Learn What Reverse Mortgages Are and How to Get One

Description

A reverse mortgage may be beneficial if you have a lot of home equity but not enough income for retirement.

A reverse mortgage allows homeowners aged 62 and up to borrow against the equity in their property and receive funds from a lender. This money can be utilized to cover living expenses and house upgrades without the need for you to relocate or make monthly loan payments.

When you receive a reverse mortgage, you keep your house and utilize the proceeds to pay down whatever is left on your current mortgage.

What exactly is a reverse mortgage?

A reverse mortgage is a loan that allows you to access your home equity as a flat sum, a line of credit, or a series of monthly installments.

A reverse mortgage, unlike a standard mortgage (also known as a forward mortgage) or a second mortgage, does not require you to make payments as long as you dwell in the property as your primary residence. However, you must pay off your existing mortgage at or before the closing date of your reverse mortgage.

The debt must be repaid if you die or move out permanently. This is usually accomplished by selling the house. Alternatively, you or your heirs can return the loan or pay the lender 95% of the evaluated worth of the home and keep the house.

- If the **value of your property rises** while you have a reverse mortgage, any excess value will go to you or your estate. This also occurs if you die, sell, or move before utilizing all of the equity available under your loan.
- If the **value of your house falls** while you have a reverse mortgage, neither you nor your estate will be required to make up the difference. This benefit is made possible by the reverse mortgage insurance premiums you will pay.

How to Get Approved for a Reverse Mortgage

To be eligible for a reverse mortgage, you must meet the following requirements:

- You must be at least 62 years old.
- Own a single-family home, a two- to four-unit home (as long as you reside in one unit), a condo recognized by HUD or the FHA, or a manufactured home approved by the FHA.
- Maintain the property as your primary residence.
- You must be able to afford homeowners insurance, property taxes, upkeep, and, if necessary, flood insurance and homeowners association costs.
- You must own your home outright or have at least 50% equity in it.
- Attend a reverse mortgage counseling session recognized by HUD.
- You must not be in arrears on any government debt (such as taxes or student loans)

Types of Reverse Mortgages

You have three options for reverse mortgages depending on your scenario.

- **Home Equity Conversion Mortgage (HECM)**: Insured by the Federal Housing Administration and only available through FHA-approved reverse mortgage providers. These loans can be used for any purpose.
- **Proprietary reverse mortgage:** This is a less popular sort of reverse mortgage for homeowners whose homes are worth more than the FHA's ceiling, which is $765,600 in 2020. A jumbo reverse mortgage is another term for a large reverse mortgage.
- **Single-purpose reverse mortgage**: This is a less popular sort of reverse mortgage for low- to moderate-income seniors who need money for home repairs, enhancements, or property taxes. These loans, unlike HECMs, can only be utilized for the reason indicated by the lender.

If you pick a HECM, you will have six payment alternatives to consider:

- **One-time, lump-sum payment**: This is only available for fixed-rate loans.
- **Line of Credit**: Unscheduled payments in the amount of your choice are possible with a line of credit.
- **Tenure**: Fixed monthly payments for the duration of your residence.

- **Term:** A set number of years with fixed monthly payments.
- **Modified Tenure**: A lesser line of credit with smaller fixed monthly payments for the duration of your residence.
- **Modified Term**: A smaller line of credit with lower fixed monthly payments for a set period of time.

If you pick a proprietary reverse mortgage, the lender will determine how you get the funds. Similarly, the nonprofit or government body that offers a single-purpose reverse mortgage will determine the disbursement schedule.

Tip: Although most borrowers pick an adjustable-rate reverse mortgage, your housing consultant can assist you in determining which choice is appropriate for your specific situation.

How Reverse Mortgages Work

The initial principal limit of a reverse mortgage allows you to access a portion of your home equity. Four factors determine this limit:

- **Your age is**: Lenders consider the youngest borrower's or eligible non-borrowing spouse's age. Because of their higher life expectancy, younger borrowers receive less money.
- **Current interest rates**: Higher interest rates diminish one's ability to borrow.
- **Your house's worth**: The amount you can borrow is determined in part by the lesser of the appraised value of your home, the FHA maximum, or the sales price. The FHA limit in 2020 is $765,600, and the sales price is only considered if you use a HECM to acquire.
- **How much you owe on your current mortgage (if applicable)**: You won't be able to get a reverse mortgage if you don't own your property outright or have at least 50% equity in it.

Your loan balance will increase over time as you make payments. Interest is accrued on the money you receive, and interest is also accrued on the interest.

To receive a reverse mortgage, you'll have to pay additional fees.

- An initial mortgage insurance cost of 2% of the original loan amount ($2,000 per $100,000) is required.
- Mortgage insurance fees of 0.5 percent of the remaining loan debt ($500 per $100,000) are charged annually.
- Fees for third-party services such as a home appraisal, title search and insurance, surveys, inspections, and other charges
- The origination charge ranges from $2,500 to $6,000, depending on the value of your home.
- A monthly service fee of $30 or $35 is charged.

These costs will be deducted from the lender's amount you are entitled to borrow. These costs can also be paid in cash up ahead.

When a reverse mortgage may be appropriate for you

- You want to age in place and your home can allow that.
- Your home requires accessibility upgrades so that you can age in place.

- You are unconcerned about leaving your house to your heirs.
- You want or require cash but cannot qualify for a mortgage refinance, home equity loan, or home equity line of credit, possibly due to poor credit.
- You can afford to keep up with homeowners insurance, taxes, and maintenance indefinitely.

When a reverse mortgage may not be suitable for you

- You rely on need-based government assistance such as Medicaid or Supplemental Security Income (SSI), which may be jeopardized if you obtain a reverse mortgage.
- You want someone to inherit your home free and clear of any debt when you pass away.
- You believe you might wish to relocate. (If you want to move while remaining a homeowner, a HECM for Purchase may be a possibility.)
- Because of your health, you may need to stay in an assisted living or nursing facility for more than a year.
- Your spouse will not be a co-borrower on loan. After a borrowing spouse dies, the non-borrowing spouse will not receive any additional reverse mortgage proceeds. In some cases, they may be unable to continue living in the home. (Eligibility is determined at the time of application.)

How to Apply for a Reverse Mortgage

The following are the steps you must take to obtain a reverse mortgage:

- Collect your financial data.
- Apply for at least three reverse mortgages of the same sort.
- Compare prices. The less you pay in interest and fees, the more money you'll receive.
- Determine which lender to work with and the type of loan you require.
- Attend a reverse mortgage counseling session that has been approved.
- Complete a financial assessment for a reverse mortgage.
- Complete your financing.

Reverse mortgage alternatives

If you need money in retirement and don't want to sell your home, a reverse mortgage isn't your only option, and some options may be less expensive. Here are a few possibilities:

- **Home equity loan**: Borrow a lump sum at a fixed interest rate and return the loan in fixed monthly installments for up to 30 years. When you know how much you need to borrow and keep your current mortgage, home equity loans provide stability and certainty.
- **Home equity line of credit (HELOC)**: A type of loan that allows you to borrow money against your home's equity. Borrow lesser quantities against the value of your property as you require them over several years. You may be able to make small, interest-only payments on a home equity line of credit throughout the draw period. During the repayment period, you will repay the principal plus interest. A HELOC's interest rate is changeable.
- **Cash-out refinance**: Refinance your existing mortgage, and then some with a cash-out refinance. A cash-out refinance may be a viable option if mortgage refinances rates are lower than the interest rate you now pay.

The potential disadvantages of these three options are that none of them will be available if your home is worth less than what you owe. To qualify for a conventional cash-out refinance on a single-unit primary property, you must have at least 20% equity in your house after receiving the new loan.

If you've evaluated all of your options and have decided on a cash-out refinance, be sure to shop around and compare rates with several lenders. With Credible, you can accomplish this quickly and effortlessly, and you'll be able to check your pre-qualified rates in just three minutes.

Category

1. Finance

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