

The Reverse Mortgage Can Help Finance Your Lifestyle

An increasing number of retirees could be forced to lower their standards of living due to a combination of rising expenses, limited or fixed benefits, and longer lifespans. For those who own their own homes, however, the reverse mortgage could literally produce a change in fortune.

Reverse mortgages allow you to annuitize all, or part, of the equity that's built up in your house so that you can receive a fixed monthly payment. Or, to view it another way, a reverse mortgage mirrors the cash flow of a regular mortgage. Instead of getting a single lump sum at closing, which you repay monthly, the loan is advanced to you in monthly increments. You pay back nothing until the term is up, when the advances plus interest must be repaid, presumably from the proceeds of the sale of your home.

Fixed-Term Reverse Mortgages

On a fixed-term reverse mortgage, the lender's monthly advances are based on the amount of equity you have in the house; the amount of the initial disbursement, if any; and whether the term is three, five, ten, or fifteen years. These reverse mortgages are available from lenders in all states. Private lenders typically work with government agencies and nonprofit groups for the aging. In fact, these organizations helped to start most of today's existing programs.

A fixed-term reverse mortgage may be a wise choice if you are a homeowner who needs income to tide you over until a pension or annuity is established. It may also be a good choice if you or your parents are waiting for space to open in a retirement housing development. On the other hand, such mortgages may not be wise if you want to spend the rest of your life in your house, because in some cases, borrowers must sell their homes to pay back the loan.

Equity Options

If you wish to maintain some ownership in your property for the purpose of leaving a portion of it to your heirs, some contracts will allow you to specify the amount of equity in your house that you wish to assign to the loan company. If real estate prices decline after you take out the loan, it will not affect the remainder of your estate. Instead, the lending company would bear the loss.

As is the case with all other financial choices, deciding on a reverse mortgage may not be the best move for everyone. However, under the appropriate circumstances, a reverse mortgage may provide added financial security or the ability to maintain one's lifestyle during retirement years. A financial professional can help explain the potential advantages and pitfalls of a reverse mortgage.

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