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The Basics of Reverse Mortgages

“Reverse mortgage” seems to be the new buzz word in the mortgage industry for the senior sector today. Although reverse mortgages have been around for at least a decade, their popularity has risen recently. If you are in your senior years and looking for a way to stay in your house and still pull out some needed cash, you may consider a reverse mortgage.

How it works:
A reverse mortgage is a way to convert the existing equity in your home into cash. After buying your house from the bank all these years with monthly payments, a reverse mortgage allows the bank to start buying your home back from you. Your lender will give you a loan payment, which can be in the form of monthly payments, a lump sum, or a line of credit. The amount you will be paid depends on your age, the value and location of your property, current interest ratesand the overall cost of the loan. These funds, unlike cash from other loans, can be used for any purpose and the best part is you get to stay in your home as long as you continue to meet the conditions of your loan.

The Requirements:
The exact requirements will vary slightly from lender to lender, but there are some general qualifications.

You or your spouse must be at least 62 years old. (The older you are the more money you can pull out or receive in monthly installments.) Your home must be your primary residence and you must be living in it during the course of the reverse mortgage. The mortgage on your home must be paid off or almost paid off.

Reverse mortgages usually only apply for single family, one-unit homes, although some lenders will give loans on condos or town homes. (Mobile homes are not eligible for reverse mortgages.)

The Costs:
As with any home loan or transaction, there are several costs involved with a reverse mortgage. These could include application fees, closing costs, insurance, appraisal fees, and monthly service fees. Getting a reverse mortgage might also negatively affect your eligibility for state or federal benefits such as supplemental security income and medicaid.

Reverse mortgages can provide a form of retirement insurance for seniors and offer security in the later years. However, there are limits on how much one can receive from a reverse mortgage, so in some cases it would be much more profitable to sell the home and move to a less expensive one. Do your homework and make sure you check into all the details of a reverse mortgage with a qualified professional before jumping into it. Contact a representative of the Federal Housing Administration to get free reverse mortgage counseling and help.

Repayment:

A reverse mortgage comes due when under the following conditions:

Death of the homeowner   Upon sale of the home by the homeowner   If the homeowner lives elsewhere for 12 consecutive months (i.e. assisted living home)   Upon one of the instances of default listed below.

When the reverse mortgage becomes due there are two options for paying it off.

Proceeds from the sale of the home   The heirs of the homeowner can refinance the loan

Like all loans a reverse mortgage does carry conditions in order to remain valid. Below is a list of reasons for which a borrower would find themselves in default.

Failure to pay property taxes   Failure to keep the home in good repair   Failure to insure the home   Taking of new debt on the home   Bankruptcy   Abandonment or donation of the home   Eminent domain

