Reverse Mortgages Myths and Benefits

Presented by: Ken Krajewski, 1st Nations Reverse Mortgage

There have been significant changes to the reverse mortgage loan programs during the last 15 years, but the one thing that hasn't changed is how widely misunderstood this type of mortgage is. This article addresses some of the misconceptions to any reader who has considered looking in to getting a reverse mortgage.

Most reverse mortgages are HECM's. Home Equity Conversion Mortgages. These loans are FHA loans which means they are insured by the federal government. They are safe and easy to manage. You must be 62 or older and you must live in your home as your primary residence. Basically, most reverse mortgages that are put in place are Home Equity Lines of Credit (HELOC). If you have ever had a traditional HELOC, you will find that a reverse mortgage HELOC is very similar. The biggest difference is that payments are never required on a reverse mortgage, as long as you are living in your home as your primary residence. Property taxes and homeowners' insurance are still the homeowner's obligation to pay.

A reverse mortgage has flexible payments options. This means that you can pay as much or as little as you want, or pay nothing at all, while you are living in your home. Most people choose not to pay anything, in which case the interest charge gets added to your balance. So, on a traditional mortgage, payments are made, and the balance decreases a little bit. On a reverse mortgage, if payments are not made, the balance increases a little bit. With either mortgage, interest is being charged, the difference is when that interest will be paid.

A reverse mortgage comes due when the last surviving borrower leaves the home permanently. When this happens, the lender will want the loan to be paid off. Typically, the homeowner will leave their home to a friend or family member. Usually that person will sell the home and use the proceeds from the home to pay off the reverse mortgage. Any equity that is left over belongs to the heirs or the estate.

The most typical use of a reverse mortgage is paying off traditional mortgage debt that a homeowner has carried into retirement. By refinancing a conventional mortgage into a reverse mortgage, the mortgage payment gets eliminated, which frees up that cash for the homeowner to use for other purposes. The homeowner is still responsible to pay their property taxes and homeowners insurance.

For example, a 75-year-old homeowner was recently widowed, which significantly reduced her household income. She was now living on her Social Security Income of $1,400 a month. She has a $400,000 home, with a $150,000 mortgage, that carried a payment of roughly $1,000 a month. It would have been impossible for her to maintain that payment. The reverse mortgage paid off her current mortgage, which eliminated that $1,000 a month payment, and it gave her an additional line of credit of $50,000, that she can use to help supplement her income. She can now live in her home for rest of her life, and not be burdened with a mortgage payment.

While reverse mortgage may not be for everyone, they can certainly be very helpful in the right situations.