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The Pros and Cons of a Reverse Mortgage

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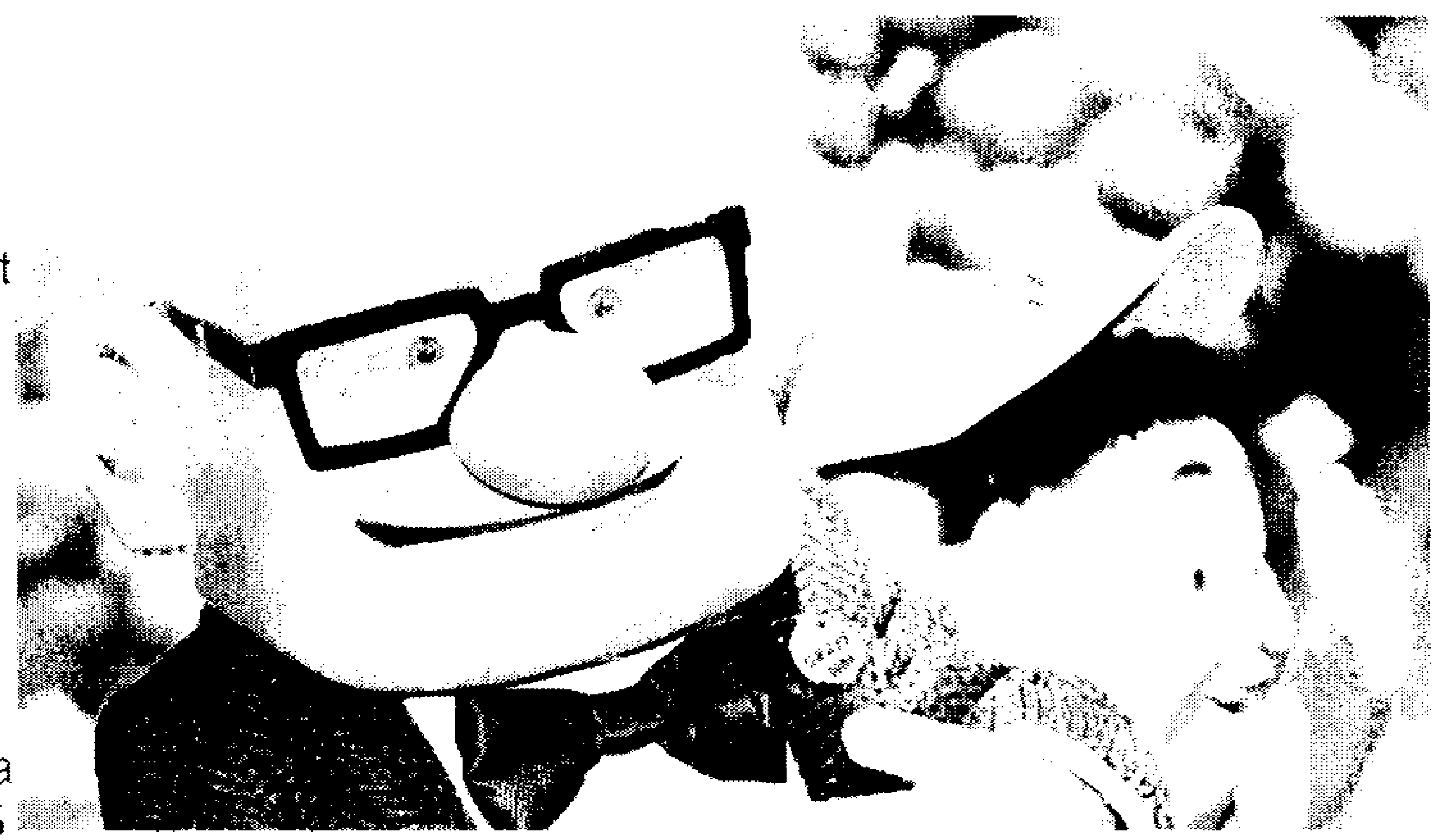

For the past few decades, you have gradually invested in your home in the form of interior renovations, exterior upgrades, steady overall maintenance, and of course, the diligent payment of your monthly mortgage every month. Through the years, as your total mortgage balance decreased and your equity increased, you began to indulge in the sort of daydreams that are typical when anticipating retirement. Your mind often wandered to visions of strolling along the beach as you feel the sand between your toes, sprawling out on a hammock as the sunshine kisses your face, and laughing lightheartedly as a cool breeze plays with your hair. With your 9-to-5 job obligations behind you, a home that has been paid off, and your children all grown-up and self-sustaining, you are free to focus on the new adventure of this next stage in life. However, one question may come to mind more often than you would like: Can I afford the retirement I want?

Retirement and the Reverse Mortgage

Because of the equity you have built up in your home, your biggest asset is now holding the answer to a **financially stable retirement**. Your first step to financing your lifestyle through home equity is to research the best tool to access it. To access home equity, borrowers typically have three options:

1. Sell the home
2. Assume a 2nd mortgage
3. Take out a reverse mortgage loan

For many senior homeowners who want to age in their homes and who do not want to get locked into paying monthly mortgage payments again, the third option has proven to be noticeably popular.

A **reverse mortgage** is defined as a loan that helps senior homeowners who are 62 years or older access a portion of their home equity to use as cash. Of course, there is so much more to this loan than this simple definition. Since its inception in the early 1960s, this loan has evolved into a powerful financial tool in retirement. For the past half century, senior homeowners have been utilizing this option to access their equity and achieve the type of retirement they always wanted. However, when considering the reverse mortgage loan, or any financial product for that matter, it is always a good idea to educate yourself on the pros and cons. Knowing the advantages and disadvantages can help you to determine if this loan will be a good fit for your needs.

The Pros and Cons

The following are some of the pros and cons associated with reverse mortgage loans.

PROS:

- You may age in place while accessing a portion of your equity as cash.
- You retain ownership of your home as long as you fulfill all loan obligations such as paying property taxes, homeowners insurance, and basic home maintenance and repairs.
- The most common reverse mortgage, called a Home Equity Conversion Mortgage (HECM) loan is government insured by the Federal Housing Administration (FHA) which covers repayment of any difference between loan balance and home value.
- Consumers are protected from owing more than the value of the home when sold.
- This loan is non-recourse, which means the home is the only asset the lender can take to repay the loan.
- Costs, such as the mortgage insurance premium that comes with federal insurance, may be rolled into the total balance of the loan.
- Loan repayment is deferred to whenever the borrower permanently leaves the home; thus no monthly mortgage payment is required.
- You may use reverse mortgage loan funds for anything you desire, including home repairs, renovations, and upgrades.

CONS:

- The cons of a reverse mortgage included the fact that you may not live anywhere else other than your home for more than 12 consecutive months. If you do, the loan becomes due and payable.
- Depending on an assessment of your financial profile, you may be required to set aside a portion of your funds to pay your financial obligations.
- If your heirs want to keep the home, they will need to find an alternative method to repay the loan that does not involve selling the property.
- A lien will be placed on the home until the loan is repaid at maturity.

Is the Reverse Mortgage Loan Right For You?

Along with reverse mortgage pros and cons, it is also important to **know the circumstances** in which this loan may or may not be a good fit.

There are a few instances where this loan may not be the most beneficial solution. Because one of the loan terms include a requirement that you reside in the home as your primary residence, if you anticipate the possibility that you may move away in the foreseeable future, such as into a nursing home or a family member's home, the loan may become due and payable.

Moving out of your home soon after completing the loan is also inefficient due to the closing costs you had already spent. In addition, if you are not comfortable with paying, or cannot afford to pay your property taxes, homeowners' insurance, and basic home repairs then this loan may not be for you. Since there are no monthly mortgage payments required for a reverse mortgage, failing to fulfill these other financial obligations may lead you to defaulting on the loan.

However, if you desire to access a portion of your equity while aging in place, you have no plans to sell your home or move out in the foreseeable future, and you want to eliminate your monthly mortgage payments, then a **reverse mortgage** may be the financial solution for you. With features that allow you to defer repayment, it is a versatile solution to increase your monthly cash flow and supplement your social security income and pension – all with the protection of federal insurance.

Now that you know more about the pros and cons of a reverse mortgage, as well as the circumstances regarding whether this loan may or may not be a good fit, you can make a more educated decision on if it may benefit your needs. For more help, speak with a reverse mortgage expert from a reputable industry lender. Armed with their knowledge and yours, you will be well on your way to funding the retirement of your dreams.

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