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## FINANCING

# Pick 'reverse' at a deliberate speed

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Some thoughts on why maturity and deliberation make for better mortgage choices:

Thinking about a reverse mortgage? Don't move too quickly.

That's the advice of Ken Scholen, director of the AARP Foundation's Reverse Mortgage Education Project, who suggests senior homeowners take his suggestion two ways. First, because reverse mortgages come with relatively steep upfront costs, they're only for seniors who want to remain in their home for the foreseeable future.

"Look around at other housing just to make sure you really want to stay," he says.

If seniors don't anticipate a move and want a reverse mortgage, which provides a lump sum, or a set amount that can be drawn down, or a monthly income, they shouldn't move too quickly to sign up for a particular loan, either, adds Scholen.

He predicts more lending firms will be offering reverse mortgages in 2007, and increased competition will drive down some upfront costs.

Right now, most of the reverse mortgages made are federally insured, and are known as "HECM" mortgages. In the Chicago area, the HECM loan size is limited to \$275,200, no matter the worth of home.

It has been common for lenders to charge an origination fee of 2 percent of the home's value or the loan amount, whichever is lower, as well as an insurance premium of 2 percent of the loan amount and other fees.

Increased competition is beginning to lower costs, says Peter Bell, president of the National Reverse Mortgage Lenders Association, a trade group.

Bell says some loans are offered with the 2 percent origination fee but a slightly lower

interest charge, or the standard interest rate with a lower origination fee.

"If you are going to be in the house for a very long time, the lower interest rate is the best benefit. If not, then the origination fee is better," Bell advises.

Before any senior can obtain a HECM reverse mortgage, he must visit a trained counselor who will explain his options.

"Counseling is more important than ever, since there are more choices," Bell says.

Could there be more comfort in a tax freeze?

Seniors interested in reverse mortgages are usually on a tight income and have trouble paying rising property taxes. Senior advocates advise checking out all options that can make staying home more affordable, including a property tax freeze.

In Illinois, the household income limit was recently bumped up -- households that had a total income of \$50,000 or less in 2005 can now qualify for the freeze, which allows the equalized assessed value of your property to stay at the level it was at the year preceding the year you qualify. Seniors born in 1941 or earlier qualify. Contact the county assessor's office for more information.

What do middle-age owners know that saves them money?

That it pays to question lenders about the cost of home-equity offers.

A recent study shows that at age 53, homeowners made the fewest "mistakes" when they took out home-equity lines of credit, and thus ended up paying lower fees and a lower interest rate on an equity line. These borrowers questioned the value that lenders assigned to their home, a key contributor to the interest rate charge. Or, these fifty-something consumers shopped other lenders, believing initial offers were not the best, explains Sumit Agarwal, an economist at the Federal Reserve Bank of Chicago and one of the study's authors.

Borrowers in younger and older age groups weren't as savvy, probably because the 53-year-olds are at a peak for experience-based knowledge while still carrying much of the analytical ability of the young, Agarwal theorizes.

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