

AARP Bulletin today

An Escape Route From Foreclosure

For older homeowners, a reverse mortgage may be an option

By: [Marilyn Melia](#) | Source: AARP Bulletin Today | July 22, 2009

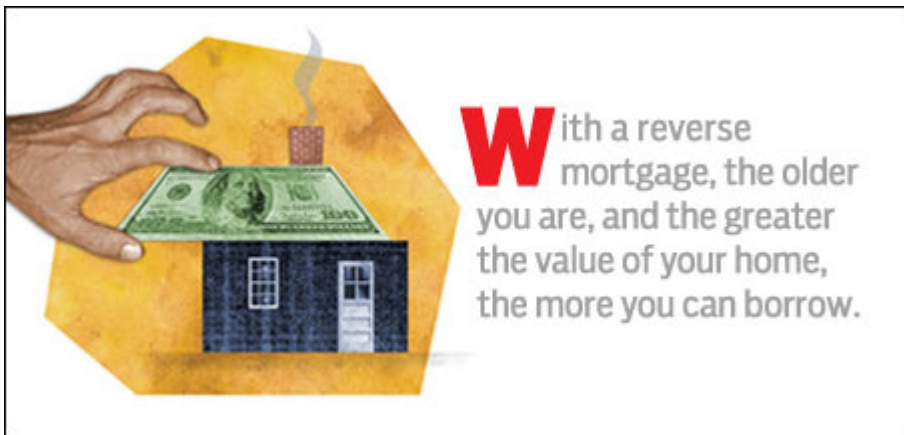


Illustration by Joyce Hesselberth/The Ispot

If you're facing foreclosure, coming up with a monthly mortgage payment may seem an impossible task, especially if you're retired with limited money coming in. The solution may be right in your own home, through the careful use of a reverse mortgage.

Unlike a regular mortgage, which requires that you repay a lender for a loan to buy a house, a reverse mortgage is a loan to you that's secured by the value of your home. The loan is normally repaid, with interest, from the proceeds when you or your heirs sell the house.

The minimum age to qualify for a reverse mortgage is 62. But the older you are, and the greater the value of your home, the more you can borrow—which could be the key to saving your home from foreclosure.

When 66-year-old Ruby Clark of Decatur, Ga., got into financial trouble from a subprime loan, a reverse mortgage turned out to be her best rescue option.

Clark, who has lived in her three-bedroom house since 1970, remembers the evening in 2006 when her trouble started with a call from a mortgage company. "They said I could get a loan and get money back to do some of the things I had been wanting," she said. "I was so far down in the dumps that what they said sounded really good."

A widow with a daughter in college, Clark had been struggling to maintain her home. She agreed to borrow \$121,450 in a subprime mortgage, and used some of the money for new gutters and other repairs.

But the benefits of the loan were far outweighed by the heavy monthly payments, which gobbled up most of her income. Clark fell behind on her payments, and her home was slated for foreclosure in April 2008.

Saving Clark's home

That's when William J. Brennan Jr., director of the Home Defense Program of the Atlanta Legal Aid Society, stepped in.

First, he persuaded the mortgage servicing company to accept a payoff of \$100,192, about \$40,000 less than it was owed including late fees and penalties. Then he arranged a reverse mortgage on Clark's home, which was worth \$179,500, so she could make the payoff.

Reverse mortgages can be a lifeline for older homeowners who can't benefit from the foreclosure prevention plan announced by the Obama administration, which, along with similar plans, focuses on whittling mortgage payments to about one-third of a borrower's gross income. Such plans don't help seniors on small fixed incomes who couldn't pay a monthly bill even if the interest rate were slashed, said Brenda Grauer, a housing policy adviser with the Illinois Office of the Attorney General.

But while there are likely thousands of homeowners with Clark's problem, foreclosure rescues involving reverse mortgages can be difficult.

Arranging one poses a tricky problem for housing advocates. An advocate has to help the homeowner start the process of getting a reverse mortgage, while at the same time working to halt foreclosure action and possibly persuading the lender to accept a payoff that's less than what's owed.

Grauer said that often she can persuade lenders to accept less because the problem mortgage contained unscrupulous terms. "I tell them, 'This is a loan that should never

have been made in the first place.' "

When terms of a loan are clearly illegal, violating predatory lending laws that were in place when the loan was made, one of the first courses of action is to see if a lawsuit can be brought against the lending company, saving the senior's home that way, said Bronwyn Belling, former national program coordinator for the Reverse Mortgage Education Project at the AARP Foundation.

Many loans aren't technically illegal, but it's obvious that they shouldn't have been made to an older person on a fixed income. That's when Grauer presses for a reverse-mortgage payoff.

The second hurdle is arranging the reverse mortgage itself.

Traditionally, these loans are used to give people with little or no mortgage debt a lump sum or monthly income to pay expenses while they live in their home. The older the homeowner and the higher the home equity, the more money a reverse mortgage will yield.

But when there's a big mortgage, combined with today's dropping home prices, the homeowner may have little or no equity. In that situation, a reverse mortgage can be difficult to get.

Why not a reverse mortgage?

Even for those who qualify, reverse mortgage loans aren't always the best option.

- They're very expensive because most of the loan fees are based on the full value of the home, up to a national program limit of \$625,500. In conventional mortgages, fees are based on a percentage of the amount you can borrow.
- Accrued interest payments are not tax-deductible until the loan is repaid in full, usually at some point in the distant future.
- Since the loan grows larger over time, it may be difficult to leave the home debt-free to an heir.

Every homeowner who receives a federally insured Home Equity Conversion Mortgage, the most popular type of reverse mortgage, must first receive counseling from one of the government or nonprofit housing counseling agencies approved by the [U.S. Department of Housing and Urban Development](#).

Many experts think such counseling should be made more widely available to seniors facing foreclosure. Check out [AARP's website on reverse mortgages](#) and other less costly alternatives to help you remain in your home.

Freelance writer Marilyn Melia has covered mortgage matters for more than two decades.

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