and cash poor. Some programs exist, such as tax abatement, to minimize the burden of carrying a house, but they often insufficient to get the elder through the year even when they own the house outright.

Better medical technology and medicines are keeping elders alive longer. Many become infirm but want to remain at home. The government doesn't pay for care in the home (other than modest services provided by a local elder agency such as Highland Valley Elder Services). The elder's grown children are often unable to meet the needs of the elder. The elder therefore needs to have money to pay privately to bring attendants into the home (or to fix the roof, furnace etc). So how does obtain money without having to repay it immediately? By getting a reverse mortgage.

A reverse mortgage means the bank gives you money under several options (monthly, lump sum, line of credit). You don't make payments. You do, however, make a promise to pay off the mortgage when you die, or when you move out. Reverse mortgages have significant upfront costs. They are not cheap. In order for an elder to obtain a reverse mortgage in Massachusetts the elder must obtain counseling from an agency certified by the Massachusetts Executive Office of Elder Affairs. The purpose of the counseling is to assess that a reverse mortgage is appropriate for the elder and that the elder knows what he/she is getting into. The elder is only going to be able to obtain a mortgage of approximately 65% of the appraised value of the house. They are not going to lend you 100% of the value of the house.

There are only a few companies that I believe are reputable and who service Western Massachusetts. I prefer Wells Fargo. However, I refer you to a website so you can decide: www.mass.gov/reversemortgage. The Commissioner of Banks of for the State of Massachusetts has recently issued cease and desist orders against several reverse mortgage companies doing business in the state. I suggest you contact the Massachusetts Division of Banks @ www.mass.gov.