Understanding reverse mortgages - you don't necessarily need to be 62 years old to get one

Vaccine Mandates, Inflation and Jobs - Part 2

A special series for the soon-to-be unemployed and those facing financial hardship

November 23, 2021 - Roughly 90% of all reverse mortgages in the United States are government backed. From a lender's perspective, this reduces the risks of lending because any defaults will result in the government making good on the loan. And there are circumstances where lenders could lose money on these loans.

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The rules with government backed reverse mortgages - also referred to as HECM (home equity conversion mortgages) are pretty straight forward. Borrowers need to be 62 years of age or older. The loan can only be used on a primary residence and the borrower must live in that residence at least six months out of the year. HECM's must also be the only mortgage on a property so when taking one out, if there are other existing loans on the property, a portion of the reverse mortgage must be used to pay them off.

The property must be in relatively good condition at the time of the loan and maintained afterwards. And the taxes must be paid. Failure to comply with these rules will cause the loan to go into default and a foreclosure can occur.

If you qualify, a reverse mortgage can bring you some significant benefits. The most obvious is that you'll never have to make another mortgage payment again, for as long as you live in your home.

But obviously, not everyone can qualify for a loan like this. If you purchased your home a couple of years ago and only have 25% equity in it, you won't qualify because you can't get enough money from the reverse mortgage to pay off your current loan. And certainly, not everyone is 62 years of age.

That's not the end of the story though. There are proprietary reverse mortgages available too. These are loans that are not government backed, and with different rules. One of the big differences between them and HECM loans is the age requirement. We're aware of some proprietary reverse mortgages that can be taken out by people as young as 55.

The downside of these non-HECM reverse mortgages is that because they arenâ€™t regulated, borrowers need to be very careful. Anyone considering this type of loan would be wise to hire an attorney to look through the paperwork and advise them on the loan prior to signing. But the upside to these is that a lot more people will qualify for the loans. In an uncertain economy, one of these loans could be the difference between losing your home and having the ability to remain in it.

There are other considerations that people need to look at when taking out any form of reverse mortgage. These are negative amortizing loans. That means that when you take out a reverse mortgage, interest on the loan begins to accrue immediately. Since there are no payment requirements while you occupy your home, that interest can add up quickly and eventually, you may not have any equity left in your house.

Your health is also a consideration. If you become ill and are forced into assisted living for more than six months, you will either have to sell your home or your lender can foreclose on it. Additionally, if you think you may need to tap into your home's equity to pay medical bills, that may not be an option if you have a reverse mortgage. Depending upon how long you've had your reverse mortgage and how much you borrowed, you may not have any equity left in your property. Again, it would be wise to speak with a financial counselor prior to taking out one of these loans.

In the next article we'll talk about using reverse mortgages for access to cash for everyday living.
by Jim Malmberg
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