

Reverse Mortgages

It seems that since we began to experience the housing crisis the number of TV advertisements for Reverse Mortgages have quadrupled. The ads make a reverse mortgage sound so appealing that it just makes common sense to consider contacting one of the lenders being advertised about the prospects of a reverse mortgage for you.

But what is a reverse mortgage? The first thing to understand is that a reverse mortgage is a loan. But unlike a typical loan in which you pay the lender, a reverse mortgage is a loan in which the lender pays you – in a lump sum, a monthly advance, a line of credit, or a combination of all three – while you continue to live in your home.

What are some of the requirements in order to qualify for a reverse mortgage? First you must be age 62 or older, you must live in your own home, and you must have a considerable amount of equity built up in that home. For many individuals who have limited other retirement or investment resources the equity you have in your home might be your greatest asset. A reverse mortgage is one option for those who want to tap into the equity of their homes without having to sell. It is important to realize though, that government regulations place strict limits on the size of reverse mortgages, therefore, individuals might not be able to extract as much of the equity in their homes as they originally thought.

How do I know if a reverse mortgage is right for me? In considering whether a reverse mortgage is right for you, you need to carefully consider the following:

1. How long do you expect to live in your home?
2. What is the total cost of securing and financing a reverse mortgage?
3. What are some other alternatives to taking out a reverse mortgage?

One of the principle questions you need to ask yourself in considering whether a reverse mortgage is right for you is How long do I expect to live in my home. The reason for this question is that reverse mortgage fees and interest is payable when your home is no longer your principal residence, upon the last surviving homeowner's death, when you sell the home, or if you have not occupied the home for 12 months. Unless you expect to live in your home for many more years the expense of the reverse mortgages will greatly outweigh the benefit derived from the loan.

Another important question to ask is What is the total cost of securing and financing a reverse mortgage. The total cost of a reverse mortgage can be quite expensive. For instance, interest rates are typically adjustable and are often higher than those on conventional loans. Reverse mortgages are rising debt loans, in that, the interest is added to the principal loan balance each month, because it is not paid on a current basis. Reverse mortgages also typically have healthy loan origination fees and closing costs associated with them. In most cases these fees are added to the balance of the loan, thereby reducing the available equity in the property. Additionally, since you retain the title to your home, you are still responsible for paying real estate taxes and homeowner's insurance while you live in the house.

The final question to ask yourself in considering whether a reverse mortgage is right for you is What are some other alternatives to taking out a reverse mortgage. One alternative might be to consider downsizing your home and moving to an area with a lower cost of living. This is an important consideration if your home has gotten too big to handle, you want to move closer to your children or other family members, you are in poor health, or the market is ripe in your community for a home of your size, location, and nature. If moving is not an acceptable alternative, maybe your home is large enough to take in a boarder, such as a single adult or college student who could pay you rent. Another alternative would be to evaluate the cost differential between a reverse mortgage and a home refinance, a home equity loan or a home equity line of credit. In many cases, the overall costs would be much less on a fixed interest loan verses a variable rising debt loan.

As you can see, the decision concerning taking out a reverse mortgage is not an easy one. Regardless of your personal circumstances, it's important to carefully weigh all of your options, confer with your family, tax or financial advisor, or attorney, and consider the long term implications before making this critical decision.

For more information on reverse mortgages, visit the Federal Trade Commission's Website at www.ftc.gov and type "reverse mortgage" into the search field.

Till Next Time,

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