Understanding Reverse Mortgages

A reverse mortgage is a special type of loan available to homeowners age 62 and older. It allows you to convert part of the equity in your home into cash, without having to sell your home or make monthly mortgage payments.

1. How It Works

• Instead of making payments to the lender, the lender makes payments to you.
• Payments can be received as a lump sum, monthly income, line of credit, or a combination.
• The loan balance grows over time as interest and fees are added.
• You keep the title to your home and remain responsible for property taxes, insurance, and maintenance.

2. Eligibility Requirements

• Must be 62 years or older.
• Must own your home outright or have a low remaining mortgage balance.
• The home must be your primary residence.
• Must stay current on property charges (taxes, insurance, HOA if applicable).

3. Types of Reverse Mortgages

• Home Equity Conversion Mortgage (HECM): Federally insured and the most common type, regulated by the FHA.
• Proprietary Reverse Mortgage: Private loans, often for higher-value homes.
• Single-Purpose Reverse Mortgage: Offered by some state/local agencies or nonprofits, with funds limited to specific uses like taxes or repairs.

4. When the Loan Comes Due

A reverse mortgage typically must be repaid when:
• The homeowner sells the home.
• The homeowner no longer lives in the property as their primary residence.
• The last surviving borrower passes away.

Heirs' Options at Payoff

• The home is usually sold to repay the loan.
• If heirs want to keep the property, they may either:
- Pay off the loan balance in full, or
- Purchase the home for 95% of its current appraised value (whichever is less).

• This protects families from being forced to pay more than the property’s worth if the loan balance is higher.

5. Pros and Cons

Pros:
• Provides cash flow without selling your home.
• Flexible payment options.
• You keep ownership of the home.
• Non-recourse loan: You’ll never owe more than the home’s value at sale.

Cons:
• Loan balance increases over time.
• Reduces the equity you can pass on to heirs.
• Fees and interest can be higher than traditional mortgages.
• Must continue to pay property taxes, insurance, and upkeep — failure to do so can trigger foreclosure.

6. Key Takeaways

• Reverse mortgages can be a powerful tool for seniors needing extra income in retirement.
• They work best for those who plan to stay in their home long-term.
• Heirs have the option to keep the home by paying off the balance or purchasing at 95% of appraised value.
• Careful consideration — and discussion with family — is important before deciding.