Preparing for Your Counseling Session

The decision to get a reverse mortgage is an important one. The Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) want to ensure you are able to make an informed decision and that you are able to choose a course of action that will meet your needs. For this reason, housing counseling for HUD's Home Equity Conversion Mortgage (HECM) is required. The purpose of this overview is to provide introductory information on counseling and the HECM program, to help you prepare for your counseling session. After your counseling session, you will have a better understanding of the features of a reverse mortgage; the impact a reverse mortgage will have on your particular circumstances; and whether services or programs other than a reverse mortgage might better meet your needs.

What You Can Expect from Your Reverse Mortgage Counselor

Understanding what to expect from reverse mortgage counselors is an important first step in setting your expectations for your counseling session. Remember, only you can decide if a reverse mortgage is right for your situation. The counselor provides information to assist you in making that decision.

- The counselor is responsible for helping you understand reverse mortgages and the appropriateness of a reverse mortgage to meet your particular need as well as alternatives to a reverse mortgage.

- Reverse mortgage counselors will discuss your financial and other needs for remaining in your home, the features of a reverse mortgage and how it works, your responsibilities with a reverse mortgage, the impact of a reverse mortgage on you and your heirs, and the availability of other assistance you may need.

- The job of the counselor is not to "steer" or direct you towards a specific solution, a specific product, or a specific lender.

- Counselors will help you understand your options and their impacts.

Reverse mortgage counselors are required to follow specific practices, which are designed to ensure you receive quality counseling services and are protected against fraud and abuse. HUD requires that HECM counselors do the following:

- Send you required materials(i.e., this packet) prior to you counseling session,
- Follow established protocols when conducting the counseling session, and
- Follow-up with you after the session has concluded.

What You Can Expect from the Reverse Mortgage Counseling Process

Step 1 - Schedule an appointment. The counseling process begins when you schedule your appointment for a counseling session. You must schedule an appointment directly with the counseling agency. Your lender cannot initiate or participate in the counseling session. This session is conducted in person or over the telephone; however, HUD advises that, if possible, you meet with your counselor face-to-face to gain greater benefit from your session.

Step 2 – Counselor will contact you and send information. Once you have set up an appointment, the agency sends you a packet of information so that you can prepare for your session. Before you begin, you should also know that some agencies charge a fee for counseling; if you cannot afford to pay this fee you should discuss your inability to pay with the agency at the outset of your session to understand your options.

Step 3 – The counselor will collect from you: Your name, contact and other key information, including your interest in obtaining a reverse mortgage, for the counseling session.

Step 4 - Counseling session: The counselor will discuss with you your needs and circumstances; provide information about reverse mortgages and other alternative types and sources of assistance that might be available to you.

Step 5 – Certificate of Completion: Once you complete your session and you and your counselor are comfortable that you understand the essentials of a reverse mortgage, the counselor will issue a certificate, which verifies for a lender that you have successfully completed counseling.

Step 6 - Follow-up: Your counselors will follow-up with you to learn if you need further assistance and to understand the outcome of your counseling session. You may also call your counselor to seek further assistance after your session.

How a Reverse Mortgage Works

Before you begin your counseling session, it is helpful if you understand a few basics about a reverse mortgage.

Reverse mortgages enable homeowners age 62 or older to convert their home's equity into available cash – a lender advances you money (the loan) based upon the equity in your home. The amount of money you are eligible to receive generally depends upon the amount of equity in your home and your age at the time you get the loan.

With a reverse mortgage, you remain the owner of your home. As with any home, you must continue to pay property taxes and homeowner's insurance. You are also responsible for maintaining your home in good condition.

You will not have to repay your loan balance for as long as you live in your home. You must repay a HECM loan in full when the last surviving borrower dies or sells the home. You can choose to pay off the loan through the sale of the property or prepayment of the loan at any time without penalty. Your estate may retain ownership of the property and must pay off the loan in full or the property can be sold to an unrelated party for the lesser of the unpaid mortgage balance or 95% of appraised value.

Types of Reverse Mortgages

There are three types of reverse mortgages shown in the chart below.

Single purpose reverse mortgage	Typically offered by state and local government agencies to be used in only one specific way, for example, home repairs
Proprietary reverse mortgage	Can be used for any purpose and may be suitable for borrowers with high cost homes
Home Equity Conversion Mortgage (HECM)	Can be used for any purpose and is **insured by the Federal government.**

Payment Plan Options

There are several types of HECM loan plans available, including monthly and annually adjusting interest rate loans as well as fixed interest rate loans. Borrowers can decide to take a line of credit with flexible draw down options, a term loan with fixed monthly payments for a specified number of years, or a tenure plan with guaranteed payments for life or a combination of these options.

Choosing a Reverse Mortgage to Meet your Needs

HECM payment plans are flexible. The best payment plan for you will depend on your current and future financial needs and circumstances. For example:

> *If you have a small balance on your existing mortgage and would like to pay it off with the reverse mortgage*, a line of credit plan would allow you to draw all the funds at loan closing and pay off the current mortgage;
>
> *If you need a set amount of money every month to supplement your income to help meet monthly expenses*, then a tenure or term payment plan might be a suitable option for you.
>
> *If you know you will have some large health care expenses in the near future and want to have the funds available when needed*, a line of credit may also meet your needs.

Your reverse mortgage counselor will discuss your goals for a reverse mortgage with you and will explain the different options available to help meet your needs.

Costs to Obtain HECM

Costs associated with HECMs are generally higher than those for “forward” mortgages used to purchase a home. Although, the cost categories are the same as you would see for a traditional “forward” mortgage. These costs include lender fees to originate the mortgage, servicing fees for ongoing administration of the loan and interest on the money you use from the loan. There are also closing costs, which include all the usual and customary expenses associated with obtaining a mortgage, for example, the appraisal, title searches and insurance. HECMs also include a fee for FHA mortgage insurance.

Impact on Tax/Social Service Benefits

Reverse mortgage loan advances are not taxable and do not affect Social Security or Medicare benefits. However, you must be careful that any loan proceeds you retain do not exceed the monthly liquid resource limits for Supplemental Security Income (SSI) and Medicaid, which may be impacted by your HECM payments.

Alternatives to a Reverse Mortgage

Your HECM counselor will also help you consider options available to meet your needs other than a reverse mortgage. These options include:

- selling your home and moving to a more suitable residence,
- renting as well as other financial options, and
- support services and public benefits that may be available to you in your community.

HUD encourages you to learn as much as possible about your options, before you decide on a reverse mortgage. Listed below are resources you can access to learn more about reverse mortgages and elder care.

AARP’s web site at www.aarp.org/money/revmort provides more information on reverse mortgages and calculators that will provide general estimates of the amount of money you might receive from a reverse mortgage. You may also contact AARP at 1-800-424-3410.

The National Reverse Mortgage Lenders Association provides consumer information at www.reversemortgage.org/default.aspx and can also be reached by calling 1-866-264-4466.

Use Your Home to Stay at Home™

A Guide for Homeowners Who Need Help Now

The National Council On The Aging

The National Council on the Aging (NCOA) is committed to helping older persons to maximize all resources, public and private, so that they can be as independent as possible in the residence of their choice. This booklet is one of several educational pieces developed as part of NCOA's Use Your Home to Stay at Home Initiative, a public-private partnership designed to assess and encourage appropriate use of home equity to help older people who may need assistance to remain at home.

For many seniors, their homes are their biggest financial asset. By unlocking their home equity, many more people may be able to afford services and supports they need. Greater use of reverse mortgages can also strengthen community long-term care programs by providing additional resources for financing the housing and service needs of impaired, older homeowners. The booklets in this series are funded by a grant from the National Reverse Mortgage Lenders Association.

—James Firman, CEO

Founded in 1950, The National Council on the Aging is a national network of organizations and individuals dedicated to improving the health and independence of older persons; and increasing their continuing contributions to communities, societies, and future generations. For more information on NCOA, visit www.ncoa.org

Funded by a grant from the National Reverse Mortgage Lenders Association, with major contributions from Financial Freedom Senior Funding Corporation, a subsidiary of IndyMac Bank, F.S.B., and Wells Fargo Home Mortgage, a division of Wells Fargo Bank, NA. Additional support has been provided by BNY Mortgage Company (A Bank of New York Company) and Seattle Mortgage Corporation.

NCOA

THE NATIONAL COUNCIL ON THE AGING

Overview

Like most Americans, you probably want to stay in your home as you grow older. However, as it gets harder to do things on your own, you may need a helping hand with everyday tasks. It can be costly to pay for help at home, along with home modifications and other health needs. For many people, these added expenses are a real burden.

Older Americans often hold onto their home as a nest-egg to deal with financial emergencies. But when that "rainy day" arrives, how do you tap the equity in your home? Some people may tell you to sell the house and move to assisted living or a nursing home. They may not be aware that a reverse mortgage can help you get cash from your home to pay for services while you continue to live at home for as long as you want.

Using home equity for a chronic health condition can seem like a good idea. But is it right for you? It is a decision you should consider carefully since the house may be your most valuable financial asset. This booklet will to help you understand the benefits and challenges of using home equity to pay for help at home. After reading this booklet, you should be able to:

- Decide whether staying at home is right for you.
- Identify the different financing options that may be available.
- Know where to go for more information.

If you need immediate help with everyday activities, you face many challenges when deciding to tap the equity in your home. A chronic health condition can make it hard to know how much longer you can live at home safely and comfortably. You should also be aware of government programs and how using the equity in your house may affect your eligibility for these programs.

The information included here will give you the tools you need to make wise choices. It will help you ask the right questions and plan ahead so that you can stay at home as long as possible.

Challenges of Aging in Place

Living at home can become difficult as you grow older. Chronic health conditions such as arthritis or limited eyesight can make it hard to do household chores, drive a car, or climb stairs safely. Confusion or forgetfulness increase the risk of mishandling medications. Returning home after being treated for a heart attack, stroke, or serious fall may be impossible without extra help.

In the past, when an older person had difficulty living on their own, it was a signal that it was time to move in with family or go to a nursing home. But for most people this is no longer the case. Today, you can receive a wide range of services and supports in your home or in the community. Breakthroughs in medicine and technology are helping even those people with complex medical problems to continue to stay in their own homes for many years. This is often called "aging in place."

Choosing to live in your home when additional help is needed can be a big decision. There are many practical and financial factors to consider. You will need to balance health and safety issues with your desire for independence and a familiar setting. It is crucial to plan ahead as much as possible. Answering the following questions can help you get started:

- Will staying at home work for me?
- What resources do I have to help me stay at home?
- What other housing options are available?

It is important to remember that every situation is unique. What may work for one person might not be the best choice for someone else.

Will Staying at Home Work for Me?

In deciding to stay in your home, the first step for people with a chronic health condition is to make sure that the home environment is safe, comfortable, and fits your needs. You need to check that the services you need to live at home are available and affordable. If living in your home is not appropriate, you should consider other options, such as senior communities or assisted living.

Appropriate housing

Where you live and the house itself can be a major barrier to aging in place. There are several factors you should consider to decide if staying in your own home makes sense.

- Changing needs—A house that was ideal 30 years ago may now be too difficult to handle alone. Older houses often need a lot of costly maintenance, improvements, or repairs.
- Safety—A house with poor lighting or steep stairs is just an accident waiting to happen. Deteriorating neighborhoods may make you reluctant to go shopping or attend social activities.
- Isolation—A trip to the grocery store, pharmacy, or place of worship can be a problem when driving is difficult. It is easy to feel lonely or trapped when family and friends are far away.
- Ease of use—If you needed a walker or a wheelchair, it helps to have a bedroom on the first level, grab bars in the bathroom, and ramps for the entrance of the house.

Some of these conditions can be fixed by modifying your home. Living in an unsafe neighborhood or away from family and friends cannot be changed without moving.

Adequate help

Most older people who have a health problem get help in their own homes. This help is usually provided by family or friends, called caregivers. There are also many professional services. A homemaker can help with transportation, household chores, and daily activities. A nurse can check medications and give medical care, while a therapist can offer rehabilitation in your home. Adult day centers provide supervision, health monitoring, rehabilitation therapies, and social activities. They give elders a stimulating place to be while family caregivers are working or taking a break.

Without good quality and reliable help, people with a chronic health problem often find it hard to live at home. Relying on paid services may not be practical, however, for people who do not want a stranger in their home. It can also be hard to find the services you want at a price you can afford.

Cost of supportive services

Help at home typically involves some coming into your house from a home health agency. You usually pay for services on an hourly basis, although daily rate or visit rates are possible. Professional services in your home can be expensive. In addition, you may need to modify your home. Home modifications can range from about a hundred dollars to install a grab bar to thousands of dollars to install a lift or add a bathroom to the main floor. Costs also vary in different regions of the country. They tend to be higher in areas where the cost of living is high.

AVERAGE NATIONAL COST OF SERVICES, 2003

Homemaker:	$17/hour
Home health aide:	$18/hour
Adult day center:	$56/day
Assisted living:	$2,524/month
Nursing home:	$169-$192/day (semi-private and private room)

Sources: MetLife Mature Market Institute, National Association for Home Care, Genworth Financial.

While services in the home and community may cost less than in a nursing home, these expenses can add up over time.

A person who needs a few hours of help from a home health aide in the morning and at night could easily spend $72 per day, or $2,160 per month.

What Resources Do I Have to Help Me Stay at Home?

Once you understand the challenges of living at home, then you need to look at all the resources you have available to deal with your situation. The three major sources of help are: support from family and friends, personal income and assets, and the equity in your home.

Support from others

Most older Americans with a chronic condition depend on family for help. A spouse or adult children can provide a high level of loving care. Children can run errands, provide transportation, and maintain the house. Neighbors and friends may help with yard work or home repairs.

Family caregiving can be a rewarding experience. Relying solely this option, however, needs to be considered carefully. It can be physically exhausting to help someone, especially if they have difficulty walking or getting out of bed. Caregivers may develop health problems because of the strain of these activities. Working caregivers may have to give up their job or reduce the number of hours they work in order to provide help at home.

Personal finances

A chronic health condition can quickly use up a big part of a retirement nest-egg. Reviewing your finances will be an important part of the decision to remain at home. Your finances include your income, savings, and investments.

- *Estimate your household budget.* Work out your income and living expenses, along with the monthly cost of any loans and credit card debt. You also have to budget for home repairs and maintenance, and keep up with insurance and tax payments.

- *Keep an eye on cash flow.* Make sure you have enough money readily available each month to pay for expenses. Your need for help may vary as your health condition changes.

Those who have financial resources such as stocks, bonds, or property other than the home could increase their available funds by selling these assets. If you own a life insurance policy, you may be able to use a portion of the death benefit to pay for supportive services ("accelerated benefit"). If you have very limited person finances, you may be eligible for government programs.

Home equity

Home equity is the difference between the appraised value of the home and what your owe on any mortgages. If you've owned your house for many years, it could now be worth a lot more than what you originally paid. Tapping the equity in your home can quickly give you extra cash for a ramp or lift, or to help pay the day-to-day expenses of help at home. A loan may also be less costly than high interest rates from credit cards.

It can be a very emotional decision to tap home equity. Many people see their house as a place to live, not as a resource to pay for everyday expenses. For some, it is important to leave an inheritance for their children. Preserving the equity in your home must be carefully balanced against the risk of not having enough funds to continue to stay at home. Pinching pennies can lead to poor nutrition, health complications, or a serious accident that can put you in the nursing home.

Other Housing Options

Living with a chronic health condition can be difficult. You may need to consider alternatives to staying in your own home when you:

- Cannot take care of yourself or manage the home on your own anymore.

- Have had several falls or other accidents.
- Need round-the-clock supervision (such as in the later stages of Alzheimer's disease).

One option may be to live with children. It helps to consider the practical realities of making this move. How easy will it be to live together? Will your kids have to make changes to their house, such as adding grab bars or building a ramp? Who will pay for expenses such as rent?

You may be reluctant to move to because you are afraid of losing your independence. However, today there are many attractive housing choices where you can get the help you need. For example, senior housing supports independent living and offers amenities such as transportation and social activities. Assisted living residents live in private apartments and can get help with everyday activities. Continuing care retirement communities (CCRCs), or life care communities, offer a full range of services, from independent living, to assisted living, and nursing care.

Your House As A Resource

Once you decide that it makes sense to continue living at home, the next step is to make sure that you have adequate funds. This section describes your choices for tapping home equity. These typically involve taking out a loan that uses your home as the collateral to guarantee that you will repay the loan.

To help you decide which option may be best for your situation, it helps to consider the following questions:

- Why do I need the money?
- How much cash can I get from my house for help at home?
- Am I prepared to tap home equity?

The equity you have built up over many years should be used wisely. It is important that you understand the costs, benefits, and risks of the different type of loans.

Why Do I Need the Money?

Since loans can be costly, you need to be clear about how you plan to use the money. Some homeowners like to plan ahead by taking out a line of credit. These funds give them the flexibility to pay for expenses as they arise. Others want a lump sum to deal with a specific, one-time cost such as adding a bathroom or buying a specially fitted van.

The length of time that you will need the loan will also make a difference in your decision. Are you tapping home equity to solve an immediate problem? Or do you need funds for many years to pay the ongoing cost help at home? When you take out a loan to tap a portion of your home equity, the remaining equity usually won't be available for other needs until you pay off the loan. It is important to look at your overall financial situation, or you may find yourself stuck with a loan that doesn't fit your changing needs.

Short term solutions for immediate needs

There are several financing options for older homeowners who want to use home equity to deal with an emergency or for specific problems that need immediate attention.

SINGLE PURPOSE LOANS

Many states and communities offer special loans to help older homeowners who are struggling to live at home. These loans are designed to meet specific needs:

- *Home repair and improvement loans:* Borrowers get a one-time, lump-sum payment that can be used only for the specific repairs or improvements that each program allows.
- *Property tax deferral loans:* These programs allow older homeowners to defer payment of some or all of their property taxes until they sell the home.

Borrowers do not need make payments on these single-purpose loans for as long as they continue to live in the home.

Advantages

- Single purpose loans are usually less expensive than conventional home equity loans.
- Some programs forgive part or all of the loan if the borrower continues to live in the home for a certain period of time.

Disadvantages

- Most programs require borrowers to be at least 65 years old. Eligibility is often limited to homeowners with low or moderate incomes.
- These loans may not be available where you live.
- The remaining equity in the home, which can be large, may not available for other needs.

CONVENTIONAL HOME EQUITY LOANS

These loans can be useful for homeowners who are unsure how long they can continue to live at home or how much help they will need. Conventional home equity loans can also help families who have other assets but do not want to disrupt long-range financial plans by selling them immediately. Until you have a good sense of what's going on with your health situation, this type of loan can give you extra funds without paying large fees or making drastic changes.

There are two types of home equity loans:

- *Home equity line of credit:* This loan works like a credit card. You can borrow up to a certain limit for the life of the loan. During that time you can withdraw money as needed. As you pay off the principal, your credit revolves and you can use it again.
- *Home equity loan:* Borrowers receive the money in a lump sum. The loan is paid off over a set amount of time, with a fixed interest rate and the same payments each month.

Costs associated with these loans include 'points', appraisal fees, closing costs, and loan initiation fees. Closing costs include attorneys fees, fees for preparing and filing a mortgage, fees for title search, taxes, and insurance.

Advantages

- If you qualify and your credit is good, you can quickly obtain a home equity loan.
- With a line of credit, you only pay interest on what you borrow.
- Since you pay for the loan from income, your home equity does not decrease.

Disadvantages

- You may not qualify for these types of loans. Lenders look carefully at your income, other debt, and credit history.
- Borrowers must be able to make monthly payments on the home equity loan. If you can't make these payments, you could lose your house.

- At the end of the life span of a line of credit, the entire loan must be paid off. A lender may not allow a renewal of the loan.

For people with a chronic health condition, conventional home equity loans make the most sense to deal with short-term cash flow problems. If your health deteriorates, monthly loan payments along with other expenses may become more than you can handle. If you deplete your funds paying for help at home, you run the risk of being unable to pay off the loan and could lose the house.

Long-term solution—Reverse mortgage

Homeowners who expect to live in their current home for several years should consider a reverse mortgage. Reverse mortgages are designed for homeowners age 62 and older. These types of loans are called "reverse" mortgages because the lender makes payments to the homeowner. To qualify for this loan, the home must be your main residence.

Unlike conventional mortgages, there are no income requirements for these loans. Reverse mortgage borrowers do not need to make any monthly payments for as long as they (or in the case of spouses, the last remaining borrower) continue to live in the home. When the last borrower moves out of the home or dies, the loan becomes due.

There are three types of reverse mortgages available in the market. These include:

- *Home Equity Conversion Mortgage (HECM)*—This program is offered by the Department of Housing and Urban Development (HUD) and is insured by the FHA. HECMs are the most popular reverse mortgages, representing about 95% of the market.
- *Fannie Mae Home Keeper loan*—Borrowers can receive more cash from these loans than with a HECM since the loan limit for this product is higher.
- *Financial Freedom Cash Account loans*—This product is available to seniors who own homes that are worth more than $600,000. These "jumbo" loans are especially helpful to homeowners with expensive homes since there is almost no maximum home value or loan limit under this plan.

Borrowers can select to receive payments as a lump sum, line of credit, fixed monthly payment (for up to life in the home), or a combination of payment options. The money borrowers receive from a reverse mortgage is tax-free, and can be used for any purpose. Reverse mortgages have unique features:

- All homeowners must first meet with a government approved reverse mortgage counselor before their loan application can be processed or they incur any costs.
- Lenders include life expectancy in calculating loan payments, so older borrowers are eligible to receive more money.
- There are limits on the amount you can borrow under the HECM program. These limits reflect local property values.

Most of the costs that reverse mortgage borrowers pay are similar to those of a traditional home loan or to refinance an existing mortgage. These include an origination fee and other closing costs (such as an appraisal, title search and insurance, surveys, inspections, recording fees, etc.). HECM borrowers also pay a mortgage insurance premium. Most of these upfront costs are regulated, and there are limits on the total fees that can be charged for a reverse mortgage. As with conventional mortgage loans, closing costs can be financed as part of the mortgage.

Advantages

- You (or your heirs) will never owe more than value of the home at the time you sell the home or repay the loan, even if the value of your home declines.
- You continue to own your house and can never be forced to leave as long as you maintain the home, and make your property tax and hazard insurance payments.
- Borrowers can select to receive loan funds through a combination of payment options (such as lump sum and line of credit). You can change the payment plan for a small fee.
- For HECM and Cash Account loans, the available balance on the line of credit may increase over time, depending upon interest rates.

- In cases where there is in an existing mortgage on the property, the proceeds of the reverse mortgage are typically used to pay off the loan. This can increase a borrower's monthly cash flow since they no longer have to make payments on their conventional mortgage.

Disadvantages

- Closing costs can add up to more than 5% of the value of your home (for example, 5% of a $100,000 home would be $5,000). These costs can be financed into the loan.
- Borrowers may use up a large part of their home equity over time, reducing the amount they can leave as an inheritance to the family.
- If you are the only homeowner and you need to stay in an assisted living or nursing facility for more than a year, your loan will become due, and will not be available to pay for care in these facilities.

Most people get a reverse mortgage through a mortgage lender. Some credit unions and banks, along with state and local housing agencies, may also offer these loans.

How Much Cash Can I Get From My House?

The amount that you can borrow is based primarily on the value of the home, the type of loan you select, and the current interest rate. The age of the youngest homeowner is also a factor for reverse mortgages. Loan amounts can vary by tens of thousands of dollars among the different reverse mortgage products. To find out how much money you may be able to get from a reverse mortgage, use the simple, on-line calculator offered by AARP (*www.rmaarp.com*) or the National Reverse Mortgage Lenders Association (*nrmla.edthosting.com*).

The condition of the home and property values in your area may also determine how much cash you will have to pay for help at home. If you've lived in your house for many years, it will have aged considerably. The house needs to be in good repair to qualify for a reverse mortgage.

In many areas, property values are increasing dramatically. A home that appreciates by 4% each year will increase in value from $150,000 to over $182,000 in five years. If you can continue to live at home safely, it can be worthwhile to use some of your growing equity.

How long will the reverse mortgage last?

Due to the cost of obtaining a reverse mortgage, these loans make the most sense for homeowners who are committed to staying in their current home. For borrowers with a chronic condition, it is important to understand how much money will be available to pay for help over time.

Let's consider the situation of three families who take out a reverse mortgage. They live in a house that is in good repair and worth $150,000. They own their homes free and clear of any debt.

> *Scenario #1:* Joe and Liz Anderson (ages 69 and 65) built their 2-story dream home after retiring four years ago. Since then, Joe had a mild heart attack and has difficulty climbing the stairs. Based on Liz's age, the Andersons receive $74,798 from their reverse mortgage. They take $20,000 of the loan to install a lift and make other home modifications. They keep the rest ($54,798) in a line of credit for future needs.

> *Scenario #2:* Melba Jones (age 75) has lived in the same town all her life. She knows she can rely on family and friends for help with her arthritis. Her big concern is using up all her retirement funds. She receives $90,120 from the reverse mortgage and selects a payment plan which gives her $602 per month for as long as she stays in her house. This gives her peace of mind, knowing that she can pay for extra expenses and won't be a burden to her children.

Scenario #3: Bill Smith (age 85) recently had a massive stroke. His condition is serious and he could go to the nursing home. But his family is committed to keeping him at home. At his age, Bill receives $106,754 from a reverse mortgage. This money will be enough for his family to withdraw $4,700 each month for up to two years from the line of credit.

Am I Prepared to Tap Home Equity?

Whether you are considering a loan or decide to sell the house, chances are that it will take time to get the equity in your home. It takes careful planning to make sure that the funds you need will be available when you need them. Problems which could slow down access to home equity include:

- Legal issues—Make sure that you have a durable power of attorney that includes real estate. This allows your family or trusted friend to make decisions if you cannot do so.
- Title to the home—Understand who owns the home. If you add children or grandchildren to the title, you may not be able to qualify for a reverse mortgage (since all homeowners have to be at least age 62) or sell the home.
- Home repairs—For major repairs, it can take up to several months to find a contractor, get the necessary permits, and complete the job.
- Finding a new place to live—If you sell the house, you must find somewhere else to stay. Your children may need time to prepare their home if you plan to live with them. Retirement communities and senior housing apartments often have long waiting lists.

Transactions involving the home usually involve many, different people including your banker, a real estate agent, lawyer, appraiser, inspector, and contractors. To avoid delays, it helps to plan ahead as much as possible.

Government Programs

Government programs provide an important safety net to older Americans with limited financial resources, and those who run out of money paying for the cost of help at home. Several public programs help older people who need help due to a chronic condition. Homeowners who qualify for these programs may avoid using home equity.

Medicaid

Medicaid is a joint Federal-state program that was designed to pay for long-term care for older Americans with low incomes and those who have high health care expenses. Covered services can include: care management, homemaker, home health aide, personal care, adult day center, and respite care. The supportive services that may be available vary by state.

In order to qualify for Medicaid, you must meet strict income and asset limits. However, your home, regardless of its value, is not counted when Medicaid determines your eligibility for this program, so long as it remains your main residence. Medicaid also allows the spouse of a beneficiary to keep the family home. But there are limits on your ability to gift the home or transfer this asset and still be eligible for the program. In addition, all states must try to recover the money they spend on care from a Medicaid beneficiary's estate after he or she dies. A beneficiary's heirs may need to sell the family home to pay the Medicaid bill.

The rules for Medicaid eligibility and treatment of the house are complicated and vary from state to state. To learn more, talk to a senior counselor or a knowledgeable financial advisor.

Department of Veterans Affairs (VA)

The VA provides long-term care services primarily to veterans with a service-related disability, low-income veterans, and former prisoners of war. Eligible veterans typically receive nursing home care. The VA may also cover some respite care, a homemaker, home health aide, and adult day care. Eligible veterans may also be able to pay for home repairs and modifications by refinancing their home with a low cost VA loan.

Medicare

Medicare, the national health insurance program for seniors, mainly covers medical care (doctors and hospitals). This program will pay for a home heath aide, but only while a beneficiary needs skilled nursing care or rehabilitation therapies. Once you no longer need skilled care, Medicare will stop paying for home health care, even if you still need help with everyday activities.

Other Public Resources

Your Area Agency on Aging offers a wide array supportive services that can include help with household chores, meals served in community locations, adult day care programs, senior centers, protective services, and legal counseling. These programs are available free or at very low rates. Due to limited funding, however, there may be eligibility requirements and waiting lists.

Many communities provide low-cost services to help impaired seniors to continue to live at home. These programs may include Meals on Wheels, Dial-a-Ride or other special transportation programs for seniors, friendly visits or telephone checks to elders who live alone, light housekeeping, and help with home modifications or repairs. Faith and charitable organizations can also help. Your pharmacy or grocery store may offer free home delivery.

Where To Go For More Information

Eldercare Locator can help you find services and programs in your area: Call 1-800-677-1116 or check the web at *www.eldercare.gov*.

BenefitsCheckUp: A quick, confidential and free web service that can connect you to federal and state programs: *www.benefitscheckup.org*.

The National Resource Center on Supportive Housing and Home Modification offers tips on how to assess home safety for elders and funding for home modifications: *www.homemods.org*.

Family Caregiving Alliance offers fact sheets and other assistance to families who are caring for a loved one: *www.caregiver.org/caregiver/jsp/home.jsp*.

The National Reverse Mortgage Lenders Association offers consumer publications, and a website with a reverse mortgage calculator. They can also help you to find a reverse mortgage lender in your state: *www.reversemortgage.org/default.aspx*. or call them at 866-264-4466 (toll free).

AARP's website provides a detailed overview of reverse mortgages that includes a calculator to estimate how much you can get from this loan: *www.aarp.org/money/revmort*.

CONSUMER TIPS

Look at the big picture

Your ability to live at home is likely to change over time. So it is important to look at your financial situation beyond immediate needs. Short-term solutions could be risky if you require ongoing funds for several years. It helps to save some of your home equity so you have the option of moving into a more fitting housing arrangement.

Don't wait until the last minute

Timing is critical when making decisions about the home. You or your family could end up facing a serious cash crunch if you wait until a crisis to start thinking about how to tap home equity. To avoid stress, disappointment, and costly delays, this strategy takes a lot of advance planning. The longer you wait, the harder it can be to find a good solution.

Have ready cash for emergencies

It helps to have a three-month emergency fund of readily available cash, such as a money market account or short-term certificate of deposit. If this is not possible, make plans and prepare for how you would pay for an emergency. If you run short, use credit cards sensibly. Avoid salespeople who show up at your door with a quick fix to your financial problems.

Create a family budget

A sudden change in health can disrupt the best laid financial plans. Strong monthly financial planning is necessary to keep family affairs running. The best way to understand your family's cash flow needs is to create a budget.

Talk to your family

It can be difficult to talk about personal financial matters. However, good communication can bring a family together and reduce confusion. Talk with family or other heirs before taking out a loan. They will need to pay off the loan balance or repay Medicaid if they want to keep the home.

Don't rush into any decision

If you decide to take out a loan, consider all the options to find the best solution for your financial situation. Shop around with different lenders to check that the interest rate and fees are competitive and fair.

Make sure you understand what you are signing. Ask questions if you are confused. Get help from a trusted family member or friend who understands financial matters. Non-profit counseling agencies can give you free, independent advice.

The only time you need to act fast is if you decide you do not want the loan. Federal law gives you three days to get out of a reverse mortgage or home equity loan contract. You may cancel the loan for any reason, but you must do it in writing within three days.

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THE AGING

The National Council on the Aging
300 D Street, SW Suite 801 | Washington, DC 20024
(202) 479-1200
www.ncoa.org