

The Scoop on Reverse Mortgages

Reverse mortgage advertising is everywhere, assuring big savings to senior homebuyers over the life of their loan.

Typically, this involves a promise to make no payments until they're ready to leave the property. It's important to research these offers, however, since they may not necessarily work in your financial favor.

DEFINITION

When someone refers to a "reverse mortgage," they are discussing what's known as a home-equity conversion plan. This allows a homeowner to borrow against their investment, leveraging the equity they've built up by regularly paying a mortgage over a period of years. By law, these mortgages are only available to those who are 62 and older. The property also must be a primary residence. Just be aware that interest is added to the loan each month, so the amount owed increases.

BENEFITS

Retirees who are struggling to keep up with their monthly obligations may find that reverse mortgages make good financial sense. They're also a



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REAL ESTATE 101

First-Time Homebuying Tips

Tired of renting? Homeownership is a huge step, and a rewarding one. But there are new responsibilities associated with this decision, beginning with your regular mortgage payment. There are also associated insurance, maintenance and repair costs. Freddie Mac has a checklist of things to consider before you buy: bit.ly/3fgzJtw.

useful tool if you have more untapped wealth tied up in your home than you do in

investments or savings. Proceeds from the reverse mortgage can be used to pay

off the existing mortgage, potentially eliminating the need to downsize. Use the

additional funds to pay down other bills, with the confidence that you won't have to move any time soon. Lastly, there are no tax implications: The IRS considers these funds to be a loan advance, rather than income.

RISKS

The costs associated with a home-equity conversion loan can quickly rise depending on interest rates. A reverse mortgage does not free homeowners from related obligations like property taxes, homeowners association fees, insurance and maintenance costs. Protections have been put in place by the U.S. Department of Housing and Urban Development that limit the amount of these payouts in order to keep homeowners from becoming overleveraged.

As life expectancy has lengthened, however, the amount of interest associated with reverse mortgages continues to grow. In some cases, this amount can ultimately exceed the home's value. The difference is not paid by you or your heirs, but all equity in the home is nevertheless lost. Beware of scammers posting as reverse-loan originators, in particular those who target service members. The Veterans Administration doesn't sponsor any reverse loan programs.



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HOMEWISSE GLOSSARY

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Private Mortgage Insurance: Insurance paid to a private firm to insure the top 20% to 25% of a loan against default. It is rarely required when the owners' equity exceeds 20% of the fair market value of the property.. **SOURCE:** MLS.com

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