A Reverse Mortgage for Mom and Dad
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If you are financially well off but your elderly parents have not been as fortunate, it can be tricky to figure out how to help them take care of their needs without busting your own bank account.

If your parents own a house but haven't put aside much cash for their golden years, together you should look into whether a reverse mortgage might best meet their needs.

Reverse mortgages are exploding: Since it was created in 1990, the federal Home Equity Conversion Mortgage insurance program has insured 429,506 reverse mortgages, and a whopping 62% of those, or 267,393, were approved between Oct. 1, 2005, and June 30, 2008. The Federal Housing Administration insures about 90 percent of all reverse mortgages nationwide.

While the slump in home values has lowered the amount of equity available for reverse mortgages, it has also made it more difficult to sell a home or obtain an equity line of credit, making reverse mortgages a better alternative for more homeowners.

And the popularity of reverse mortgages should continue to soar with President Bush's recent signing of the Housing and Economic Recovery Act, which includes several provisions that make reverse mortgages more appealing.

Most importantly, the act raises the national limit on federally insured reverse mortgages from a range of $200,160 to $362,790 (in high-cost areas) to a range of $417,000 to $625,500. It also limits origination fees to 2 percent of the initial $200,000 and 1 percent after that, with a total cap of $6,000. And it prohibits the cross-promotion of reverse mortgages with annuities and other financial products that do not provide further value for seniors, a practice that has hurt the reputation of reverse mortgages in recent years.

A reverse mortgage is a loan against a home that the homeowner does not have to pay back for as long as they live in the home. To be eligible, the person must own the home and be at least 62 years old. The loan will be paid back by the sale of the home after the homeowner passes away or moves out of the home.

Reverse mortgages, which are highly regulated, tend to cost a bit more than other types of loans, but the fees involved are added to the balance of the loan rather than paid out of pocket. Reverse mortgages can provide a guaranteed cash flow without the worry of making any payments. The homeowner can receive the cash in a lump sum, as a regular monthly payment, as a line of credit, or as a combination of these three methods.

The homeowner does not have to worry about repaying the loan, regardless of what happens to the home's value or to the lender, because part of the financing includes a mortgage insurance premium required by the federal government.

That premium, plus other costs, tends to make reverse mortgages somewhat more expensive than other types of loans. So it's important for homeowners to know whether a reverse mortgage is their best alternative. In fact, the federal government requires every homeowner who applies for a reverse mortgage to receive consumer education and counseling from a U.S. Department of Housing and Urban Development-approved counselor.

Here's an example of a situation where a baby boomer with elderly parents should broach the subject of a reverse mortgage, according to financial planning experts:

A 55-year-old man who is financially well off has 80-year-old parents with only $50,000 in cash in the bank. In talking with his financial advisor about ways to improve his parents' financial outlook, one alternative that should be considered is a reverse mortgage. In this case, the parents' home is worth $350,000 and is paid off. Since the son won't need to inherit the home, signing a reverse mortgage could provide the parents with a line of credit worth close to $245,000 (after taking fees and other charges into account).

Had the parents still owed some money on the original mortgage, some of the proceeds from the reverse mortgage could have been used to pay that off.

To determine whether your parents should consider a reverse mortgage, talk to them about how long they plan to live in the house. If they are considering relocating within five years a reverse mortgage is probably not in their best interest, since that isn't enough time to make the payoff worth the expense.

It's a good idea to hire an independent financial planner to oversee the deal and recommend a reverse mortgage specialist with a lot of experience in the field. You should also visit the website of the National Reverse Mortgage Lenders Association, www.reversemortgage.org, or the AARP website, www.aarp.org/money/revmort, to clearly understand how reverse mortgages work.