Reverse Mortgage

Reverse mortgages have gotten bad publicity over the years, and they still tend to be one of the most misunderstood financial tools. A reverse mortgage is available to you after the age of 62, and allows you to trade equity in your home for cash. You are not required to pay back the cash as long as you stay in the house. If used correctly and for the right reasons, it can be an effective tool in helping you avoid institutional care.

It is true that past reverse mortgages were guilty of some of the criticism attributed to them, but changes have made them more accessible and the issues that caused hesitation have been corrected.

For example, previously, closing costs could reach tens of thousands of dollars, but thanks to federal regulations, costs are currently capped at $6,000.

Reverse mortgages would also put surviving spouses in the awkward position of having to move and sell the house when their spouse passed away, either because they were not on the original account, they were under 62 years of age, or it was a second marriage. Laws today make it illegal to ask the surviving spouse to move, even if the loan was obtained before the marriage. You will still be asked to move if you fail to pay homeowners insurance or property tax, but that is true of a regular mortgage.

Another thing to take into consideration is that a reverse mortgage is more expensive to establish than a traditional mortgage. Why would you consider a reverse mortgage over a traditional mortgage or line of credit? The answer is that a traditional mortgage always calls for a monthly payment, while a reverse mortgage postpones the payment and makes that amount available to be used to pay for care costs, allowing you to age in your own home.

Who Is the Ideal Candidate for a Reverse Mortgage?

The purpose of reverse mortgages originally was to avoid undesired institutional care. You should only look into reverse mortgages if you have considered every aspect of aging in your own home.

You should be able to afford living in your current home, it must be age-friendly, and you should have the support of a network of loved ones and friends in close proximity. If you are absolutely sure that aging in your current home is the right choice for you and that it is perfectly viable, then a reverse mortgage may be a possibility you should consider.

At that point, you should ask your Financial Planner to include various scenarios of a reverse mortgage in your Financial Dashboard, to see if they improve your outcome. Your Financial Planner may need to consult with a reverse mortgage specialist to ensure the details are input accurately.

How to Best Establish and Use a Reverse Mortgage

Your goal when using a reverse mortgage is to access the equity to pay caregivers, allowing you to age in place. We recommend establishing a line of credit using a reverse mortgage at your earliest opportunity. By doing this, no interest or costs are being incurred (besides the cost to establish the line of credit) because you are not taking out a loan.

The limit for the line of credit — which is how much you can borrow — grows automatically year by year. In fact, the limit grows to accommodate the interest you might have paid, plus an extra 1.25%. A line of credit is also considered a debt and not an asset, meaning it will not interfere with your eligibility for VA benefits or Medicaid.

An alternative to opening a line of credit is taking an amount of the reverse mortgage as a lump sum, or having it paid to you in the form of monthly payments, or a combination of the two. We discourage these options, especially if you are considering VA and Medicaid benefits for long-term care. A lump sum may put your assets over the eligible amount for VA and Medicaid, and you will need to pay that monthly income to the service provider.

If you do decide that a reverse mortgage is a suitable option for you, we encourage you to speak with your family and anyone designated as your caretaker about your decision.