

The Owl on with life



April 2018

The goal of this newsletter is to encourage people who are growing older to keep on with the business of living. We want the experience of growing older to focus on achieving and maintaining a quality of life that is enjoyable and desirable.

If you know of a family member or friend who would like estate planning services, please consider referring them to Beth A. Swagman, PLLC.

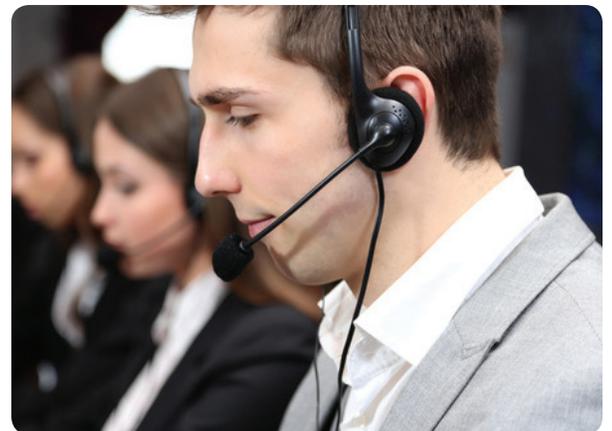
Private Debt Collectors

LEGAL AID OF WESTERN MICHIGAN handles IRS tax issues. Legal Aid of Western Michigan established a Low Income Tax Clinic in 2016. The clinic offers free legal advice or representation to financially eligible low income tax payers for English speaking and English as a second language taxpayers. In its January/February 2018 newsletter, LAWM advises taxpayers that the IRS has hired private debt collectors to collect past IRS debt. The names of the private debt collectors are **CBE, ConServe, Performant, and Pioneer.**

Keep the names of these private debt collectors near your phone! Scam artists are cropping up

claiming to be one of the private debt collectors. The scammers threaten to have taxpayers arrested if they don't pay their overdue taxes. In addition to requesting personal information, the scammers want payment on prepaid credit or debit cards. This request is made so that the payment cannot be traced...or recovered. If someone calls claiming to be a private debt collector for the IRS and does not provide one of these names, hang up. If someone claims to represent one of the four debt collectors, get their name and contact information and agree to call back later. Then, seek advice before calling back.

The Low Income Tax Clinic offers ways to remove the debt from the private collector and set up a repayment plan or settlement directly with the IRS. If you or someone you know may benefit from the Low Income Tax Clinic, contact the Legal Aid of Western Michigan at 25 Division Avenue S, Suite 300, Grand Rapids, MI 49503, or call them at 616.608.8054.



Swagman Estate Planning and Elder Law Services

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Beth A. Swagman, PLLC

What's New?

Reverse mortgages are not new, but they are being talked about a lot more than before. Why? Americans are living longer, but their median income is dropping. According to the U.S. Census Bureau, Historical Income Tables: the median income for all US households in 1999 was \$56,080. In 2012, the median income had dropped to \$51,017. The average retired person's social security benefit in 2013 was \$1269 and for 46% of single social security beneficiaries, their social security check was 90% of their income. (From Aon Hewitt, *The Real Deal: 2012 Retirement Income Adequacy At Large Companies*). Many older adults are living longer on less. What are they to do?

No wonder older homeowners are borrowing against the equity in their homes to stay afloat!

To be eligible for a reverse mortgage, the applicant must be at least 62 years of age and the house must be in acceptable condition. With a reverse mortgage, the homeowner borrows money using their home as the collateral or guarantee for the loan. That sounds like a pretty straightforward mortgage, right? The difference is that the bank loans the homeowner the equity or value the owner has in the house and uses the house as collateral if the loan is not paid back. In simple terms, you borrowed the bank's money to buy the house and now you borrow your money to stay in the house.

Another strategic difference between

a conventional mortgage and reverse mortgage is that the borrower does not make monthly mortgage payments. With a traditional mortgage, you pay back the bank or lender. In a reverse mortgage, the bank or lender loans you money based on your equity in the home. The money is used to pay bills, medical expenses, or other debts owed by the homeowner who does not have the income to pay off the accumulated bills or expenses. For many cash-strapped seniors, that loan is the difference between paying bills and filing for bankruptcy. However, the notion that a homeowner receives cash without repayment should certainly catch our attention. Because interest is charged on the money that is loaned, the mortgage debt increases substantially over time if the homeowner is not paying down either the principal or the interest.

Here is a simple example. If a person borrows \$80,000 in equity in their home at 4% interest, in ten years, the person will pay back will total \$97,195. If that same person doesn't make any principal or interest payments, the interest on the unpaid principal balance continues to grow well beyond \$97,000.00.

Reverse mortgage policies usually require the homeowner and spouse to live in the home and to file yearly reports regarding the status of the owner and spouse. If a spouse dies or moves to a nursing home, such changes need to be reported to the



lender. If only one spouse takes out the reverse mortgage, and that spouse dies, the surviving spouse may be faced with a demand for payment.

In addition, because of the outstanding lien on the home, transferring title to children or heirs may be disallowed. Further, if the borrower chooses to sell the home, the reverse mortgage must be paid off first because the house was used as collateral which means it is a secured loan and the bank or lender has a superior right to be paid. The small proceeds from the sale of the home after the lien is discharged may mean the elderly homeowner has almost no resources to pay for long term care expenses.

If the elderly homeowner chooses not to sell the house or pay off the mortgage, the bank or lender can put the house in foreclosure. The foreclosure process usually takes a minimum of 6 months. Some banks or lenders require the homeowner to vacate the property at the beginning of the foreclosure process while demanding the homeowner keep up with taxes, utilities, maintenance and yard care until the foreclosure process is complete.

Always check with a trusted financial advisor before considering a reverse mortgage.

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