

The Pros and Cons of Reverse Mortgage Borrowing

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Sick of making monthly payments? You may qualify for a reverse mortgage. We're giving you the pros and cons of reverse mortgage borrowing right now!

Have you been wondering if a reverse mortgage is right for you?

There is a lot to consider when looking into a reverse mortgage, and it can get overwhelming.

No need to worry, though. We'll take you through the pros and cons of reverse mortgage borrowing and teach you everything you need to know.

Let's get started!

What Is A Reverse Mortgage?

Before we get into the pros and cons of reverse mortgage borrowing, let's take a minute to explain exactly what a reverse mortgage is.

A reverse mortgage is a special type of home equity loan designed for seniors aged 62 and older.

In addition to the age requirement, those seeking a reverse mortgage must also either own their home outright or have a low monthly mortgage payment that can be paid off with the loan.

This loan is insured by the Federal Housing Administration and allows homeowners to receive a portion of their home equity in cash.

There are no monthly mortgage payments when you have a reverse mortgage. However, you will have to continue to pay property taxes and insurance.

As long as you meet the loan requirements, the loan will not have to be paid back until 6 months after the last surviving homeowner moves out or passes away.

Why Get A Reverse Mortgage?

There are several reasons that a person might need a reverse mortgage, which is why everyone should understand the pros and cons of reverse mortgage borrowing.

Some common reasons people seek a reverse mortgage include:

- Home renovations
- Medical expenses
- Assistance with daily living expenses
- Help paying off existing mortgage
- Downsizing

How Much Money Can I Borrow?

The amount of money you're eligible for depends on several factors, including the value of your home, your age, and interest rates.

You will usually be eligible for more money the older you are, the more your home is worth, and the lower your current interest rates are.

Pros And Cons Of Reverse Mortgage Borrowing

If any of the above situations apply to you, you might be thinking a reverse mortgage is the best option for you.

While it very well could be, it is important to fully understand the pros and cons of reverse mortgage borrowing before you pull the trigger.

Pros

Reverse mortgages provide you with an additional source of income

A reverse mortgage is a good option for people who are short on cash.

Whether you need help covering a one-time cost like a home renovation or just need more monthly cash flow, a reverse mortgage can help you get a handle on your finances.

Flexible disbursement

Flexible disbursement basically means you have a few different options when it comes to receiving the proceeds of your loan.

- **Line of credit:** This option lets you take out as much as you need up to a certain amount.
- **Lump sum:** This option provides you with the full amount of your loan at closing.
- **Tenure:** This option gives you a monthly payment for the life of the loan.
- **Term:** This option gives you monthly payments for a specific number of years.

Proceeds from a reverse mortgage are usually tax-free

Because everyone's financial situation is different, it is important to check with a tax professional on this one.

However, it is likely that you will not need to pay taxes on the money you receive from your reverse mortgage.

Reverse mortgages usually do not affect Social Security or Medicare payments

If you receive monthly Social Security or Medicare payments, you most likely will not have to pay penalties for the funds you're receiving from your reverse mortgage.

You won't have to pay more than your house is worth

Most reverse mortgages have a special "nonrecourse" clause. This clause protects you or your estate from having to pay more than the value of the home when the loan becomes due.

Heirs inherit what's left over

If there is equity remaining after the loan is repaid, that money will go to your heirs.

You won't be evicted from your home

It's a common myth that a reverse mortgage can cause you to be evicted from your home.

In reality, though, that is not something you will have to worry about.

As stated above, the loan is not due until you move out of your home, and no one can force you to do that.

You retain the title to your home, and you will only move if and when you choose.

No minimum income requirement

Even if your only source of income is Social Security or Medicare payments, you can still qualify for a reverse mortgage since there are no monthly payments required.

Refinancing can lead to higher proceeds

If your home increases in value after you obtain a reverse mortgage, you can potentially refinance it and gain access to more loan proceeds.

Cons

Possibility of outliving your equity

Depending on the amount of equity you've built up, a reverse mortgage might not be sufficient to cover your expenses.

It is important to remember that reverse mortgages are generally a strategic option to keep an older senior in their home as long as possible.

They are not a solution to poor spending habits or extreme debt.

Heirs won't get to keep the house unless the loan is repaid

This is not a problem for everyone, but if your heirs are hoping to inherit your home, it is important to come up with a plan to either pay back the loan before it is due or address financial issues in a different way.

Additional costs can be high

Reverse mortgages come with their own fees and additional costs, so it is important to factor those in when making your final decision.

You will have to pay an application fee, and many mortgages lenders typically charge an origination fee. A reverse mortgage loan also usually has higher closing costs compared to traditional loans.

Costs can be as high as \$30,000 or \$40,000, although they vary depending on your specific situation.

You will not have to pay these costs out of pocket; instead, they can be included in the loan.

You must go through mortgage counseling (this is a good thing)

Mortgage counseling is a mandatory part of the process to obtain a reverse mortgage. This is an extra expense for you; however, it may be worth it in the long run.

Your reverse mortgage is contingent upon you continuing to pay taxes and insurance

Part of qualifying for a reverse mortgage includes your promise to continue to pay property taxes, homeowner's insurance, and other home-related expenses.

If you fail to make these payments, your loan can become due.

Reverse mortgages are centered around you staying in your home

As discussed above, one of the reasons many people seek a reverse mortgage is because they want to stay in their home for as long as possible.

Ideally, you do stay in your home after receiving the loan. However, it is also important to prepare for the unexpected.

If you end up having to leave your home — for example, if you have to move to a full-time care facility for medical reasons — your loan will become due.

Be sure to have a plan in place in case something like this arises. That way, you will not be caught off guard.

Only certain home types qualify for reverse mortgages

It is important to know upfront if your home will qualify for a reverse mortgage.

The home types that are typically eligible include:

- Most single-family homes
- Two-to-four unit owner-occupied dwellings or townhouses
- Approved condominiums
- Approved manufactured homes

Your home must meet certain guidelines

Even if your home type qualifies, it must also meet FHA minimum property standards before you can be approved for a reverse mortgage.

These standards are primarily health and safety-related.

Some aspects of your home that an appraiser will inspect include:

- Flood and fire risks
- Peeling or chipping lead paint
- Handrails for all staircases
- Sufficient heating
- A well-maintained roof
- A solid foundation that can withstand “all normal loads.”

Talk To A Professional About The Pros And Cons Of Revers Mortgage Borrowing

There are a lot of pros and cons of reverse mortgage borrowing, and going over all of them can be stressful.

Don't let the cons scare you away from a reverse mortgage, and don't let the pros prematurely convince you that a reverse mortgage is what you need.

After you've familiarized yourself with the pros and cons of reverse mortgage borrowing, talk to a professional to get a better understanding of what a reverse mortgage will do for you personally.

Contact Us To Learn More

You now understand a bit more about the pros and cons of reverse mortgage borrowing. However, you probably still have some questions.

That's where we come in.

Give us a [call](#) to set up an appointment.

We can answer your questions and further discuss the pros and cons of reverse mortgage borrowing for you specifically, or we can start getting you ready for the application process.