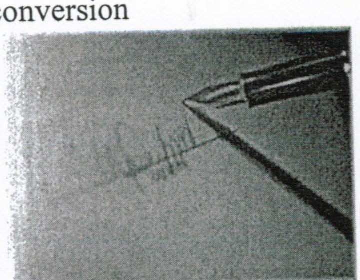
REVERSE MORTGAGES: WHAT TO KNOW

By: Mirkin & Gordon, P.C.

Reverse mortgages have been advertised on television with greater and greater frequency and they have grown in popularity with retirees. However, while a reverse mortgage can be beneficial under the right circumstances, there can be a number of downsides as well.

A reverse mortgage is a loan to the homeowner that is repaid to the lender after the borrower moves out or dies. It is also known as a home equity conversion mortgage (HECM). The purpose is to enable seniors to access a portion of their home equity without having to move out. The amount that one receives from the reverse mortgage depends on several factors, including the age of the homeowner, the value of the home, and the interest rate.



The benefits of a reverse mortgage are available for those who do not wish to move out of their house or for those who do not wish to keep the house in the family. The proceeds from the reverse mortgage can be used to pay off an existing mortgage, pay off debt or unexpected expenses, and improve monthly cash flow.

A reverse mortgage is only available if one of the owners of a home is 62 or older and that person resides in the home as his or her primary residence. A further eligibility requirement is that the homeowner must either own their home outright or have a low mortgage balance that can be paid off at the closing with proceeds from the reverse mortgage. Depending on the type of mortgage, the homeowner can collect payments as 1) a lump sum, 2) a fixed monthly payment, 3) a line of credit, or some combination.

It is important, however, to understand that a reverse mortgage might not be right for every homeowner. Even with this type of mortgage, the borrower must maintain the house, pay property taxes and homeowners insurance. While one does not have the burden of a monthly mortgage payment, some of these costs can still be onerous to seniors living on a fixed income. Other factors to consider are the closing costs, which are considerably higher than a traditional mortgage. Interest rates may also be substantially higher.

An important possible overriding danger for a homeowner to consider before entering a reverse mortgage arrangement is that upon death or if the home isn't the primary residence for more than 12 months – due to illness or any other reason – the loan immediately comes due!

This means that either the homeowner or the estate has the option to either 1) repay the loan immediately with other assets or 2) put the home up for sale to satisfy the loan. If the family cannot or isn't willing to do either, the lender will foreclose and sell the home at auction and there may not be any equity left in the home.

Although reverse mortgages can be an attractive option to many seniors who wish to generate income from the equity in their homes, it is important to consider the downsides as well. The legal plan is available for your assistance if you are considering a reverse mortgage.