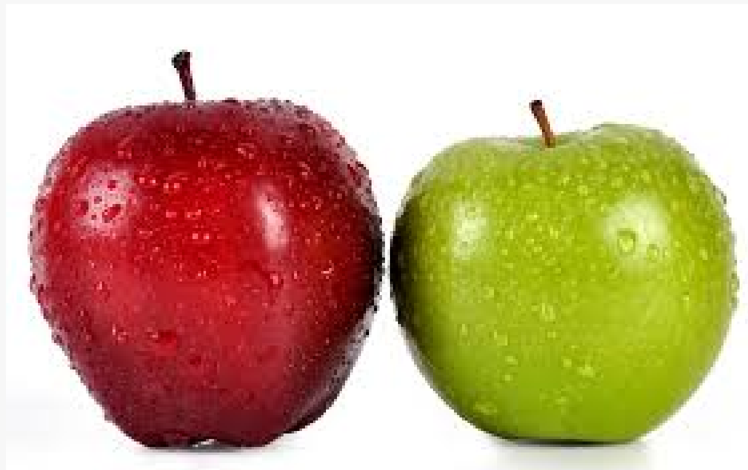
Don't Get a Reverse Mortgage Until you do an Apples to Apples Comparison

Before obtaining a Reverse Mortgage, compare things Apple to Apple


Apples to Apples

COTO DE CAZA, CA, UNITED STATES, November 25, 2020 /EINPresswire.com/ -- As you examine your retirement options, you may consider using a Reverse Mortgage, also known as an FHA HECM, which stands for Home Equity Conversion Mortgage. Here is a super simple definition of a Reverse Mortgage --A reverse mortgage is just a loan. They are designed to free up cash flow for homeowners 60 and over who have considerable equity in their homes. Reverse Mortgage terms vary based on factors like borrower age and the interest rate and the amount of home equity. Generally, the less you owe on your home, the more cash you will have available to use.

> Reverse mortgages are fantastic, but always check the alternatives first so you know for sure it's suitable and appropriate."
>
> *Paul E Scheper, CRMP, MBA, CSA, SRES*

A reverse mortgage converts a portion of your equity into funds you're able to spend as you see fit, enabling you to pay for general living expenses or unexpected medical costs. This option allows you to use your home equity without having to move out of your house or relinquish ownership. Unlike traditional mortgages, you don't typically need to repay your reverse mortgage every single month, as long as you meet your loan obligations, which means staying up to date on property taxes, homeowner's insurance, and property maintenance.

I suggest that you compare these alternatives "apple to apple, side by side" before choosing a reverse mortgage.

Alternative 1: Do I stay or do I go?
When you're examining reverse mortgage alternatives, you may consider downsizing. The idea

behind downsizing is simple: you sell your primary residence, buy a new one for a significantly lower price, and then use the leftover cash to supplement your retirement income. You could spend it slowly over time or invest the sum that you get from the sale of your property. The main benefit of downsizing is it means you'll have the cash you can spend outright, invest, or pass it on to your heirs. However, the drawback is that downsizing forces you to leave your home. For seniors who are looking to keep their home and continue living there, a reverse mortgage might be the solution. You free up critical cash flow that you won't have to pay back until you move out or pass away—and you still live in and own your home until the loan matures.

Paul Scheper, CRMP, CSA, MBA

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Alternative 2: Refinancing

If you currently have a high-interest rate on your home mortgage, you might be able to save more money and free up cash by refinancing. Plus, like a reverse mortgage, you will still own your home and be able to pass it onto your heirs. Refinancing might be a good option if you have a substantial amount of equity in your home and you don't need a lot of money fast. A refi allows you to continue to build the equity in your home over time. The drawbacks, however, include having to make mortgage payments every month. In addition, there's a possibility you may end up having to pay more than the original loan. For example, if your term is extended during refinancing, you might end up paying less each month, but find that you need to make payments longer. This results in a higher overall cost. In addition, if you do end up missing a payment on your house, banks can foreclose on your home. It's also not easy to qualify because the debt compared to income ratios are hard to meet.

Alternative 3: Home Equity Loan or Home Equity Line of Credit (HELOC)

A home equity loan: this alternative to a reverse mortgage delivers proceeds in the form of a lump sum, based on the equity you have in your home. You'll likely get more upfront cash with this option. However, you immediately need to pay back both the principal and the interest. If you miss payments, your lender can foreclose on your home. With a reverse mortgage, on the other hand, you don't have to pay anything back until your loan matures. A Home Equity Line of Credit (HELOC): a HELOC allows you to borrow money against the equity in your home for a certain period of time, in the form of revolving credit. However, at the end of the draw period, you'll enter the repayment period where your payment each month is due until the HELOC is paid off. If interest rates increase over time, so could your monthly repayment. Plus, if you overspend and use too much of your home's equity, you might put yourself into a precarious financial situation later and face large interest payments in addition to the principal amount. A reverse mortgage line of credit works like a HELOC in that the proceeds can be drawn upon on an as-needed basis. However, the loan doesn't require any repayment until the last homeowner or borrower living in the home passes away or moves out. Borrowers with a reverse mortgage equity line, however, liable for paying property taxes, insurance, and maintenance.

Alternative 4: Government Assistance Programs
You may find that you qualify for assistance from your county or state. Sometimes, there are programs designed to offer property tax relief, help to pay for your medical costs, or discounts on your energy bills. The National Council on Aging (NCOA) can help you find government benefits that will save you money.

Alternative 5: Renting
You may also choose to rent out your whole property or just a couple rooms. Ideally, you can choose to rent to someone you know, like a close friend or family member. Renting may allow you to stay in your home because of the additional rental income. You could pay off the mortgage you still owe with those proceeds or put it toward property taxes or maintenance. Unfortunately, that rental income has to be reported for taxes as income which may dig into your profits. There's also much more work involved in renting; you'll need to continually screen and replace incoming and outgoing renters.

Reverse Mortgages offer flexible ways to get cash from your home. Compare them with a lender who can offer all types of mortgages, and not only reverse mortgages.

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