Taking Stock: Be a little less sheepish about RAMs

by Malcolm_Berko

Dear Mr. Berko: We're retired and don't have enough income to meet our living expenses, especially real estate taxes, home insurance costs, food, medical and upkeep, which seems to be increasing every year. Please tell me about a reverse annuity mortgage. Like, what do they cost? Do we have to pay off our current low mortgage? Are they very expensive? What happens to the equity when we pass on? Can we lose our home?And who should we contact in order to make applications?

F.D.

Gainesville, Fla.

Dear F.D.: I'm fortunate to have a wonderful, robust 82-year-old lady friend (she voted for Harry Truman) who recently retired after 47 years in business. This beautiful, brilliant, blue-eyed, businesswoman owned a real estate firm, a mortgage brokerage business and a title company, all of which she sold in late 2005. Without a doubt, this classy lady probably knows more about reverse annuity mortgages (RAMs) than the combined knowledge of any dozen doyen with whom you might consult. She and her 64-year-old second husband of 23 years were spending a week in Boca Raton to collect a dinner debt on a bet I lost last November.

Anyhow, I showed her your letter and she said, "I'll have my great-grandson fax you our 'Dozen Most Frequently Asked Questions on RAMs.'" He did and here's their response to your questions.

1. Can I lose my home and remaining equity to the bank?

No! A RAM is a lien on your residence which you still own. When you vacate (for what ever reasons) the loan balance is repaid in full and the remaining equity passes to you or your children.

2. Can a RAM use all the equity in my home so there will be nothing left for my children?

That's a statistical possibility but certainly not a probability. Considering today's home values and the actuarial tables used by the bank it's likely that your equity will increase in the years ahead.

3. Would it be better to sell my home rather than do a RAM?

You would probably lose about 8 percent of your home's value in selling costs and expenses. And after selling your home you've got to find another place to live, which can be physically draining and emotionally difficult. Then of course, you will be paying rent each month, which would probably invade the principal you get from the sale of your home.

4. Where can I get the lowest interest rate on a RAM?

The federal government determines the interest rate for Department of Housing and Urban Development RAMs. So no matter where you shop the interest rates will be identical.

5. If I have a mortgage can I still get a RAM?

Of course - providing you use the RAM to pay off your current mortgage. This will free up the money you are using to make monthly payments on your original mortgage. And in many instances, depending on the size of your existing mortgage, there may be enough equity remaining to provide you with additional monthly income.

6. Will a poor credit score prevent me from getting a RAM?

Absolutely not. There are no credit or income requirements to obtain a RAM. Anyone 62 or older who owns a home can qualify.

7. Are RAMs very costly?

Yes they are. With all the fees, commissions, tariffs and tribute, it will run you darn near as much as it costs to purchase a home. However, all those insufferable and niggling fees are folded into the loan (just like a regular mortgage); you never have to make a monthly payment.

8. My home needs repairs. Do I have to fix it up to qualify?

No! Often times the proceeds from a RAM are used to fix up or add an addition to a home. But in some serious cases the lender will require minor repairs, which can be done after you receive your money.

9. What are my tax liabilities with a RAM?

The income you receive is tax-free because it's considered borrowed money. However, in some case the interest costs may be tax-deductible. But check with your accountant.

10. I'm 64 but my wife is 58. Can we still qualify for a RAM?

Both borrowers must be 62 or older. However, there are safe and practical strategies that can be legally employed to allow you to qualify.

11. Would a traditional mortgage be cheaper than a RAM?

Sometimes it may be. However, over a 10-year time frame, a traditional loan of $75,000 will cost you an average of $25,000 to $30,000 more than a RAM. And a traditional mortgage has a foreclosure risk while a RAM does not.

12. Can I get a lump-sum payment instead of a monthly income and are there any restrictions on what I do with that money?

Of course you can and there are no restrictions on how you spend that money. A 70-year-old couple with a home valued at $250,000 has two choices: A lifetime tax-free income of $759 a month or a lump-sum payment of $132,000.

Meanwhile, I'm reluctant to recommend a mortgage broker for you. As in many areas of the financial services industry, there is always a share of crooks waiting and salivating to take advantage of the consumer. And I don't personally know a soul in your state that I would be comfortable recommending. So I suggest that you ask your accountant, your lawyer or visit one of the large banks for a reference.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

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