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Reverse Mortgage and Your Retirement

A Guide to Understanding the Benefits, Risks and Costs Before You Apply

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Introduction

Having a solid strategy for how you'll manage your finances in retirement is critical. One option older homeowners may want to consider is taking out a reverse mortgage. These types of loans can help supplement your income stream during retirement by tapping the equity you've built in your home over time.

You've probably seen ads on TV or online for reverse loans, but the nitty-gritty details of these products can be complex and hard to understand. That's why it's important to choose a reputable lender and consult with a trusted financial adviser before agreeing to a reverse mortgage. It's critical to understand how a reverse mortgage may impact your heirs' future inheritance and what happens if you pass away or need to move into a long-term care facility.

In that spirit, LendingTree has created this in-depth guide to reverse mortgages. In the pages that follow, we'll explain what these loans are, how they work and who should consider them. We'll also help you identify what reverse mortgage scams look like, and how to avoid becoming a victim of predatory lending.

What is a reverse mortgage?

A reverse mortgage is a type of loan that allows homeowners ages 62 and older to borrow against the equity they've built in their homes. Unlike a conventional mortgage, however, you don't have to make monthly payments. Instead, you can use the proceeds of the mortgage right away and you only have to repay it if you move out of the house.

If you pass away while living in the home, the loan comes due at the time of your death. However, if you have a spouse who survives you and wants to stay in the home, they can continue living in it without making mortgage payments until they move or also pass away.

You typically need at least **50% equity** in your home to take out a reverse mortgage, and you must live in the home as your primary residence. Most reverse mortgages are issued as **Home Equity Conversion Mortgages (HECMs)**, which are insured by the Federal Housing Administration (FHA).

You can find other reverse mortgage products through private lenders, but they don't adhere to the same standards as HECMs and don't carry a government guarantee. In this guide, we'll strictly cover HECMs. You can also apply for a HECM for Purchase if you want to leverage your current home to buy a new primary residence.

What do you use a reverse mortgage for?

We'll take a close look at some scenarios in which a reverse mortgage makes sense (and when it doesn't) later in this guide. Here are some reasons why someone might use a HECM, including:

- Access tax-free retirement income
- Renovate your home to age in place without making monthly loan payments
- Delay withdrawals from your 401(k) or other retirement investment accounts
- Consolidate and pay off high-interest debt

How does a reverse mortgage work?

When you take out a reverse mortgage, the bank gives you a new loan that is secured by your home. The new mortgage pays off the old one, and you get the remaining proceeds, either as a line of credit, a lump sum or via monthly installments. Each year, the FHA sets a maximum borrowing limit for HECMs, which is about 150% of Freddie Mac's national conforming loan limit. In 2020, the HECM limit is $765,600 for all areas.

A conventional mortgage is a "forward" loan, meaning that you pay down your balance every month, and the equity you have in the home grows. With a reverse mortgage, though, you don't make any payments until you leave the home or pass away, and your equity decreases over time.

It's important to know that interest and fees accrue on a reverse mortgage, even though you're not making monthly payments. Before committing to a reverse loan, make sure you're clear on the terms and the total amount that will be owed when you die or move out. This is especially important if you plan to leave the house to your heirs.

Although you don't owe monthly installments on the loan, **you must continue paying property taxes, homeowners insurance and homeowners association fees.** You'll still need to maintain the house and grounds, too. If it's been a while since you last renovated or updated your home, your lender may require you to complete certain repairs before approving a HECM application.

Types of reverse mortgages

You can take out a fixed-rate or adjustable-rate reverse loan. Here's what you need to know about both options:

Fixed-rate reverse mortgages

With a fixed-rate reverse mortgage, you receive the proceeds as a lump sum and interest will accrue at the same rate each month as long as you have the loan. The fixed-rate option lets you calculate exactly how much will be owed on the mortgage, which can help you budget if you plan to downsize or move to another area within the next several years. If you do sell, the reverse loan must be repaid in full. A fixed-rate option also helps your heirs more easily calculate how much money they'll need to buy the home if they plan to purchase it when you move or pass away.

Adjustable-rate reverse mortgages

An adjustable-rate reverse mortgage means that your interest rate can move up or down during the life of the loan, making it a bit more difficult to calculate long-term costs. Lenders are required to cap interest rates, so it's possible to determine the maximum repayment amount. Still, it's harder to pinpoint costs for an adjustable-rate HECM than with a fixed-rate loan.

Adjustable-rate reverse mortgages have a number of flexible disbursement options, such as:

Tenure

You'll receive set monthly payments as long as you live in the house. If you pass away, but have a spouse who continues living in the house and was a co-borrower on the mortgage, they will continue receiving payments after your death.

Term payments

You'll receive set monthly payments for a period of time of your choosing. You can set up term payments for, say, five or 10 years, or whatever works best for you. The shorter the term, the larger your monthly installments will be. An extended term gives you less money each month, but you'll have a stable income from the mortgage for a longer period of time.

Line of credit

Rather than receiving a lump sum or payments, you'll simply use the credit line when you need it. You could open a line of credit today but not touch it until next year, when you may want to make a home renovation or an unexpected expense comes up. Your interest rate will vary based on when you use the line of credit, so you can make purchases strategically if interest rates drop while your credit line is open.

Modified tenure

This is a hybrid plan that lets you receive small monthly payments as long as you live in the home, while leaving a portion of the mortgage available as a line of credit.

Modified term

Similar to the modified tenure plan, a modified term means you'll receive small monthly payments for a set period of time, and you'll leave part of the loan open as a line of credit.

How a reverse mortgage gets paid back

The nice thing about a reverse mortgage is that you don't have to worry about making monthly payments. But a reverse mortgage isn't free money, and you or your heirs will need to repay the loan if you move to a new home or they want to keep the house in the family when you die.

There are several options for repaying a reverse mortgage:

1 Sell the house and use the proceeds to pay off the loan.

If you sell the house for more than you owe on the mortgage, you (or your heirs) get to keep any remaining profits once you've paid off the loan. If your mortgage balance is more than your house is worth (this is known as being "underwater"), you can sell it for 95% of its appraised value and use the proceeds to repay part of the loan. Selling a home for less than what you owe is known as a short sale. With a forward mortgage, a short sale can hurt your credit, since you're paying the lender less than what you had agreed.

However, federal law forbids lenders from coming after you or your heirs for the remaining loan balance on a reverse mortgage, and the shortfall won't hurt your credit score.

2 Take out a new mortgage.

Your heirs can apply for a new mortgage that allows them to pay off the current lender and opens a new loan in their name. If you're the sole owner of the house and have indicated the home should go to your heirs in your will, the property title will pass to them when you die. Without a will, the property will go through probate to decide who will inherit it, depending on your state's laws. When the house passes to your heirs, they will have 30 days to pay the reverse loan off or apply for a new loan, though they may be able to ask the lender for an extension if they need more time.

3 Refinance.

Maybe you plan to downsize or move into a retirement community, but you'd like to rent out your current home for additional income. In that case, you might refinance the loan into a forward mortgage and use part of your rental income to make your monthly payments.

4 Offer a deed-in-lieu of foreclosure.

If you're underwater on your reverse mortgage, you can avoid foreclosure and turn over the deed (or ownership) of the home back to the lender. In turn, the bank can sell the property and use the proceeds to make up their losses. Choosing this avenue, though, will hurt your credit; however, if your heirs inherit an underwater home with a HECM and decide to do a deed-in-lieu of foreclosure, it won't impact their credit.

Reverse mortgage example

Using a reverse mortgage as a supplemental income stream in retirement or for other financial needs can be difficult to map out. Here's an example to bring the concept down to earth.

Jake and his wife Lynn are both 62. They decide to take out a reverse mortgage on their New Jersey home as a line of credit so they can use their equity as needed to renovate their home and cover other retirement expenses. Their home is valued at $300,000 and they own the property outright. They don't have any children, so they decide to borrow the maximum amount allowed.

After all of the fees and expenses associated with the loan are calculated (including mortgage insurance and origination costs), Jake and Lynn will:

Have a maximum credit line of about $143,000.

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Be able to draw on the credit line as much or as little as they choose, as long as they live in the home. A line of credit is a variable-rate loan, and interest is applied once a purchase is made, so the amount of interest accruing at any time will depend on the current rate.

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Use the credit line without making any payments until they leave the home or pass away.

Steps in the reverse mortgage process

1 Schedule an appointment with a HECM counselor from the U.S. Department of Housing and Urban Development (HUD).

This is a required step in applying for a HECM. Your counselor will walk you through the reverse mortgage process and discuss all of the requirements in detail. They can answer any questions that came up in your research, and they'll help you determine whether a reverse mortgage is a good option for you based on your goals and overall finances.

2 Compare lenders.

Just as you would with any mortgage product, request quotes from several HUD-approved HECM lenders. Pay close attention to the interest rates, loan terms and fees being offered. Shop around and compare the overall borrowing costs, too.

3 Apply for a reverse mortgage.

Submit your application to the lender you'd like to work with. Your lender will conduct a thorough financial assessment before approving the loan to determine whether you can afford the ongoing costs associated with the home, such as property taxes, homeowners insurance and maintenance. If they're worried about your ability to pay, they may require you to create a Lifetime Expectancy Set-Aside (LESA) fund before you close the loan, which will be used for your ongoing expenses. They can also withhold a portion of your monthly disbursements for those costs, reducing the amount you receive in your payments.

4 Submit required documentation.

Your lender will ask for paperwork, including proof that you can continue paying the taxes and insurance premiums as well as covering any maintenance or repair work. Their criteria may vary, but they might check your credit score, and ask for bank account statements and retirement account records. This is to ensure your ability to pay ongoing expenses for your home. This step is also when you'll choose your disbursement plan.

5 Schedule required appraisals and inspections.

A loan officer will work with you to make sure any required appraisals or inspections are set up in order to keep the loan process moving. The lender may order an inspection to determine whether you need to make any home repairs before they'll approve the loan, and they may also require follow-up inspections to ensure that the work has been completed.

6 Close on the loan.

After the loan receives final approval, you'll sign the closing documents and review the closing disclosure to confirm the closing costs and terms. If your closing is in-person, you'll meet with a representative from your lender to sign the papers and have them notarized by a notary agent, who will also be present. Depending where you live, the state may require that an attorney or title agent be there as well.

7 Receive the loan proceeds.

How and when you receive your proceeds will depend on the type of disbursement plan you've selected (tenure, term, etc.).

8 Keep paying ongoing expenses and maintain the property.

If you fail to pay your homeowners insurance premium, HOA dues or property taxes while you have a reverse mortgage, you could wind up in foreclosure.

Do I qualify for a reverse mortgage?

Lenders look at a number of different criteria when considering reverse mortgage applicants. In addition to your age and amount of equity, they'll look at your overall financial picture and your home type, too.

Reverse mortgage counseling

Anyone considering a HECM must meet with a HUD counselor before taking out a reverse mortgage loan. Your counselor can help you determine whether you qualify for a reverse mortgage, and they'll also break down how the loan works. Counseling generally costs approximately $125, but it may vary, as agencies set their own fees.

Find a counselor in your area through HUD's website or by calling toll free to 800-569-4287.

Borrower criteria	Property qualifications
› Must be 62 years of age or older › Have at least 50% equity in the house › Live in the home as your primary residence (where you live for most of the year) › Have enough savings and/or income to pay property taxes, homeowners insurance, HOA fees, maintenance costs and other ongoing property expenses › Hold no federal debts	› Several property types are eligible for HECMs, but all must meet the FHA's building standards and flood requirements to be approved. Qualifying property types include: • Single-family homes • Multifamily properties (two to four units, one of which must be the borrower's primary residence) • Manufactured homes • HUD- or FHA-approved condos

Co-borrowing vs. eligible non-borrowing spouses

Co-borrowing spouse

One of the trickier elements to understand about reverse mortgages is how they apply to your spouse. If you and your spouse live in the home together and are both 62 or older, you can apply jointly for the reverse mortgage. Then, if one of you dies or moves into a long-term care facility and the other wishes to stay in the home, the remaining spouse can continue to do so without making payments until they also move out or pass away. If there is still money left to disburse — for instance, if you're on a tenure plan or a term plan that hasn't reached the end of the pay-out period — your co-borrowing spouse will continue to receive those payments.

Eligible non-borrowing spouse

If your spouse is not a co-borrower on the reverse mortgage — for example, perhaps because they were younger than 62 when you took out the loan — they may continue to live in the house after your death, as long as several conditions are met:

- You were legally married when you took out the reverse mortgage and the marriage lasted until your death.
- If you could not be legally married in your state due to your gender, but you lived as a married couple at the time you took out the loan and were legally married until your death.
- The home has been the non-borrowing spouse's primary residence since the reverse mortgage was taken out.
- The property was not in default when you died.

If you took out the reverse mortgage after Aug. 4, 2014, your non-borrowing spouse must be listed as such on the loan. Your spouse will also need a court order or another legal document proving that they have a claim to stay in the property. Your spouse can get this order before your death or obtain it within 90 days of your death

Although your non-borrowing spouse may stay in the house, they won't receive any more loan disbursements, even if you were on a tenure plan or there was still money available in the loan account. Another caveat: The non-borrowing spouse must continue to pay property taxes, homeowners insurance and other maintenance costs to avoid foreclosure.

WHAT YOU'LL OWE WHILE YOU LIVE IN YOUR HOME

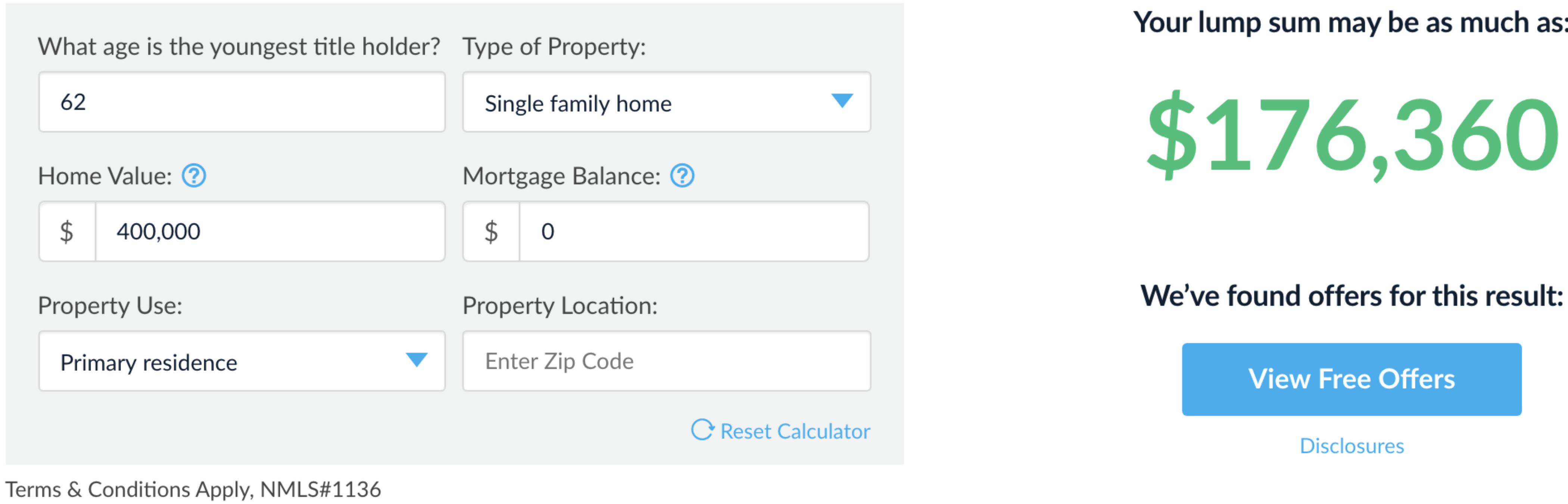
With a reverse mortgage, you must keep paying:

- Property taxes
- Homeowners insurance
- Homeowners association (HOA) fees
- Maintenance and repair expenses

If you don't pay these bills or you fail to maintain the property, your lender can call in the loan and you may lose your home. Make sure you can afford these costs before you take out a reverse mortgage.

The costs to get a reverse mortgage

To get an idea of how much you'd be able to borrow with a reverse mortgage, check out LendingTree's reverse mortgage calculator. You can input basic information — such as how much your home is worth, where you live and how much is left on your current mortgage — to get a quick estimate of what a lump sum loan might look like.



But that's only the first step in figuring out your total reverse mortgage costs. Here's a breakdown:

1. Upfront fees

HECM counseling: You have to complete HECM counseling before you can apply for your loan. Counseling may run you $125 or even more; counseling agencies can set their own rates. However, federal law prohibits counselors from charging exorbitant fees, and they cannot refuse counseling if someone cannot pay the fee.

2. Transaction fees

Mortgage insurance: The FHA requires mortgage insurance on FHA-backed loans, but you may be able to roll your insurance premiums into your loan. The initial mortgage insurance charge is 2% of the home's value, and you'll also be charged an annual mortgage insurance rate, calculated as 0.5% of your outstanding balance.

Origination fees: Lenders can charge up to $6,000 in origination fees for HECMs, though the amount you'll pay depends on how much you borrow.

Servicing fees: Lenders can charge a monthly servicing fee of up to $35 for managing your loan disbursements and for payments and billing administration. Some lenders roll the servicing fee into the interest rate.

Closing costs: These costs include appraisal and inspection fees, mortgage taxes, credit check charges and other expenses to process your reverse mortgage application.

3. Ongoing costs

Property taxes: You'll need to keep paying your property taxes in order to avoid foreclosure. Your county sets property tax fees.

Homeowners insurance premiums: You must continue to hold a homeowners insurance policy and pay the annual premiums.

Utilities: You must pay for all utilities (water, electricity, gas, etc.).

Maintenance: As the homeowner, you must pay for upkeep and repairs, and prevent the home from falling into disarray.

Fee	When it's paid	Amount
HECM counseling	Upfront	$125 and up
Origination fee	Upfront	Up to $6,000
Servicing fee	Ongoing	Up to $35 per month
Initial mortgage insurance	Upfront	2% of the home's value
Annual mortgage insurance	Ongoing	0.5% of outstanding loan balance
Interest	Ongoing	Varies
Property taxes	Ongoing	Varies
Utilities	Ongoing	Varies
HOA fees (if applicable)	Ongoing	Varies
Maintenance and repairs	Ongoing	Varies

Pros and cons of a reverse mortgage

Pros	Cons
Age in place: A reverse mortgage can help you stay in your home by providing funds for renovations to meet your needs as you get older. This may be more affordable than selling and downsizing.	**Lose equity in your home:** You'll have less to borrow against if you need another loan in the future.
Increase retirement cash flow: A reverse mortgage can provide a consistent influx of cash each month if other revenue streams aren't as reliable.	**Give up heirs' inheritance:** If you lose the house or your heirs can't pay off the loan, they won't be able to keep the home.
Pay down debt: You can use the loan proceeds to pay down high-interest debt.	**Not free money:** You're obligated to pay ongoing bills, taxes, maintenance expenses and other fees throughout the life of the loan.
Stretch your retirement savings: Having monthly income from a reverse mortgage allows you to avoid withdrawing early from retirement accounts.	**Requires financial planning:** You must structure your disbursement plan so that it doesn't disqualify you from receiving benefits, such as Supplemental Security Income (SSI) and Medicaid.

Pros	Cons
Fund your financial goals: You can use reverse mortgage proceeds however you want, including supplementing retirement income, helping to pay a child's college tuition or renovating your home. **No risk of going "underwater" on your home:** You and your heirs will never have to pay more than the property is worth, regardless of your loan balance.	**High upfront costs:** You could pay several thousand dollars in origination fees, closing costs and other expenses just to obtain the loan. However, you may be able to roll these into the loan so you won't have to pay them all out of pocket.

Is a reverse mortgage right for me?

Reverse mortgages can be a great source of retirement income, particularly if you have significant equity in your house or plan to live there for the foreseeable future. But it's a big commitment, and it comes with risks.

Here are some scenarios in which a reverse mortgage might be a good fit:

You own your house outright or have nearly paid off your original mortgage.	You can turn your equity into income and supplement your retirement savings or Social Security benefits with disbursements from your reverse mortgage.
You're not ready to retire but need additional income.	If you're 62 and intend to work a few more years before you start drawing on your retirement accounts and Social Security, a reverse mortgage can give you an income boost before you stop working.
You want to renovate the home to age in place.	You love your home, but you know it'll need some renovations to remain livable as you get older. A reverse mortgage can help you cover those costs — and unlike a home equity loan or line of credit, you don't have to worry about making regular payments on those upgrades.
You have significant savings.	Because of the upfront and ongoing costs associated with a reverse mortgage, it helps if you have ample savings. But if you're worried about staying on top of your taxes and maintenance, a reverse mortgage may jeopardize your home and your finances.

On the flip side, you may not want to get a reverse mortgage if:

You're determined to leave your home to your heirs.

If you or your heirs can't pay off the mortgage when you die or if you need to move into an assisted living facility, the lender can take the house and your loved ones will lose their inheritance.

You expect to move out of the home within a few years.

The total mortgage balance will come due when you move, so if you're not confident you'll be able to pay it off, you'll likely be better off looking for alternative sources of income.

You're on a limited income or struggle to pay your bills.

The reverse mortgage is contingent on you keeping up with household expenses. If you have a hard time covering your needs as it is, a reverse mortgage could further burden you and increase the risk of losing your home.

A reverse mortgage can be one smart strategy as part of your overall retirement plan, but it shouldn't be your only plan. Don't take out a reverse mortgage if you think you might misuse the funds, otherwise, you may wind up more financially strapped at a time when your earnings are substantially more limited. In short, you need a clear strategy for how you'll use a reverse loan effectively.

How to find a reverse mortgage lender

As with any mortgage, it's smart to shop around for the best deal. Here are some tips for finding the right one:

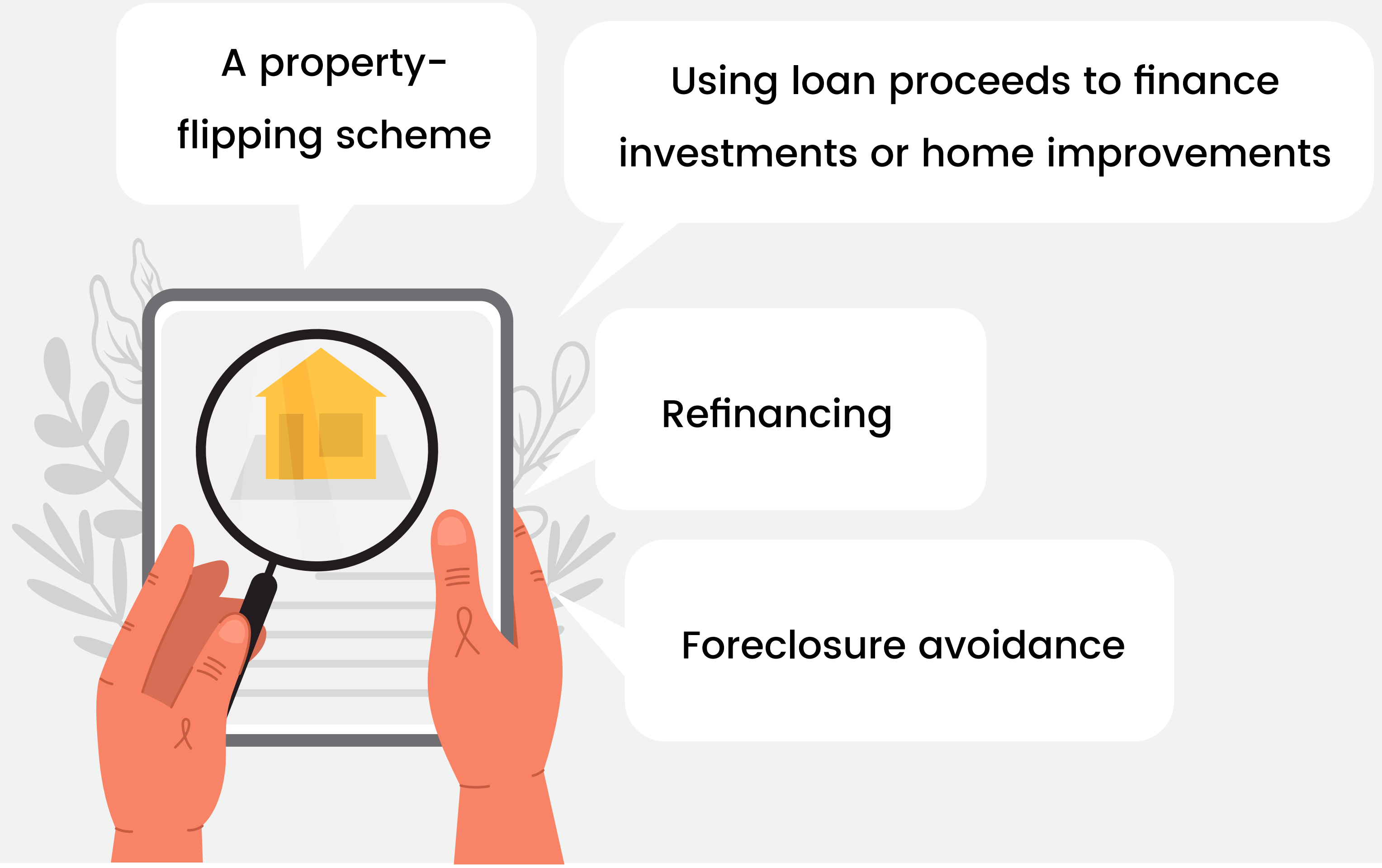
1. **Look up lenders on the approved HECM lender list**. Narrow your search from the get-go by using HUD's search tool for FHA-approved reverse mortgage lenders.
2. **Verify that the company is a member of the National Reverse Mortgage Lenders Association (NRMLA)**. Once you find lenders in your area, you can search NRMLA's consumer education site to find out which ones are affiliated with the organization.
3. **Ask friends and family for recommendations.** Have a friend or relative who took out a reverse mortgage in your area? Find out who they used and ask for their honest opinion. If they're willing to share details, ask about their interest rate and how much they paid in costs and fees.
4. **Read online lender reviews.** Check Google and Yelp to get a general feel for what people are saying. Were they happy with the lender? Do they feel they received a fair rate? Did they get personalized service?
5. **Compare quotes from several lenders.** Don't go with the first lender you find. Getting quotes from several lenders will help you gauge which companies offer the best interest rates and the lowest fees. Choose a lender that offers you the best overall loan terms and provides great customer service.

Search and compare reverse mortgage lenders through LendingTree's marketplace.

Reverse mortgage scams to watch out for

Unfortunately, the reverse mortgage industry is rife with scams, as sham companies attempt to take advantage of elderly homeowners. Many nefarious businesses target senior homeowners through direct mail advertising, phone calls and misleading TV ads, according to the FBI. They also pursue targets through investment seminars and church communities.

Scams take on many forms, but you should be suspicious of anyone pushing you to use a reverse mortgage for any of the following scenarios:



5 tips to avoid reverse mortgage scams

1. **Meet with a HUD counselor before signing anything.**
A HUD counselor can help you verify whether a lender is legitimate, and they can also talk you through the implications of a reverse mortgage. A salesperson's job is to get you to agree to a loan, but they may not have your best interests in mind.

2. **Ask a trusted friend or relative to review the loan offer and terms.**
Get a second pair of eyes on the loan documents. It's especially important to bring your heirs into the conversation if you expect them to inherit your home or help manage your finances as you age.

3. **Meet with a lawyer.**
If you're still unsure whether an offer is legit, speak with a lawyer who can identify concerning clauses in your contract.

4. **Never send money to a company or sign a contract without seeking HUD counseling and legal advice.**
If someone is pressuring you to sign a contract or send them money, that's a huge red flag. Legitimate lenders have strict underwriting processes and must vet your finances before they offer you a loan, and you won't owe money until you're well into the processing stage.

5. **Consult your financial adviser.**
A reverse mortgage is not a get-rich-quick scheme — it's one element in a carefully thought-out retirement strategy. Be wary if someone approaches you with a promise that you'll make lots of money fast by investing or otherwise using your reverse mortgage proceeds. Speak with your financial adviser about how any proposition fits into your overall financial and retirement picture.

How to report a reverse mortgage scam

If you've been a victim of a reverse mortgage scam, or if you believe you were approached with a fraudulent offer, file a complaint with the FBI or HUD.

To file with the FBI, submit your complaint through the electronic tip line. You can also contact your local FBI office. To file a complaint with HUD, call the hotline at 800-347-3735.

For more information on reverse mortgages, consult the following resources:

AARP Foundation

800-209-8085

Reverse Mortgage Education Project

Consumer Financial Protection Bureau

855-411-2372

Considering a Reverse Mortgage?

U.S. Department of Housing and Urban Development (HUD)

800-225-5342

HECM Program

KNOW YOUR RIGHTS

As long as you're not taking out a HECM for Purchase loan, you have three business days after closing to cancel the loan. If things feel off or you're suddenly uncomfortable with the terms, your lender is obligated to let you cancel the loan within that time. Notify your lender in writing via certified mail, and they'll have 20 days to refund any money you paid.

FAQs about reverse mortgages

How much money can I take out with a reverse mortgage?

The exact amount you can borrow depends on how much equity you have in the house, as well as your interest rate and age. For 2020, though, the FHA's maximum HECM limit is $765,600 in all areas. But even if you have a lot of equity, avoid borrowing the maximum amount if you plan to leave your home for your heirs. The more you borrow now, the higher the balance will be when they inherit the house.

Are there restrictions on what I can use reverse mortgage funds for?

Unless you're taking out a HECM for Purchase loan — which is explicitly used to buy a new primary residence — you can use reverse mortgage funds for anything you want.

What happens to my house when I die or have to go into a long-term care or nursing facility?

When you die or move into a long-term care facility, the balance on your reverse mortgage comes due. You or your heirs will need to pay off the loan in order to keep the property. If you have an eligible non-borrowing spouse, though, your spouse can continue living in the home until they die or move out.

If your home is in a trust, a reverse mortgage can complicate your heirs' ability to stay in the home, depending on the way the trust is structured and your lender's underwriting requirements. Consult an attorney or financial advisor about the implications of the trust on your reverse mortgage so you understand exactly what your heirs are entitled to after you die.

What are the key requirements to get a reverse mortgage?

You must:

- ✓ Be 62 or older
- ✓ Have 50% or greater equity
- ✓ Live in the home as your primary residence
- ✓ Have enough funds for ongoing property expenses

What fees will I pay for a reverse mortgage?

You'll pay a HUD counseling fee, as well as an origination fee of up to $6,000. You'll also be responsible for closing costs and mortgage insurance. Your mortgage insurance will be assessed at a rate of 2% of the home's value when you first take out the loan, and 0.5% annually on the outstanding balance. Ongoing costs include your property taxes, HOA fees, homeowners insurance premiums and home maintenance expenses.

What are reverse mortgage interest rates?

Reverse mortgage interest rates vary based on where you live and the rate environment when you apply for the loan.

Does the bank take title to my home?

You retain the title to your home, which is why you must keep paying taxes and insurance, even though you aren't making monthly mortgage payments.

When does a reverse mortgage need to be paid off?

The balance of your loan becomes due when you die or move out of the house.

What happens if a reverse mortgage is not repaid?

The main risk with defaulting on a reverse mortgage is that the bank can foreclose on the property. If you're still alive and have simply moved out of the house, the foreclosure can negatively impact your credit. If your heirs have inherited the house but cannot afford the payment on it, the bank could repossess the property and your heirs will lose the family home.

Do I need to own my home free and clear, or can I have a loan and still get a reverse mortgage?

As long as you have at least 50% equity in your home, you can apply for a reverse mortgage. It's worth noting, however, that lenders may have different equity requirements depending on your age and the interest rate environment at the time you apply.

How does a reverse mortgage impact my heirs after I die?

If your heirs want to keep the home, they will have to pay off the loan before they can take possession of it. They can also sell the home and keep the proceeds of the sale in cash if there's any money left over after the reverse lender is repaid first.

What are the key things to know if I'm helping an older family member through the reverse mortgage process?

Important aspects to consider include:

Affordability: Can your loved one afford the taxes, insurance and upkeep on the property?

Budget: What is the best way to structure the loan so the borrower can use the income strategically during retirement without depleting their equity all at once?

Plans for the home: Do you plan to inherit the home? If so, how will you pay off the loan when it comes due?

Ultimately, think about the long-term implications for your relative and for you, if you plan to own or stay in the home after they've left it.

About LendingTree

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