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Reverse Mortgages: Financing the Golden Years

Until recently, seniors 62 years of age and older have not had the best choices when it came to getting cash from their homes. Traditional home loans only offered the option of either selling their house or borrowing against its equity.

With reverse mortgages coming on the scene, seniors now have some additional cash-flow alternatives. This type of loan allows mature borrowers to convert their home equity into tax-free income without leaving their current home or making mortgage payments - and they do not need an existing income to qualify.

How a Reverse Mortgage Works

Reverse mortgages are probably best understood when compared with a traditional home mortgage, also called a "forward" mortgage. Under a traditional mortgage, equity increases as a borrower uses their income to make monthly payments to the lender. With a reverse mortgage, the lender provides payments to the borrower and the borrower's equity decreases. Both loans incur debt against the home and both affect equity, but they do so in opposite ways.

What a Reverse Mortgage Involves

Here are some important points to know when considering a reverse mortgage:

Eligibility: To qualify for a reverse mortgage, you must be at least 62 years of age. All owners who are on the title deed must meet this age requirement. You must also have paid off all, or most, of your home mortgage. Lastly, the home you reside in must remain your principal place of residence.



Mandatory Counsel: In order to ensure that homeowners understand the financial ramifications of a reverse mortgage, applicants must undergo counseling with an unbiased third party. HUD and AARP oversee a network of counselors who can provide this service, either for a nominal fee or at no charge.

Tax-Free Income: One of the advantages of a reverse mortgage is that the money you receive will not be taxed. The amount you'll obtain depends on several factors, including the plan you select, the type of cash advances you choose, your age, and the value of your home. Typically, the older you are the larger the loan, as you will have more equity in the house.

Cost: The cost of a reverse mortgage varies considerably from one type to the next. However, you can typically use the money you receive to offset the loan fees. The costs will be added to the loan balance and must be repaid with interest once the loan terminates.

Repayment: Reverse mortgages do not require any payment as long as the borrower(s) remain in the home. Should the borrower(s) pass away, sell the home,

or permanently relocate, then the loan would be due in full, along with interest and additional costs. If two borrowers are on the loan and one dies, the loan would not be due since one of them still occupies the home.

Home Equity Conversion Mortgage - The Federally Insured Loan

The most common type of reverse mortgage is the Home Equity Conversion Mortgage, otherwise known as a HECM mortgage. This is the only reverse mortgage program that's federally insured and backed by the U. S. Department of Housing and Urban Development (HUD). This type of reverse mortgage is popular for several reasons, including its flexibility in payment options. You may choose to receive monthly income, a line of credit, or a combination. The HECM loan also allows you to spend the income on anything you wish, while some of the other reverse mortgage programs do not. In addition, you may select whether the loan's interest rate adjusts monthly or annually. Lastly, with FDIC protection, your income payments are guaranteed even if your lender defaults.

Reverse mortgages are an attractive option for homeowners who wish to gain financial independence while staying in their current home. If you need supplemental income and prefer not to endure the trials of selling your home, this may be the ideal solution for you!

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