The Good, The Bad & The Ugly of Reverse Mortgages

Over one million homeowners have chosen to obtain a reverse mortgage, but it's good to know they are not perfect.


Paul Scheper, CRMP, CSA, MBA

LADERA RANCH, CA, UNITED STATES, September 1, 2023 /EINPresswire.com/ -- Nothing is life is perfect (except Clint Eastwoods movie, The Good, The Bad and the Ugly), and reverse mortgages do not fit all of the time. We interviewed Paul Scheper, President of Loangevity Mortgage in Orange County, California to ask him what he considers to be the "Good, Bad & Ugly" parts of a reverse mortgage.

In the spirit of "reversing things," Scheper explains these 3 parts "in reverse order" and will explain the "ugly, bad and good" parts of a reverse mortgage, in that order.

Over one million homeowners have chosen to obtain a reverse mortgage. The advantages outweigh the negatives, according to most financial planners and CPA's.   They are a popular, and suitable and appropriate way to supplement retirement income with one purpose -- to make retirement less stressful, and more enjoyable.   It is a type of loan that typically allows homeowners (Age 55 or older) to borrow against the equity in their homes.   It is just a loan, a loan where homeowners can "convert" a portion of their unused equity of their homes into spendable cash. The deed, the ownership and the title to the property remain with the senior homeowner.   "In essence," says Scheper, "the homeowners is simply borrowing their own equity, with repayment terms customized to fit their needs."

> Reverse Mortgages need to be the right loan, for the right person, at the right time, for the right reason.""
>
> *Paul E. Scheper*

The "Ugly" part of a reverse mortgage, according to Scheper, is that most people don't qualify. "It's not easy to qualify, because you need lots of equity and decent credit and income. Also, the amount that can be borrowed is often not big enough to payoff the existing loan." Scheper says that half of the people are upset because the "loan amount compared to home value" is under 50%, and it gets ugly because they don't have enough proceeds to eliminate their existing debt on their home. The maximum loan amount, compared to home value, is sometimes less than what prospective borrowers expected. Also, not all properties qualify -- mobile homes and stock coops are not eligible for a reverse mortgage, and many condos don't qualify. Scheper urges applicants to get educated on all aspects of a reverse mortgage, before applying for one.

The "Bad" part of a reverse mortgage is the homeowner sometimes forgets that they will owe interest on the money they borrow. Instead of making a mandatory monthly payment (like all traditional loans require), on a reverse mortgage, the interest accrues daily, and it is added to the loan balance. This means that the amount grows over time. Says Scheper, "It's either pay me now, or pay me later. My clients can skip the monthly payment and opt for the interest to accrue each month. Some think it's bad that the loan balance goes up each month, but they then smile when they see their bank account balance goes higher because they no longer have a monthly payment, says Scheper. The bad outweighs the good, if the homeowner forgets that they no longer have a principal and interest payment to make on their old home loan. A reverse mortgage allows homeowners to increase their daily cash flow, and increase their bank balances, in exchange for a rising loan amount. It's not a free lunch -- the interest has to be charged, and if the homeowner decides to skip the payment and let it get added to the loan amount, a few people think that's bad."

The "Good" parts of a reverse mortgage, according to Scheper, are these:

1) Seniors can gain access to cash without selling their home. Scheper says, "A reverse mortgage allows homeowners to access the equity their homes without having to make monthly mortgage payments. This can provide homeowners with a nice tax-free source of funds in retirement, or help pay for home improvements, medical expenses, or other major costs."

2) Senior homeowners can get tax-free cash payments. The money you receive from a reverse mortgage is considered to be a loan advance, not income. This means you won't have to pay taxes on the money. Scheper says that supplementing retirement income is the number one reason people get a reverse mortgage. "It makes them gain peace of mind, a sense of security and control, and be comfortable in retirement."

3) Seniors Age 55+ can eliminate monthly mortgage payments. "As long as you continue to live in your home and pay your property taxes, insurance and HOA fees, you won't have to make any monthly mortgage payments on a reverse mortgage," says Scheper. "Getting rid of a mortgage payment frees up money to be used for expenses, and helps seniors feel happier in their retirement years.   Seniors have a much better change to stay in their homes forever. As long as you continue to live in your home (and pay the normal and customary taxes and insurance), you can't be forced to move out because of a reverse mortgage. This can give you peace of mind knowing that you can age in place and not "outlive your money."

4) Seniors can qualify easier for a reverse mortgage than a traditional home equity line. "Often times, tax returns and bank statements are not required to qualify for a reverse mortgage," says Scheper. "Seniors need decent credit, and solid retirement income from social security, so that they can prove that living without a mortgage payment is sustainable, and predictable," continues Scheper.   "The key is to compare a reverse mortgage with other ways to retire comfortably, and pick the most suitable and sensible and sustainable way to age in place, and not outlive your money," concludes Scheper.

For more information about reverse mortgages and retirement planning, please contact Paul Scheper, President of Loangevity Mortgage, and creator of his educational website about reverse mortgages, www.ReverseTube.TV. Scheper can be reached at PaulScheper@Live.com or 800.662.6784 or PaulScheper.com. Scheper is graduated from Harvard University and has earned an MBA along with his CRMP Designation.

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