Elder Care Solutions
White Paper

Home Equity Release Strategies: Advantages, Drawbacks, and Other Aspects of Each

Many American families rightly view their residences as their most valuable asset. To manage it effectively, they'll need to know its current value, how best to realize that maximum value, and what changes will best preserve and even increase that total.

In considering its use as a source of payment for long term care services, however, things get trickier since it's impossible to know how much funding will be needed, and when.

As advisors, then, what we can do, we will do.

Following is our list of all the ways we know for realizing the cash available from illiquid home equity, and leave the family to choose its own way or combination of ways that makes most sense in their situation.

1. Sell it outright for a fair price

A. This produces cash, an opportunity to lower living expenses, and possibly an upgrade in living conditions.
B. Drawbacks could include the risks of a lower price, higher living costs, and possibly relocation to an unfamiliar environment at an inconvenient time.

2. Sell and Downsize

A. This could lower monthly living expenses and improve living conditions.
B. But it will reduce personal possessions and living space, and make surroundings less familiar.

3. Rent to a live-in child – convey after 2 years

A. Now there will be a family caregiver, and this strategy can pave the way for saving the full value of the residence from Medicaid's Estate Recovery.
B. But this is a pathway fraught with danger. Not everyone becomes a good caregiver. At the least, it complicates family relationships, and causes some loss of privacy. Potential tax issues relating to gifts, expense and income, and capital gains should be examined with professional help.

4. Sell and borrow to right-size

A. Monthly expenses can be reduced; location can be improved; home maintenance can almost disappear; the new mortgage can be a non-recourse loan, if a reverse mortgage technique is used; a line-of-credit can be created that can grow with inflation over time; the monthly payment can be made adjustable; cash flow can be improved; and foreclosure risk can be eliminated.
B. However, inspections by HUD or FHA may now be possible; if a condo, FHA approval may need to be obtained and maintained; no escrow is held for tax and insurance payments; and the transaction itself may be more expensive and expert professional services will be needed.

5. Home equity line-of-credit loan

A. This unique loan acts as a second mortgage, does not have to maintain a balance, is inexpensive to obtain, and can offer a lengthy term, during the first half of which sums can be readily accessed on which interest only is paid, with no full repayment until an amortized repayment schedule begins during the second half of the loan. When the term ends, the entire balance is due in full.
B. Good credit is required; the process is entirely online; the lender can alter the loan rate and loan limits with no increase in the limits possible; and it is a full recourse obligation.

6. Sale – Leaseback

A. Cash for long term care expenses is a top motive, and the process is inexpensive, requires no change in residence, and maintenance becomes responsibility of the Owner-Mortgagee.
B. There is now a new monthly lease expense; the lease provisions may feel onerous; and there will be potential limits on modifications to the premises or the lease terms.

7. Caregiver Contract with Child for Future Deed

A. This can protect the residence from Medicaid Estate Recovery, which most if not all states are now enforcing. Done correctly, this can provide maximum flexibility for uses of available cash.
B. The arrangement needs to be executed in writing before it can begin. Recordkeeping must be complete and accurate. A Physician's Letter will be required showing the necessity for the residential caregiving service to avoid institutionalization, and the income represented by the deed delivery may have tax consequences for the child which should be fully considered beforehand.

8. VA-Refinance w/Life Annuity or maximum cash-out

A. VA loan advantages include: no down payment (or need to show 20% equity retained); no private mortgage insurance; less credit requirement; lower debt-to-income ratio allowed; lower closing costs; financed closing costs; subsequent credit counseling if needed. The VA loan allows

more options post-death (maintain payments, possible sale on assumption of the mortgage, several options for keeping title in the family). Full recourse on the loan is highly unlikely

B. However, there is always a VA funding fee (expect 1%), possible Discount Points (to lower interest rate), separate transaction required to create the monthly income annuity, and more paperwork than most conventional loans.

9. Conventional Re-Finance with maximum cash-out

A. Mortgage rates are at historic lows, so monthly payments may be lower. Residential values are also high, so maximum cash may now be available. Lenders on re-financed loans are not interested in future lower appraisals, so the loan paid on schedule should be uninterrupted.

B. However, it will be a full recourse loan, and it does shrink the inheritance value of the residence. Death will be a serious interruption requiring prompt and knowledgeable attention.

10. Co-Housing – Sell and Relocate as Tenant

A. Housing costs should be reduced, improving monthly cash flow. Personal safety should be improved. Maintenance issues should be reduced. Sale proceeds can be used for long term care.

B. There will be possible loss of privacy and some increase in security issues. Probably the living space will be smaller, so personal possessions will be fewer. Decluttering and downsizing, never welcomed, will be required at what may be an unhandy time.

11. Sale of Equity for a Percentage of Future Sale Proceeds

A. The cash will pay for long term care. The transaction is inexpensive, with no ongoing interest cost. Market risk will now be shared with the investor.

B. There will be less appreciation value. The buy-out schedule will be fixed by agreement. There may be limits on property use, and 25% equity is usually the minimum.

12. Co-Housing – Sell Partial Ownership and Enter Shared Living Arrangement

A. Cash on hand will increase, and personal safety should be improved. Maintenance and its costs will be shared. Companionship will replace solitude.

B. There will be reduced privacy, fewer personal possessions, and potential security concerns. It may also be difficult to extricate from the arrangement or modify its terms.

13. Reverse Mortgage Re-Finance

A. Advantages should include better cash flow, improved liquidity, potential cash-out of equity, a potential growing line of credit, and the non-recourse nature of the loan.

B. But the process may be expensive, compounded interest may be a factor, and occupancy will be required for the entire term of the loan.

14. Sale, Reserving Occupancy for a Term

A. This strategy produces cash; it's inexpensive; risk is now on the Purchaser for any reduction in value; price is fixed so any future market loss is contained; reduction in living expenses; no need to relocate; surroundings remain familiar; and disruption is minimal.
B. The price may be lower; a buyer will be more difficult to find; and fixing a date for the transaction may be more stressful. The purchaser's potential creditor issues, or death, can become problematic suddenly.

Strategies potentially useful in some eligibility or preservation situations (use only on advice of counsel)

Maximize the homestead exemption/senior property tax relief

Move both spouses from the residence

Add names to the title

Remove names from the title

Right-size the residence on site

Pay a family caregiver

Convert residential assets to income/earnings from home options

Shift assets from "countable" to "non-countable"

Protect beneficiary-designated assets

Personal bank loan secured by mortgage

"Friendly" sale of all or part to family

Use a trust to separate ownership, control, and use

Take in a tenant

Rent space to the public, vacation/event

Weatherproof, solar power – benefits, reduce costs

Loan or Use Qualified Funds to improve residential value

Home Equity – Online Resources

1. Silvernest.com
2. Easyknock.com
3. Unisonhomeowner.com
4. Supermoney.com
5. Hometap.com
6. Point.com
7. Quantmre.com
8. Patch.com
9. Equifi.com
10. RexAgreement.com
11. Figure.com
12. LendingTree.com
13. Lowermybill.com
14. Fha.com
15. Freddiemac.com
16. Huduser.gov
17. LendingHome.com