

A Reverse Mortgage: Is it a Good Deal?

What is a Reverse Mortgage?

A reverse mortgage is a home equity loan that allows you to convert up to 80% of the equity in your home into cash. A reverse mortgage is generally used to supplement the income of older individuals who have substantially paid down or paid off their mortgage loans but find they need more money to live on than their savings will provide.

The advantage of a reverse mortgage is that it does not require monthly payments, like a traditional equity loan. Repayment on a reverse mortgage occurs after the full amount of the mortgage has been paid, the owner moves out of the home, or the owner dies, whichever occurs first.

If the homeowner dies before the loan is repaid, his or her heirs will be required to pay the outstanding loan balance plus any unpaid interest. If the beneficiaries are unable to obtain the funds, they may have to sell the home and use the proceeds of the sale to pay off the loan.

Some Things to Consider

- Even though you may not pay any fees up front, you should ask about the costs associated with getting the reverse mortgage loan. These costs will appear as fees due when you move out of your home or pass away.
- Make sure you understand the terms of the loan, including the interest rate that will be charged, how you will receive the payments, and the period the payments will be made.

- Some reverse mortgage loans also give the lender rights to part of the future appreciation of your home.
- Interest accrues on these loans. If the interest isn't paid as it accrues, it generally adds to the balance of the loan. This means that the interest is added to the principal loan balance each month, and interest is charged on the accumulated interest.

A reverse mortgage can help those age 62 or older convert their home equity into much needed monthly income. But beware of unscrupulous lenders who charge high fees and interest rates. If you're considering a reverse mortgage, be sure you compare lenders and obtain the loan that's right for you.

— Brenda Schafer, CPA, CFP™, EA, H&R Block Manager, Tax Analysis and Advice Support

- Proceeds from a reverse mortgage do not affect Social Security or Medicare benefits. Supplemental security income (SSI) benefits also are not affected if you spend the funds within the month you receive them. This is also generally true for Medicaid benefits, but you should check with your benefits provider before taking out the loan.
- Interest on a reverse mortgage is not deductible for income tax purposes until the time it is paid.
- A reverse mortgage can provide funds for the homeowner(s) to receive in-home care, rather than moving to a nursing home.

A reverse mortgage can be a good source of needed funds for older homeowners. However, it is important to understand that a reverse

mortgage is a debt. As such, it must be considered along with the entire financial picture, including the cost of the loan, other outstanding debts, and the needs or wishes of beneficiaries.