



Aaron Jernigan
Senior Vice President
BancorpSouth Mortgage
Phone: (417) 849-7801
Fax: (417) 889-3726
aaron.jernigan@bxs.com
www.AaronJernigan.com



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Baby Boomers Retire Reverse Mortgages Gain Popularity

Born between 1946-1964, the generation known as the Baby Boomers will begin to retire in large numbers, substantially shrinking the labor force in the US. As a result, Social Security, Medicare, and other government programs will be significantly affected over the next several years. In fact, the Social Security Advisory Board (SSAB) estimates that, by 2030, about 20% of the American population will be 65 years old or older.

With rising costs of living and a dwindling budget to accommodate the elderly and disabled, we will see increased usage of the reverse mortgage. This loan allows equity to be taken out of the home to meet day-to-day expenses, and was designed in the late 1980s to help those who owned property, but lacked sufficient income to live on. However, there are benefits and disadvantages to be considered before going into this type of loan.

In most loan scenarios a home will go into foreclosure if payment is not made. If payments are made, the debt decreases and equity increases. The opposite holds true for a reverse mortgage; equity is taken out of the home to sustain the family, causing debt to increase while equity decreases. There is an exception - if the actual value of the home increases, less equity will be lost overall.

Most reverse mortgages are set up so there is no monthly payment as long as the owner or co-owner(s) resides in the home. There are no minimum income requirements, and the money can be used for any purpose. Equity disbursed from this type of loan is tax-free. Depending on the type of plan, reverse mortgages will usually allow the owner to retain the title to the property until they have lived in a different residence for 12 months, sold the property, died, or the end of the loan term has been reached.

On the flip side, reverse mortgages can be more costly than a normal equity loan. Interest is added to the principal balance each month, and the amount of interest owed is compounded over time. The interest will not be tax deductible until the loan is paid off, in part or in full. Also, since the reverse mortgage uses equity in the property, this constitutes a loss of assets one could pass on to heirs.

The Federal Trade Commission warns of abuse with this type of loan, as they have received reports of predatory lenders taking advantage of the elderly. It is best for the individual interested in a reverse mortgage to research and obtain counsel from reputable sources.* HUD does not recommend consulting an estate planning service to obtain a referral to a lender. HUD provides this information free to the public. Even if the home was not originally an FHA loan, the reverse mortgage can be federally secured.

*Visit the HUD page on this subject at <http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm>, consult AARP (American Association of Retired Persons) at <http://www.aarp.org>, and the National Center for Home Equity Conversion at <http://www.reverse.org>.

