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Think About Waiting on a Federally Insured Reverse Mortgage

Reverse mortgages have become increasingly popular among America’s seniors in the past decade. They can be a great way for people to get cash to supplement their medical insurance or their retirement funds while still enjoying the benefit of keeping their homes. As the market becomes more competitive for these types of loans, lenders are adjusted the features and options available with these reverse mortgages. While government-backed loans are on the slow side of today’s reforms, the ever-changing nature of the market will likely force changes in them as well.

In case you are not familiar with the term reverse mortgage, you should know that it is a home loan based on the owner’s equity. The mortgage lender will determine how much equity the borrower has and then determine how much can be loan based on the region’s loan limits. Than the borrower will receive money from the lender that does not need to be repaid until the borrower vacates the property. The money can be received in a lump sum at the beginning, in monthly payments, or a line of credit. Borrowers must be at least 62 years of age or older and must be the owners of the property. This loan basically turns the tables on conventional loans, so that instead of the borrower paying a monthly mortgage payment to the bank, the bank starts paying money to the borrower.

While these loans can offer great retirement security for many, they have traditionally come attached to some significant detractors. For example, as with any home loan, reverse mortgages generally require the borrower to pay some closing costs and fees. With reverse mortgage however, the closing costs are tied either to the value of the home or the federally insured reverse mortgage limit for the home’s region. If you choose to go with a Home Equity Conversion Mortgage (HECM), the federally insured brand of reverse mortgages, you might end up paying as much or more than 5 percent of your home’s appraised price in closing costs.

Another drawback on HECMs for homeowners is the fact that the government has set limits on the amount of money that can be borrowed. Currently the loan limits are between $200,160 and $362,790, varying by region and home values. These limits mean that if you live in a pricey neighborhood, a reverse mortgage may not provide you with as much money as you could get through other loan means.

The good news in terms of federally insured loans is that as private companies have started reducing or eliminating closing costs and side-stepping the federal loan limits, the market has tightened and the government will have to adjust its reverse mortgage policies in order to stay competitive. In fact, the Department of Housing and Urban Development (HUD) is currently reviewing its fee schedule and limits. If you are interested in the benefits associated with a federally insured loan, you should consider sitting out of the market for a little while to see if the government will indeed lower its rates and fees, making your reverse mortgage more profitable.