Reverse Mortgage Tips & Considerations

Below is a list of important considerations we cover with our clients when they are considering a Reverse Mortgage. Please feel free to share this with anyone who might benefit from these suggestions.

Non-Borrowing Spouses. -When one spouse is unable to be included on the mortgage because they don't meet the age requirement, we direct them to our program option that protects that spouse upon the passing of the borrower. This will allow that non-qualifying spouse to remain in the house for the remainder of their life without a required mortgage payment.

Conflicts With Government Benefits Like Medi-Cal. -Paying off their existing mortgage does not disqualify recipients from receiving benefits. However, many of those benefit programs have limitations on how much money the recipient can have in their bank accounts. A Reverse Mortgage can be structured in a way that protects these benefits. In these circumstances, we advise our clients to set up the Reverse Mortgage as an equity line that they can draw from as needed.

Please note: Recipients should consult a qualified benefits advisor for information and advice pertaining to public benefits. If that advisor is not familiar with the Reverse Mortgage structures, we are happy to answer any questions they may have. *We do not charge for this service and are happy to answer any questions benefit advisors may have, even if the recipient does not use us for their reverse mortgage.*

Replacing A Current Low Rate Mortgage - Although most seniors can benefit from eliminating required monthly mortgage payments, there are some who are able to comfortably meet that payment but are looking for some additional funds to help with significant expense. Many of them have locked in a very favorable interest rate on their current mortgage when rates were low. In these situations, we can offer them a Reverse Second Loan program that many other lenders do not offer. In these circumstances, it is important that seniors find a Reverse Mortgage lender who offers this specialty second loan product.

Equity Protection - Although it is unlikely that a house with a Reverse Mortgage does not have significant remaining equity to be passed on to heirs, many seniors are concerned about this. In these situations, there is a Reverse Mortgage option that protects a predetermined portion of the equity and ensures that it is available to heirs, even if the home's equity is not adequate to pay off the mortgage balance at the time of the borrower's passing. This is another specialty Reverse Mortgage product that is not offered by all Reverse Mortgage lenders. If the senior is not working with us, it is important that they find a lender that offers this option.

When Reverse Mortgages Are Not The Best Option - Lenders who focus exclusively on Reverse Mortgages may have the best of intentions, but they may not be fully informed of better options for a potential borrower's individual circumstances. On many occasions, seniors reach out to us for a Reverse Mortgage, and we direct them to a better solution for their specific needs, rather than a Reverse Mortgage. A Reverse Mortgage is a great option for a lot of seniors, but it isn't the best solution for everyone. It is important to work with a lender who has a full menu of financing products and understands the unique needs and considerations of seniors.

Repair Opportunity - Most people who do a Reverse Mortgage are planning to stay in their home for another 20 to 30 years. Many of them do these mortgages to relieve their current financial stresses. Lenders often tell clients that the appraiser for the Reverse Mortgage is going to be checking the property for significant condition issues. This is somewhat misleading. These appraisers are not trained in construction, and they are not doing a full and comprehensive inspection of the house. We strongly recommend that our Reverse Mortgage clients have a contractor do a thorough inspection and make whatever repairs and updates are needed to try to allow the homeowner to live in that house stress free for the long run. We suggest that whenever possible, seniors use a contractor who is trained in Universal Access considerations so they can incorporate these measures into any repairs and updates.

Purchase Options - There are some instances where a senior would be better served to sell their current house and purchase another that is more comfortable, manageable, and affordable for them, or maybe just closer to their family. It is important that they are working with a lender who has access to, and is knowledgeable in, utilizing a Reverse Mortgage for a home purchase. Many seniors feel that they are trapped in their current house because their income isn't sufficient for them to qualify for a more suitable home. Since there is no income qualifying requirement on a Reverse Mortgage, this can be a great solution for them. However, there can be some unique considerations for a Realtor when structuring a purchase contract for a client using a Reverse Mortgage to purchase a home. We are happy to assist those Realtor when they are writing the offer and walk them through the unique aspects.

Qualifying Age - Many Reverse Mortgage lenders only have access to the standard FHA Reverse Mortgage program. As a result, seniors are often misinformed that the minimum age requirement is 62. In addition to the FHA products, we have access to several proprietary products that allow for borrowers all the way down to age 55. These programs also allow much higher loan limits (up to $4,000,000). If someone needs a Reverse Mortgage and they are between the ages of 55 and 62, they need to find a lender to assist them who has access to these proprietary products.

Conservative Loan to Value -Many people believe that the bank will only loan a small percentage of the home's equity so they can increase the amount they receive upon the passing of the borrower. The equity upon the passing of a borrower goes to their heirs, not to the bank. Limiting the loan amount to a small percentage of the home's value protects the senior in the event they need to sell the home. Any equity beyond the loan balance will go to the borrowers if they decide to sell the house, or it will go to their heirs upon their passing. The bank does not get the excess equity.

Payment Flexibility - Although Reverse Mortgages do not require the borrower to make payments, they allow them to do so. If you want to lower the interest accumulation on the mortgage, you can elect to make payments. This can be interest only payments, full principle and interest payments, or a lump sum payment of any amount. If you are utilizing the equity line option for this mortgage, you can pay down the balance and redraw the funds when you need them. Interest is only charged on the balance of funds that are outstanding, not the available equity line amount.

Protecting Heirs - Although it is true that the house and the equity will go to the heirs after the passing of the borrower, there are some safeguards the borrower may want so they can ensure that this will occur. Upon the passing of the borrower(s) and any protected non-borrowing spouses, the heirs will have up to 12 months to pay off the reverse mortgage. They can pay it off and keep the house or they can sell it and use some of the proceeds from the sale to pay it off. If the borrower passes with or without a will, it is possible that obtaining clearance for the sale of a property may not be completed within the 12 months they have to pay off the loan. We strongly advise anyone who does a Reverse Mortgage to consult with an Estate Planning attorney to look at options, like a Living Trust, to expedite the transfer of their property after their passing.

Reduce Before You Produce - When doing a Reverse Mortgage, many seniors take that opportunity to increase their monthly cash flow even further by investing in energy efficiency measures. Not only do energy upgrades lower utility bills, but they can also make the home much more comfortable and significantly improve the indoor air quality and health of the occupants. Unfortunately, though, the first thing they generally think of is adding Solar (PV) systems to their home. It is advantageous to "*reduce before you produce*." Basically, covering a roof with solar panels on a house that isn't properly sealed and insulated is like driving down the road with your air conditioning on and all your windows wide open. We recommend to our Reverse Mortgage customers that they work with contractors who are educated in whole home energy efficiency concepts. If they do the efficiency measures first, it means they will not need as many solar panels. If someone has to choose between efficiency upgrades and adding a big solar system, we always recommend that they "*reduce before they produce*."

Cost of Not Doing a Reverse Mortgage - Many people are hesitant to pursue a Reverse Mortgage due to the costs involved. When considering this option, it is important to also look at the costs of not doing a Reverse Mortgage. There are seniors who have lost their homes to foreclosure when they could have done a Reverse Mortgage and would still be living comfortably in their house. There are also a lot of seniors who are living in homes that are not allowing them to get the maximum enjoyment out of their golden years. They can use a reverse mortgage to purchase a more suitable home or to make improvements to their current home.