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5 Top Alternatives To A Reverse Mortgage

By Jean Folger | October 17, 2014

If you're 62 or older, you may be able to convert the equity in your home into cash with a reverse mortgage. This loan lets you borrow against the equity in your home to get a fixed monthly payment or line of credit. Repayment is deferred until you move out, sell the home, become delinquent on property taxes and/or insurance, the home falls into disrepair, or you pass away. Then the house is sold and any excess after repayment goes to you or your heirs.

Home equity loans can be problematic if not done correctly (see *5 Reverse Mortgage Scams*) and require careful attention to the rights of the surviving spouse, if you are married. And of course, the end of the process means you or your heirs give up your home.

There are other ways to tap into your home's equity that are worth considering. Here, we take a quick look at the top alternatives to reverse mortgages.

1. Refinance Your Existing Mortgage

If you have an existing home loan, you may be able to refinance your mortgage to lower your monthly payments and free up some cash. One of the best reasons to refinance is to lower the interest rate on your mortgage, which can save you money over the life of the loan, decrease the size of your monthly payments and help you build equity in your home faster. Another perk: If you refinance instead of getting a reverse mortgage, your home remains an asset for you and your heirs.

2. Take Out a Home-Equity Loan

Essentially a second mortgage, a home-equity loan lets you borrow money by leveraging the equity you have in your home. It works the same way as your primary mortgage: You receive the loan as a single lump-sum payment, and you cannot draw any additional funds from the house. The interest you pay is generally tax deductible for loan amounts up to $100,000.

These are generally fixed-rate loans, which provide security against rising interest rates. Because of that, the interest rate is typically higher than for a home equity line of credit. As with refinancing, your home remains an asset for you and your heirs. Because your home acts as collateral, it's important to understand that your home is at risk of foreclosure if you default on the loan.

3. Take Out a Home Equity Line of Credit (HELOC)

A home equity line of credit, or HELOC, gives you the option to borrow up to your approved credit limit, on an as-needed basis. Unlike a home equity loan, where you pay interest on the entire loan amount whether you're using the money or not, with a HELOC you pay interest only on the amount of money you actually withdraw. HELOCs are adjustable loans; your monthly payment will change with fluctuating interest rates. The interest is generally tax deductible for loan amounts up to $100,000, and your home remains an asset for you and your heirs. As with a home-equity loan, your home acts as collateral and could be foreclosed if you default.

4. Sell Your Home (and Maybe Downsize)

The other options so far keep you in your existing home. If you're willing and able to move, however, selling your home gives you access to the equity you have built. This option may be especially appealing if your current residence is too big for your current needs, too difficult/costly to maintain or has prohibitively expensive property taxes. The proceeds can be used to buy a smaller, more affordable home (or you can rent), and you'll have extra money to save, invest or spend as needed. See *Downsize Your Home To Downsize Expenses* and *Avoid the Downsides of Downsizing In Retirement.*

5. Sell Your Home to Your Children

Another alternative to a reverse mortgage is to sell your home to your child (or children). One approach is a sales-leaseback agreement, where you sell the house, then rent it back using the cash from the sale. As landlords, your children get rental income and will be able to take deductions for depreciation, real estate taxes and maintenance.

Another approach is a private reverse mortgage, which works like a reverse mortgage, except the interest and fees stay in the family. Your children make regular payments to you, and when it's time to sell the house, they recoup their contributions (and interest). Although it's not free to set up this type of arrangement, it is typically much cheaper than getting a reverse mortgage through a bank, and the home remains an asset for your and your children.

Selling to your children has tax and estate-planning ramifications, so it's important to work with a qualified tax specialist or attorney.

The Bottom Line

Reverse mortgages may be a good option for people who are "house-rich and cash-poor", with lots of home equity, but not enough income for retirement. There are other options, however, that allow you to tap into the equity you have built up in your home.

Before making any decisions, it's a good idea to research your options, shop around for the best rates (where applicable) and consult with a qualified tax specialist or attorney. See *Is Relying On Home Equity In Retirement A Good Idea?* , and *Reverse Mortgage Or Home-Equity Loan?*