

Reverse Mortgages

We are not unalterably opposed to reverse mortgages, but we do consider them a poor alternative to many of the other options generally available to families of our older clients. Our main objections are that they have high fees and that it affects the liquidity of the family's largest single asset, their home, with a corresponding loss of control of that asset.

More frequently, in fact in almost every case, when we've examined the needs of that person, they have other family members – usually an adult child – with stronger financial status in which we can use their financial balance sheet to do a sale/finance back and thus not waste the tax advantages that would be inherent for an individual who holds the mortgage. Plus, with interest rates very, very low now (summer 2011), the ability to get cash flow and/or earnings that exceed the 3% or so in mortgage rates is not something that is unattainable.

You have heard the old axiom, "If it sounds too good to be true, it usually is." Whenever institutions, typically banking, present themselves as a panacea, there has usually been a hidden negative relative to the consumer.

As a fiduciary, we are committed to serving the best interests of our clients. At the same time, we know there are going to be costs, but we can minimize those by squeezing the margins down, and a more traditional conforming loan initiated by a family member is normally a cheaper and better alternative. Rather than allocating funds to the bank, the asset can be sold when the parent is no longer able to live in the home or is no longer alive and end up with a higher net equity than if a reverse mortgage had been done. It's not just the cost of the mortgage origination, it's the loss of control of the asset. It's the imposing of another institution with, by necessity, their need to maintain a thicker margin. Normally we have found that through a kind of gentlemen's agreement we've looked at the family member who has assisted this transaction. They are not doing it for financial gain; they are doing it to assist the parent who is in a weakened situation. With a gentlemen's agreement, more often than not when the asset is sold, the net proceeds are distributed equally over and above what the costs incurred were to all the children, not just themselves.

In general, loss of control and liquidity is not a good choice.

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