Reverse Mortgages

In today's economic climate, many senior homeowners are investigating a reverse mortgage as a way to produce additional income throughout their declining years. A reverse mortgage (http://www.yourdictionary.com/reverse-mortgage) is a special type of mortgage in which the homeowner takes equity out of their homes in order to generate money to live on. Typically the disbursements from the lender are monthly and the homeowners defer payment of the loan until they die, sell, or the home is no longer the principle residence. A reverse mortgage is also known as a home equity conversion mortgage.

According to California law (https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=CIV&division=3.&title=4.&part=4.&chapter=8.&article=), in order to qualify for a reverse mortgage homeowners must be age 62 or over, occupy the property as a principal residence, and own the home outright or have significant equity in the home. The borrower can choose to receive a monthly payment, a line of credit, or a combination of these options. There are no restrictions on how the money received from a reverse mortgage can be spent. For example, the borrower can use the money to supplement his or her monthly income, pay other debts, or hire in-home help.

The Federal Housing Administration (FHA) insures almost all reverse mortgages through its Home Equity Conversion Mortgage (https://www.hud.gov/hud-partners/single-family-handbook-4000-1) (HECM) program. The insurance guarantees that borrowers will have access to funds even if the lender has financial difficulty. Through this program lenders are guaranteed that they will be repaid in full when the home is sold. Homeowners must attend counseling with a HECM counselor before the loan in order to discuss program eligibility requirements, financial implications and repaying the loan. Homeowners can search online for a HECM counselor or call (800) 569-4287 toll-free.

One thing to consider before applying for a reverse mortgage is how your decision will affect any heirs and any future inheritance of the property that they may have. While some children are happy that their parents are able to use the equity in their home in order to remain living in the home, others are resentful and may not even be aware that a reverse mortgage is in place until after the death of the parents. How this situation is handled is entirely up to the homeowner. It may be a good idea, to make reference to the reverse mortgage in either a will or estate planning document. For more information about how a reverse mortgage can affect heirs, read this article (https://www.consumerfinance.gov/ask-cfpb/will-my-children-be-able-to-keep-my-home-after-i-die-if-i-have-a-reverse-mortgage-loan-en-242/)

from the Consumer Financial Protection Bureau (https://www.consumerfinance.gov/complaint/) .

As with any other financial decision, before committing to a reverse mortgage it is strongly encouraged that homeowners do in-depth research on the topic. AARP, Inc. (formerly the American Association of Retired Persons): What is a reverse mortgage? (https://www.aarp.org/money/personal-finance/reverse-mortgage-guide/) offers general information about reverse mortgages. Homeowners considering a reverse mortgage will want to check out "Some Tips For Consumers Considering A Reverse Mortgage (http://www.nclc.org/images/pdf/older_consumers/consumer_facts/cf_tips_consumers_considering_reverse_mtg.pdf) " for helpful tips from the National Consumer Law Center.

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