



Photo: Marc Royce

FINANCIAL FREEDOM

Living Off the House You Live In
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A reverse mortgage can give you extra income during retirement. As its name implies, the lender pays you, not vice versa. The amount of cash you'll be able to draw will vary according to your age, the value of your home, and current interest rates. You can receive your money in monthly installments, as a line of credit, as a combination of the two, or in one lump sum. You owe nothing until you move or die, at which point the lender is repaid the loan amount including interest. In cases where the homeowner dies, the deceased's estate typically sells the home to settle the bill. (Yes, that means heirs will have a smaller inheritance.) Here's what you need to know.

- You both must be at least 62. If the house is co-owned, the age of the youngest owner determines eligibility.
- The home must be your primary residence. You can't do a reverse mortgage on a vacation house.
- You typically can't have both a standard mortgage and a reverse. If you're still paying off your original mortgage, you can get a reverse, but the money must first be used to pay off the primary loan.
- The amount owed to the bank will never exceed the value of the home. Don't worry, your children aren't going to have to take money out of their own pockets to pay back the lender.
- Reverse mortgages aren't cheap. The vast majority of reverse mortgages are guaranteed by the U.S. Department of Housing and Urban Development (HUD). And HUD-backed reverse mortgages carry steep fees. You also have to pay for HUD to insure your mortgage (an initial charge of 2 percent of the home's value plus 0.5 percent annually).

And don't forget about closing costs, though you can roll these fees into the loan. With all these expenses, a reverse mortgage makes sense only if you need to generate a lot of income and don't plan to move for many years to come.

Learn more by visiting www.hud.gov and typing "reverse mortgage" into the search field. The American Association of Retired Persons (aarp.org/money/revmort) also has extensive information on the subject.

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