You are referred to as the "Sandwich Generation." You've got kids in or heading for college as well as retired parents. Wherever you look, all you can see is additional expenses.

In the rough economy of the past few years – with home values and retirement savings down, government benefit programs threatened and longer life expectancies – many children of seniors are concerned about their parents being able to finance the remainder of their lives, even if they have been diligent about retirement planning. Recent research conducted for NRMLA by Marttila Strategies shows that there is an emerging intergenerational consensus that your parents should spend whatever they have to live as well as they can for as long as they can.

The vast majority of America's seniors have their wealth in their home equity. And if your parents are struggling to meet their month-to-month expenses or to pay for additional health expenses, tapping into that equity may be the best solution for all of you. A Reverse Mortgage is a financial product that allows them to do just that.

Whether or not a reverse mortgage is the right financial option for your parents is a very personal decision and based on many factors. In most cases, your parents will discuss this option with you before making their decision. You want to be prepared to give them the best advice. Here are some questions you most likely will want answered:

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Should My Mom and Dad Get a Reverse Mortgage?

Advice for Children of Seniors

What is a reverse mortgage?

A reverse mortgage is a loan available to people over 62 years of age that enables borrowers to convert part of the equity in their home into cash.

The loan is called a reverse mortgage because the traditional mortgage payback stream is reversed. Instead of making monthly payments to a lender (as with a traditional mortgage), the lender makes payments to the borrower.

What do people use reverse mortgages for?

Reverse mortgages were conceived as a means to help people in or near retirement who have limited income use the money they have put into their home to pay off debts (including traditional mortgages), cover basic monthly living expenses or pay for health care. There is no restriction on how a borrower may use their reverse mortgage proceeds.

Will a reverse mortgage increase my parents' monthly expenses?

No. Borrowers are not required to pay back the loan until the home is sold or otherwise vacated. As long as they live in the home, they are not required to make any monthly payments towards the loan balance, but they must remain current on tax and insurance payments.

If my parents take a reverse mortgage, does the bank then own their home?

No. With a reverse mortgage, the borrower always retains title to or ownership of the home. The lender never, at any point, owns the home even after the last surviving spouse permanently vacates the property.

How much money can my parents expect?

The amount of funds received depends on the age of the youngest borrower, the value of the home, the interest rate and upfront costs. The older the borrower is, the more proceeds he or she can receive.

The funds can be delivered to the borrower as a lump sum, as a line of credit, or as a fixed monthly payment for a specific amount of time or for as long as the loan is outstanding.

The borrower can also use more than one of these options, for example, take part of the proceeds as a lump sum and leave the balance in a line of credit.

How much will the loan cost my parents?

Closing costs can be paid out of the loan proceeds. This means a borrower incurs very little out-of-pocket expense to get a reverse mortgage. The only out-of-pocket expenses you may incur are for counseling and the appraisal, which together add up to a few hundred dollars.

The loan balance is comprised of the amount borrowed, plus fees and interest. The loan balance grows as the borrower continues to live in the home. In other words, when the borrower sells or leaves the house, he or she will owe more than originally borrowed. Look at it this way: A traditional mortgage is a balloon full of air that loses some air and gets smaller each time a payment is made. A reverse mortgage is an empty balloon that grows larger as time passes.

When my parents move or die and the balance is more than the value of the home, am I then responsible?

No matter how large the loan balance, your parents or you never have to pay more than the appraised value of the home or the sale price. This feature is referred to as non-recourse. If the loan balance exceeds the appraised value of the home, then the federal government absorbs that loss. The government pays for it with proceeds from its insurance fund, which the borrower pays into on a monthly basis.

If my parents get a reverse mortgage, what are their responsibilities?

- **Primary lien:** A reverse mortgage must be the primary lien on a home. Any prior mortgage must be paid in full to acquire the reverse mortgage. (Reverse mortgage proceeds can be used for this purpose.)
- **Occupancy requirements:** The property used as collateral for the reverse mortgage must be your parents' primary residence.
- **Taxes and Insurance:** Your parents are required to remain current on their real estate taxes, home insurance, and, if applicable, condo fees or they are susceptible to default.
- **Property Condition:** Your parents are responsible for completing mandatory repairs and maintaining the condition of their property.
- **Rights of Non-Borrower Residents at Time of Loan Termination:** If there is a non-borrower resident (living in the home but not on title), it's important that you understand what happens when the owner on title permanently vacates the property, either by death or move out, and the loan becomes due and payable. Either arrangements need to be made ahead of time to pay back the loan when it becomes due, or the property will have to be vacated.

But my parents want to downsize. How can a reverse mortgage help them?

While the typical retiree uses a reverse mortgage to eliminate debts, pay for healthcare and/or cover daily living expenses, a growing segment of the senior population is using it to purchase a home that better suits their needs.

The advantage of using what is known as a HECM for Purchase is that the new home is purchased outright, using funds from the sale of the old home, private savings, gift money and other sources of income, which are then combined with the reverse mortgage proceeds. This home buying process leaves the homeowner with no monthly mortgage payments.

How do my parents learn enough about reverse mortgages to make an informed evaluation and decision?

A homeowner contacts a reverse mortgage lender. We highly recommend that the lender is a member of the National Reverse Mortgage Lenders Association.

A list of NRMLA member lenders can be found by visiting reversemortgage.org. Please click on "Find a Lender."