

What is a Reverse Mortgage?

Posted At : July 27, 2012 4:35 PM | Posted By : Coach Realtors

Related Categories: mortgage

A reverse mortgage can be a smart financial decision for older homeowners looking to convert their home equity into money.

Often a better decision than a home equity loan, the money gathered from a reverse mortgage can be used to cover home repairs, everyday living expenses, and medical bills.

But what exactly is a reverse mortgage? "A reverse mortgage is just as it sounds," says Lawrence Finn, CEO Owner/Broker of Coach Real Estate Associates. "Instead of making monthly payments to a lender, the lender makes payments to the homeowner."

According to the National Reverse Mortgage Lenders Association, the money given by the lender is tax-free and does not affect Social Security or Medicare benefits, although it may affect the homeowners' eligibility for certain kinds of government assistance, including Medicaid.

With a reverse mortgage, the homeowner continues to own their home until they pass away or wish to sell. This means that repaying a reverse mortgage is not necessary until the property is sold or the owner moves.

Should the owner die before the property is sold, the estate repays the loan, plus any interest that has accrued. "There is an allotted time for the estate to repay the loan, usually around six months," says Finn.

Eligibility "To be eligible, the homeowner must be at least 62 and own their own home, explains Finn." No income or medical requirements are necessary to qualify, and they may be eligible even if they still owe money on a first or second mortgage. "Actually, many seniors get reverse mortgages to pay off the original loan," comments Finn.

Reverse mortgage vs. a home equity loan Often homeowners get confused between a home equity loan and a reverse mortgage.

A home equity loan, also known as a second mortgage or a home equity line of credit, has strict requirements. These requirements include income and creditworthiness. A reverse mortgage has no income or credit score requirements. And, with a home equity loan, the homeowner continues to make monthly payments, which is not the case with a reverse mortgage. However, it's important to note that while with a reverse mortgage the homeowner receives monthly payments, they are still responsible for real estate taxes, insurance, and home maintenance.