

Publication:The State; **Date:**Feb 17, 2008; **Section:**Your Home; **Page Number:**G1

DOLLARS & SENSE

Benefits of reverse mortgages often come at a very high cost

Less expensive ways of tapping into your home equity may be available

By **MARILYN GEEWAX** Cox News Service

WASHINGTON

— Now that the subprime mortgage business has crashed, many lenders are reviving their incomes by persuading older homeowners to take out reverse mortgages.

Many retirees report being pleased with their reverse mortgages, but consumer advocates say Congress should be moving more quickly to protect the elderly from unscrupulous lenders who push mortgages that sometimes cost far more than borrowers realize.

Reverse mortgages allow older homeowners to obtain cash by siphoning off some of the equity in their property. The older the homeowner and the greater the home value, the more cash that can be made available either as a lump sum, monthly payout or line of credit.

When reverse-mortgage borrowers die, their heirs must repay the loan, plus interest and fees, typically by selling the property. They keep whatever equity is left.

With the oldest of the nation's 76 million baby boomers turning 62 in 2008, such loans seem certain to proliferate in coming years.

"When used properly, reverse mortgages can be an effective way for seniors to tap into the equity of their house," Sen. Herb Kohl, D-Wis., said at a December hearing of the Senate's Special Committee on Aging. "But too often these products are not used effectively and seniors end up losing their homes."

Recently, a bill was introduced to prevent abuses of reverse mortgages. "I think we should take a closer look at them," said Sen. Chris Dodd, D-Conn., who chairs the Senate Banking Committee.

State officials also are becoming concerned. This month, Florida Attorney General Bill McCollum warned people considering reverse mortgages that "deceptive practices and allegations of high-pressure sales tactics are being more frequently encountered."

For the past two decades, the vast majority of reverse mortgages have been offered under the federally insured Home Equity Conversion Mortgages (HECM) program, which applies to people age 62 or older. But some lenders have begun offering private reverse mortgages for people as young as 60.

An AARP Public Policy Institute study, released in December, found that most people considering reverse mortgages were seeking money to pay off existing debts, make home improvements, keep up with rising medical costs, cover rising tax and insurance costs, hire more help or just enjoy life more.

Currently, only about one older homeowner in 100 has a reverse mortgage, but that's rising rapidly. In fiscal 2007, the HECM program insured 107,367 loans, an increase of 26.5 percent from the previous year, according to the Federal Housing Administration.

The study by AARP, the nation's largest organization for older Americans, found that 93 percent of surveyed borrowers felt their reverse mortgages had had a mostly positive effect on their lives, compared with just 3 percent who said the effect was mostly negative.

But the benefits often come at a very high cost. Older Americans are being lured in “through direct mail, celebrity endorsements, and free lunch seminars,” Kohl said. “Marketers often gloss over the risks.”

The AARP study found that a typical 74-year-old borrower in a \$300,000 home would end up spending \$30,000 in total fees over the life of the loan, not including interest charges.

AARP researchers concluded “loan costs are too high,” while consumer understanding was too low. “Some troubling signs of unethical marketing practices could taint the whole industry if not prevented.”

Bad practices may proliferate simply because the industry is expanding so rapidly. The total number of active lenders shot to 1,674, more than twice the previous year’s figure, according to the National Reverse Mortgage Lenders Association.

But Peter Bell, president of the trade group, said that while a “bad element” may be “tarnishing the reputation” of the industry, the great majority of lenders are offering retirees a good option for getting cash in a responsible way.