

Exploring Reverse Mortgages

They sound too good to be true, because they sometimes can be. Ads promise that senior citizens can take out a reverse mortgage and make no payments on the loan until they leave their home. That depends on the type of loan, so research is key to making the right decision.

Here's a look at the possible advantages of a reverse mortgage and the disadvantages:

WHAT THEY ARE

The most common reverse mortgage is the home-equity conversion option. They allow owners to borrow against the equity they've built by paying their house note all of these years. But interest is added to the balance of the loan on a monthly basis, so the amount you owe continues to increase over time. They are only available by law to those 62 or older, and the home must be a primary residence. The balance of the loan must be repaid when the owner passes away or sells the home.



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REAL ESTATE 101

Reverse Mortgage Alternatives

Reverse mortgages aren't suitable for everyone, and it's important to know the other options you may have if you're seeking this type of financial assistance. The experts at Rocket Mortgage explore reverse mortgages and present alternatives at bit.ly/3np9vcG.

THE BENEFITS

If you're struggling to pay your bills in retirement, a reverse mortgage can help get you back on track. They're particularly helpful for those who don't have a robust savings account or investments, but instead have untapped wealth built up through equity in their home. You can use the proceeds to pay off an

existing home loan, so there's no need to potentially downsize. You'll never have to move or spend time worrying about being priced out of your neighborhood. The extra money can free up cash to pay down other expenses. There's also no tax liability, since the IRS considers these funds to be a loan advance rather than income.

HOW THEY CAN GO WRONG

Depending on the interest rate, the cost of a home equity conversion loan can balloon substantially. In the meantime, you're still required to pay property taxes, HOA fees, homeowners insurance and any other related home costs. These type of reverse mortgages exploded in popularity

in the early 2000s, before the reality of those challenges became more widely known. The U.S. Department of Housing and Urban Development has since instituted changes that limited the amount of money that could be loaned. This provided important new protections for those who didn't completely understand the risks.

HOW TO PROTECT YOURSELF

Americans are living longer, which lengthens the time interest in this reverse mortgage loan continues to build. In fact, that figure can sometimes end up exceeding the value of the home. If this happens, you or your heirs are not generally required to pay the difference – but the home's equity is still lost.

The Consumer Financial Protection Bureau recommends that potential borrowers look into more traditional loans or lines of credit, which involve less risk.

In the meantime, beware of scammers. Popular diversions involve contractors offering to pay for needed maintenance or repairs using funds from a reverse mortgage, or claiming to offer specialty versions geared toward special groups like veterans. The Veterans Administration does not sponsor a reverse loan program.



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HOMEWISSE GLOSSARY

First mortgage: The first mortgage is the primary loan against a property, and takes precedence over any other mortgage, equity line or other lien. **SOURCE:** MLS.com

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