Foreclosure - The Dark Side of Reverse Mortgages

March 11, 2011 - So, you're in your 60's and you would like a little more money to live on. You take out a reverse mortgage on your home. You are married, but the lender informs you that the payout will be greater if only one of you is on the deed, so you have the new loan issued in your wife's name. The payments begin. So far, so good. Then, a few months later, your wife dies and the loan becomes due. Surprise! You are now facing eviction and a foreclosure from the home that you and your wife purchased many years ago. It is the dark side of reverse mortgages and it has sparked a law suit filed by AARP against the Department of Housing and Urban Development.

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Reverse mortgages are pitched on television and radio as a panacea for the elderly facing financial problems. Given the current state of the economy, it is easy to understand how they could appear attractive those who are retired and living on a tight budget. After all, who doesn't want to have enough money to take that annual vacationâ€¦ or just to eat?

Unfortunately, for more and more people, that panacea is actually proving to be a Pandora's Box because of a rule change implemented by HUD in 2008. Prior to that time when married couples took out a reverse mortgage, even if it was only in one person's name, when one of them died, the other could remain in the house for the remainder of their life. No more. The new rule in place is that when the person on the deed dies, the loan becomes due in full. That means the survivor can find him or herself out in the street.

AARP has filed a suit over the rule change, because the new rule was made retroactive. That means that even if you took out a reverse mortgage prior to 2008, you could find yourself in this situation. More disturbingly, because of the downturn in housing prices, HUD is trying to force surviving spouses to pay more in fees to keep their homes than they will charge to an unrelated party trying to buy the home after foreclosure.

AARP is claiming that the rule change amounts to contractual interference by HUD. The suit is an attempt to make HUD abide by the promises that were made to homeowners at the time they actually took out their reverse mortgages. What a concept!

Anyone considering a reverse mortgage should probably think twice before acting. There are other options, including equity sharing relationships or the idea of selling your home and downsizing or moving to another area. All of these options have obvious downsides but in my opinion they also do a better job of protecting your investment.

It also needs to be pointed out that reverse mortgages are peddled aggressively to the elderly; a group that is often targeted by con artists. That's not to say that the companies pushing these products are bad, but it does make think twice about their marketing campaigns. And if that isn't bad enough, in this case the problems that many of the customers of these products are facing are being caused by the US government. The same government that they have paid taxes to all of their lives. The same government that owes them a debt of protection. It makes you wonder who exactly the government is supposed to represent! Just food for thought.

byJim Malmberg
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