Reverse Mortgage

by R. Stanley Morgan, SR/WA

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A reverse mortgage release for a partial acquisition may be needed before a right-of-way claim can be closed on a highway project. Does this sound like a phrase in one of the IRWA education courses? Well, it is another financial phrase that you will be hearing more and more in the right-of-way acquisition field. All right-of-way agents are familiar with the traditional first mortgage, deed of trust-type loan and how to handle the release where there is a partial acquisition of a parcel of land. The reverse mortgage is a fairly new loan instrument in North Carolina. As the age group of senior citizens in the United States continues to increase, this financial tool will be used greatly. This type of mortgage makes it possible for an owner to convert some equity into spendable cash while retaining ownership of the home. A reverse mortgage is an arrangement an owner has with a financial institution whereby the lender sends the owner a fixed amount a month for the rest of their lives, presuming the home in question has enough value to last until the owner dies. The owner can also request to receive a monthly check for a predetermined period. These loans are available for people 62 years and older whose homes are paid for. A few exceptions may be made if only a very small balance remains on the first mortgage. When the reverse mortgage applicants die, the residence is sold and the estate receives the funds of the sale after the debt is paid, along with any expenses associated with the sale. No principle or interest is due until the owner dies, chooses to sell the home, or permanently moves away (for example, to a nursing home). Loan advances from a reverse mortgage are not taxable and do not affect social security or medicare benefits.

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Many senior citizens are outliving their retirement funds and realize that they have thousands of dollars of equity in their home. The reverse mortgage is a tool whereby the owners can use the value of their home for living expenses and entertainment if they so desire. This may not be agreeable with the applicants' heirs. This program is administered by the Department of Housing and Urban Development (HUD) and loans are insured by the Federal Housing Administration (FHA). The law creating the FHA program for reverse mortgages requires borrowers to receive adequate counseling by a third party, other than the lender. The counseling is provided by public and private, non-profit agencies trained and certified by the HUD. The applicants are apprised of all the advantages and disadvantages of a reverse mortgage. One advantage that is explained to them is that if a local lender defaults, the FHA continues to make the loan advances to the home owner.

Since this is a fairly new loan in this area, every financial institution may not be familiar with it, but with a few inquiries you can find a lender. The Winston-Salem negotiating office of the North Carolina Department of Transportation recently purchased a strip of right of way in front of a dwelling, and the owners had a reverse mortgage. The right-of-way agent approached the local lender and tried to secure a release so the closing could proceed. The Department was informed by the local lender and by the FHA that they have never approved a partial release on a reverse mortgage, and they would need help from their attorneys before a release could be approved. After three months, the FHA agreed to a closing as follows: all right-of-way funds were made payable to the local lender. After the funds were received, the equity available to the owners was adjusted upward for the full amount of the right-of-way settlement. The owners were not allowed to get the right-of-way settlement in a lump sum; however, they will be able to get the right-of-way settlement in monthly payments after the original equity has been withdrawn.

As of November 1992, the average term of a reverse mortgage is seven years. The higher the interest rate, the smaller the loan advance can be; an applicant can select to get one lump sum advance, for example, to pay off a large medical bill, or choose to receive fixed monthly amounts. With this type of loan, there is an increasing debt rather than a decreasing debt as with a traditional loan. Application fees, interest rates, points and other closing costs are usually higher on a reverse mortgage. The specific dollar amount owners can borrow depends on four factors: 1) age, 2) cost of the loan (for example, interest rate), 3) value of the home, and 4) specific loan plan worked out with the local lender.

This article is not intended to be a financial bulletin, but rather information for right-of-way negotiators involved in acquisition and handling all subsequent interest in real estate. As new financial tools become available, people in the right-of-way field will have to continue being "mortgage competent." IRWA

Sources

1. Winston-Salem Journal, Winston-Salem, N.C., December, 1992.
2. AARP, Consumer Affairs Section, Washington, D.C.
3. National Center for Home Equity Conversions, Marshall, Mn.
4. North Carolina—Northwest Piedmont Council of Government, Winston-Salem, N.C.