

Reverse Mortgage Basics

You've probably seen the advertisements. Reverse mortgage brokers assure big savings over the life of a home loan, typically by offering no payments until you're ready to sell.

It's best to do your own due diligence on each specific offer, however, because they don't always work in every homeowner's financial favor.

WHAT THEY ARE

The proper name for a reverse mortgage is a home-equity conversion. These plans allow homeowners to borrow against the investment they've made in a property, leveraging equity that's been built up through regular mortgage payments over a long period. By statute, they are only available to those who are 62 years old or older. The home must also be the mortgage holder's primary residence.

THE BENEFITS

Older Americans who find themselves struggling to keep up with their regular monthly bills may find financial relief from a reverse mortgage.



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They are particularly useful for those who have more retirement-era wealth tied up in their home than in various other investments or their savings. You can use the proceeds from these reverse mortgages to pay off an existing house note, which may be attractive to those who don't want to downsize late in life. Best of all, there aren't any tax implications. These funds are considered a loan advance by the Internal Revenue Service,

and not income.

THE RISKS

A potentially hidden downside: Interest is still added to your loan every month, so the amount you owe continues to increase over the life of the loan. The costs of a home-equity conversion are also tied to the interest rate, and that can rapidly change. Reverse mortgages do not release homeowners from related responsibilities like insur-

ance, homeowners association fees, maintenance costs and property taxes. Thankfully, the U.S. Department of Housing and Urban Development has put protections in place limiting payout amounts in order to safeguard homeowners against over-leveraging themselves.

The amount of interest associated with reverse mortgages has continued to grow, however, since life expectancy

in the U.S. continues to lengthen. In some of the most unfortunate instances, this amount may actually exceed the home's value. Thankfully, the difference is not necessarily owed by you, or your heirs, but all of your home equity is lost in the process. As you consider a reverse mortgage, be aware of scammers. They're known to target service members who are unaware that the Veterans Administration does not sponsor reverse loan programs.

BEFORE YOU SIGN

Don't be rushed through this process. Don't rely solely on the advance of the salesperson. Check with a financial counselor, trusted banker or family member before signing. These are complicated legal documents, and should be carefully reviewed. Beware of anyone who is also pushing you to buy other financial products at the same time. That's not necessary to secure a reverse mortgage; in some places, pairing two products like this is even illegal. It's also best to look deeper into your options if you're considering a reverse mortgage to pay for home improvements or needed repairs. Other types of financing like a home-equity loan, refinancing or equity-based lines of credit may better suit your needs.



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REAL ESTATE 101



Understanding Real Estate Investment

Real estate is one of the popular forms of investments, according to Rocket Mortgage. Still, the differing types of assets and pathways to ownership can be overwhelming for newcomers. Learn more about real estate investing at bit.ly/3BBqq41.

HOMEWISSE GLOSSARY

Acceleration clause: condition in a mortgage that may require the balance of the loan to become due immediately, if regular mortgage payments are not made or for breach of other conditions of the mortgage. **SOURCE:** Illinois Real Estate Lawyers Association

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