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### **Reverse Mortgages**

If a family member needs help meeting the costs of health care and treatment-and he or she owns a home-you might want to consider obtaining a reverse mortgage (RM).

A reverse mortgage is a type of loan that allows the conversion of home equity into cash while retaining home ownership. They work much like traditional mortgages, only in reverse. Rather than making a payment to the lender each month, the lender will pay your loved one.

To qualify, a person must own a home and be at least 62 years old. Depending on the plan, a RM becomes due with interest when your loved one moves, sells the home, dies, or reaches the end of the pre-selected loan term.

There are three kinds of RMs: Federal Housing Authority (FHA)-Insured, Lender-Insured, and Uninsured. Each type varies in cost and terms, and an attorney can help you determine which is appropriate. However, there are a few things most RMs have in common:

- They are rising-debt loans with interest added to the principal loan balance each month. The total amount of interest increases dramatically over time as the interest compounds.
- All RMs charge origination fees and closing costs. Insured plans also involve insurance premiums, as well as possible service charges.
- RMs use up equity in a home, leaving your loved one with fewer assets.
- The initial loan advance at closing may be negotiated higher than the rest of the payments.
- Legal obligation to pay back the loan is limited by the value of the home at the time of repayment. This could include increases in the home's appreciation after the loan begins.
- RM loan advances are non-taxable and do not affect Social Security or Medicare benefits.

RM advances do not affect SSI benefits as long as your loved one spends the advances within the month they are received. This also applies to Medicaid benefits. Check with a benefits specialist at the local Area Agency on Aging for further clarification. In addition, consulting with an attorney or financial advisor before making this decision is essential

to help reduce potential financial risks and avoid any threat of foreclosure. In general, it's a good idea to explore all other options before looking closely at a reverse mortgage.

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