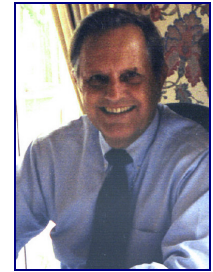


# from *Chuck's Desk*

Affordable Business Services Inc.

[www.affordabl.com](http://www.affordabl.com)

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I welcome any comments or suggestions you may have.

Please call or e-mail me at your convenience.

*If you enjoy reading my newsletter, the highest form of compliment I can receive is a referral to your friends, family and business associates.*

*Chuck Donovan*

## Reverse Mortgages

A senior mentioned to me recently that she lives on a fixed income and could use some additional money each month to take care of her living expenses. She said she did not plan on leaving her major asset, her home, as an inheritance to her children. She wondered whether a reverse mortgage may be right for her.

Her comments made me realize that she may not alone in wondering about reverse mortgages.

### Special Invitation

Every day seniors receive invitations in their mailboxes to free reverse mortgage workshops offering discussions on the features of reverse mortgages and containing the come-on that tickles the hearts of all seniors – a free meal.

The invitations claim a reverse mortgage is simple to understand and the ideal way for a senior to use the equity in his home to make home improvements, pay off his mortgage, add to his retirement income, or pay his unexpected medical expenses.

However, a reverse mortgage is a very complex and confusing loan despite what is stated in the invitations. Whether it is right or not needs to be carefully evaluated and understood before any decision is made to get one. The decision should not and cannot be made quickly and rashly.

### What is a Reverse Mortgage

A reverse mortgage (also called a home equity conversion mortgage) is a special loan against a senior's home that is not repaid as long as the senior lives in the home. It is a special type of home loan and only senior homeowners can qualify for it.



No repayments of any nature are made on a reverse mortgage, until a senior stops using the home as his principal residence. It differs from a traditional home or second mortgage and equity loan in this respect.

To qualify, a person must be 62 or older and have a low or zero balance owed on his home's mortgage. A senior does not need to have an income to get a reverse mortgage. He would qualify with no income. The value of the home and the senior's equity in it collateralizes the loan during the period the it is outstanding.

It allows a senior to convert the equity in the home into cash. The amount that can be borrowed depends on the value of the home, the amount of the equity in the

home, and the age when the senior applies for the reverse mortgage.



### Affordable Business

Services provides a complete range of tax, accounting, and consulting services to individuals and businesses at affordable fees.

Chuck Donovan started the firm in 1993 with a single principle in mind – to provide quality financial services that meet and suit his clients' needs. He has built a successful operation by combining personal attention and expertise with quick, accurate, friendly service.

The company's growth has been fueled by referrals from existing clients and peers. The hallmark of Affordable Business Services remains the individualized service that addresses his clients' unique requirements small or large.

Chuck is a graduate of Dartmouth College and has a MBA in Accounting and Finance from American International College.

A senior can take the amount borrowed on the loan as a single lump sum payment, monthly payments for life, monthly payments for a fixed period, a line of credit, or a combination of these options.

**The reverse mortgage is repaid from the home's equity when the senior sells it, moves out permanently, or dies.** At that time the senior or his estate repays the lender the loan plus interest and other fees from the proceeds of the home's sale. **Any excess – the remaining equity – belongs to the senior or his heirs.**

### It is a Rising Debt, Falling Equity Loan

With a reverse mortgage a senior gets cash from a lender based on the equity in his home and does not make any repayments on the loan. However, **a reverse mortgage is a debt – money owed to a lender.**



**The amount owed to the lender gets larger the longer the loan is outstanding as more interest is added to the loan balance. At the same time a senior's equity in his home decreases at the same rate.**

When a reverse mortgage becomes due and payable, a senior could learn he owes a considerable amount of money and has very little equity in his home. In fact, if the loan is outstanding for a long time, **there may not be any equity left in the home at the end of the loan.**

### Types of Reverse Mortgages

There are three types of reverse mortgages: **(1) single-purpose, (2) federally-insured, and (3) proprietary.** Single-purpose ones are offered by state and local government agencies and nonprofit organizations. The federally-insured ones are known Home Equity Conversion Mortgages (HECMs). The proprietary ones are private loans backed by the faith and credit of the companies that develop them.

**The HECM reverse mortgage is the most common type and represents 90% of all reverse mortgages created in the country annually. It came into existence in 1989.**

HECMs are governed by law - Section 255 of the National Housing Act – which limits the number to be created to 250,000. During the past 16 years over 195,000 HECM loans have been issued.

### The Cost

**Single-purpose reverse mortgages have very low costs.** Offered by state or local governments and nonprofit organizations, they are usually single purpose loans used for such reasons as home repair, home improvements or property tax payments. They are generally only available to low or moderate income homeowners.

**HECMs and proprietary reverse mortgages are more costly with high up-front costs.** As a result, they are very expensive if a senior stays in his home for a short period. However, they are widely available, have no income or medical requirements, and can be used for any purpose.



### Home Equity Conversion Mortgage (HECM)

The most common program, the HECM reverse mortgage, provides more cash than the other programs and the proceeds may be used for any purpose. It has more choices

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on how a senior may have the money paid to him.

**Under the National Housing Act the FHA administers the HECM program telling lenders how much they can lend a senior based on a senior's age and the value of his home as the criteria. The FHA controls loan costs and guarantees a lender meets his obligations under the program.**

The amount of money borrowed on a HECM is based on a senior's age, the type of reverse mortgage he selects, the appraised value of his home, the current interest rates, and the locality where he lives. **The older he is, the more valuable his home is, and the less he owes on it, the more money he will receive.**

**HECM reverse mortgages do have specific conditions regarding eligibility.** For example, a senior's principal residence must be single family home in a one to four unit dwelling or a condominium, be at least a year old, and met HUD's minimum property standards. The senior must discuss the HECM program with a counselor of a HUD-approved counseling agency, before entering into a HECM.



In addition, **repayment of the loan could be accelerated** if the senior (1) lets the home deteriorate and does not fix it, (2) moves to a new principal residence, (3) does not live in it for twelve consecutive months due to a physical or mental illness, or (4) does not pay his property taxes or hazard insurance.

## Important Considerations

The following are important considerations when evaluating a reverse mortgage:

1. Lenders charge **origination fees and other closing costs** on a reverse mortgage and may also charge **servicing fees** during its term.
2. The **amount owed on a reverse mortgage grows during the term of the loan.** Therefore, the total debt increases as loan funds are advanced and interest accrues
3. A reverse mortgage may have **fixed or variable rate.** Variable rates are linked to a financial index and change based on market conditions.
4. A reverse mortgage will **use the equity in the home as its collateral.** Some or all of this equity that is used as collateral results in less assets for a senior or his estate.
5. A senior is responsible for **property taxes, insurance, utilities, fuel, maintenance, and other expenses** of the home, because he retains title to the home.
6. Interest and other expenses on a reverse mortgage are **not deductible on income tax returns** until it is paid off.

## Questions You Should Ask

You need to ask and get answers to the following questions if you consider getting a reverse mortgage.

1. **How much money** do I need?
2. Can I take care of needs without



Questions are guaranteed in life; Answers aren't.

getting a reverse mortgage?

3. Will a reverse mortgage **make me ineligible** for any current or future government benefits?
4. **How much can I borrow** on a reverse mortgage?
5. What are **the fees and interest** on a reverse mortgage?
6. Will I **have to sell my house** before I die to pay off a reverse mortgage?
7. Will my partner have to leave the home or pay off the reverse mortgage **when I die**?
8. Will the reverse mortgage become due and payable if I **go into a nursing home**?
9. Will I or my heirs have **anything left** when the reverse mortgage is paid off?
10. Are there **any penalties** if I pay off the reverse mortgage early?

### Conclusion

A couple of people told me a reverse mortgage salesman was encouraging them to take out a reverse mortgage and use the proceeds to buy an annuity. His argument was the reverse mortgage was an easy and good way to buy the annuity.

**You need to be careful** when such a proposal is advanced to get a reverse mortgage. **If you do not understand the reverse mortgage deal or are not sure you need a reverse mortgage, it is a good time to walk away from it.**

Lastly, you will **have at least three business days** after signing the loan documents for a reverse mortgage **to cancel it without penalty**. The cancellation can be for any reason, but must be in writing. The lender must return any money you have paid for the reverse mortgage financing.



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## Good-By to the State's Intangible Tax

**On April 26, 2006 the Florida Senate approved legislation to repeal the State's Intangible Personal Property Tax. Governor Jeb Bush signed the legislation into law at the end of July with an effective date of January 1, 2007.**

The intangible tax was signed into law in 1931 enacting an annual tax on stocks, bonds, mutual funds, and certain other assets of Florida residents and businesses.

It has long been a sore point with Floridians, particularly seniors, who have felt it was an unfair tax on their personal assets applying mainly to them. The tax has been scaled back during the recent years with major changes having made in exemption deductions and tax rates. Such changes reduced significantly the number of residents who had to file annually.

**As of the first of next year it is gone.**

