One of the more innovative financial products to be developed in recent years is the so-called reverse mortgage. The product's genesis is rooted in situations involving individuals who are "wealthy" in terms of their equity in real estate, but "poor" in terms of their cash flow. The ability to liberate that real estate equity and turn it into cash under terms beneficial to the individual is what can make the reverse mortgage such an interesting financial planning tool. The process allows for the deferral of interest and principal payments until the borrower dies, or otherwise leaves the home. Some important facts and figures for qualification for HUD's home equity conversion mortgage program:

The Borrower must be age 62 or older, and if married, the spouse must be at least 62.

The property must be the principal residence of the borrower.

The title to the property can be in a living trust, and multiple dwelling units, including condominiums, are eligible for the program.

The borrower is responsible for all typical mortgage covenants; that is, the borrower must maintain the property, keep it insured and pay all taxes and assessments as they come due.

The HECM must be a first mortgage. The mortgage is on a non-recourse basis, meaning the property is the sole security for the arrangement. Accordingly, neither the borrower nor the heirs can be held responsible for a loan balance above the property's value.

Loan proceeds are considered income tax free, and the accumulated interest is a tax deduction in the year it is repaid. The funds can also be put into a growing line of credit and accessed at any time.

Loan proceeds can be withdrawn in a variety of ways; either as a lump sum, a line of credit, a monthly payment for life, or a monthly payment for a fixed period.

The repayment under the HECM program usually takes place 9 to 12 months after the borrower vacates the property, either by virtue of death, move or sale.

How much the borrower can get in a reverse mortgage is actually a fairly complicated calculation. Variables include the borrower's life expectancy at the time of the loan; the appraised home value (or Federal Housing Authority loan limit amount); the published 10-Year Treasury Bond rate plus whatever spread the Federal National Mortgage Association determines; and the forecast of the rate of growth in residential real estate values over the expected term of the loan. However, if there is substantial equity in the home, the borrower can expect, even after costs and expenses, a substantial withdrawal amount. With $300,000 of equity, a principal withdrawal of $200,000 to $225,000 is typical.

Keep in mind that a HECM is a Federal Housing Authority (FHA) product and is therefore subject to FHA lending limits. These limits are linked to the county of the state in which the property is located, with $362,790 the highest limit in the 48 states; but higher limits may be available in Alaska and Hawaii. Those interested in pursuing a HECM should anticipate that these limits probably will increase in the future. However, if the amount of equity in your property is substantially greater than these numbers and your interest is in pursuing a so-called jumbo reverse mortgage, be advised that the jumbo market has almost vanished as a result of the recent turmoil in the real estate market. Organizations doing reverse mortgages in excess of the FHA lending limits exist, but the federal government does not insure those jumbo deals. In such an arrangement, the financial responsibility of the lender is THE key concern.

The determination of whether any reverse mortgage strategy makes sense for a particular individual should be the product of careful study with competent professionals, who can be trusted to provide objective and independent advice -- and not a sales pitch. This is particularly true when one realizes there are other practical, and perhaps less expensive, ways for seniors to deal with the problem of "too much equity in the house and not enough cash in the pocket." A simple line of credit could be acquired and the borrower could access funds as needed. Or, the senior might consider simply selling her property and buying a smaller place to live.

Brian Doherty, J.D., LL.M., CFP® is a graduate of the Boston University School of Law Graduate Tax Program and a member of the Florida and New Hampshire Bar Associations. Visit his web site, www.dohertypa.com, for more information about his areas of practice.