When is a Reverse Mortgage the Right Choice?

Nonprofit credit counseling agency Take Charge America shares considerations for senior homeowners

PHOENIX – (Oct. 10, 2018) – With today's booming economy and rising home values, many seniors are considering a reverse mortgage to increase cash flow during retirement.

Zillow reports that home values are increasing at the fastest pace since June 2006. Meanwhile, retirement and healthcare costs are also on the rise – and seniors may feel the pinch.

"Many seniors are house rich but cash poor," said Mike Sullivan, a personal finance consultant with Take Charge America, a national non-profit credit counseling and housing counseling agency. "A home equity conversion mortgage – commonly called a reverse mortgage – may provide quick access to cash, but it's important to consider all of the factors."

Reverse mortgage loans, available through HUD-approved lenders, allow homeowners 62 and older to convert part of their home equity into tax-free cash. But, like with any loan, there are expenses, terms and other fine print to consider:

Sullivan offers six considerations for seniors considering a reverse mortgage:

1. **Fees:** Upfront fees, including mortgage insurance, origination fees and closing costs can be significant. However, the fees can be wrapped into the reverse mortgage, which increases the loan amount but helps borrowers avoid out-of-pocket expenses at closing.
2. **Existing mortgage:** Seniors with an existing mortgage – or any other liens against their home – must pay off the loans with the reverse mortgage. In other words, seniors can't have a traditional mortgage and a reverse mortgage at the same time.
3. **Taxes and insurance:** While seniors don't have to make payments against a reverse mortgage, they still must pay property taxes and homeowners insurance – or they risk foreclosure.
4. **Home maintenance:** Seniors must pay out of pocket for home maintenance or repairs. They can't take out a home equity loan or second mortgage to cover these costs.
5. **Repayment:** The loan is due when the borrower sells the home, lives away from the home for 12 consecutive months, fails to pay property taxes or insurance, or passes away. Given the costs of a reverse mortgage, it may not be a good option for a senior in very poor health or someone who intends to move within a few years.
6. **Equity:** The home equity is reduced by the amount of the loan. Typically, the funds are repaid when the heirs sell the house. If they elect not to sell, heirs are responsible for repayment of the loan.

To obtain a reverse mortgage, the U.S. Department of Housing and Urban Development requires seniors to undergo reverse mortgage counseling from an approved third-party organization like Take Charge America. Certified HECM counselors help seniors understand the loan terms, financial and tax implications, and alternatives. To learn more, call Take Charge America at (866) 528-0588.

About Take Charge America, Inc.
Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit www.takechargeamerica.org or call (888) 822-9193.

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