A reverse mortgage is not for most people, and much depends on why you need the money. Reverse mortgages do not make sense to just pay off old credit card bills or medical debt, that may no longer even be charging interest and where the collector may never even sue you for the money.

On the other hand, the inability to pay your car loan, utility bills, or your regular mortgage can have devastating consequences, and the costs of a reverse mortgage may make sense if these risks are at play. But even then, this book provides you with other advice on dealing with these obligations, often making resort to a reverse mortgage unnecessary. A reverse mortgage might also be considered if you are in a cycle of paying hundreds of percent interest on a series of small loans that are adding up to thousands of dollars of interest being paid every year—a reverse mortgage is a far cheaper alternative.

Once you take out a reverse mortgage, you may not be able to borrow on that value again (depending whether home values go up), when in the future you might need that home equity to pay, for example, for home health care. Other potential drawbacks to a reverse mortgage include:

? Reverse mortgage closing costs can be very high. Shop around for the loan with the smallest total fees. A reverse mortgage will be most costly, relatively speaking, if you continue to live in your home for only a few more years after taking out the loan.

? The amount of cash you get may not meet your needs. A 65-year-old whose home is worth $50,000 after deducing the outstanding mortgages may get only around $150 per month on a tenure mortgage. (This calculation depends on a variety of factors, including interest rates, home value, and the amount of the closing costs.) You are still responsible for paying the property taxes, insurance, general up-keep of the property, homeowner association fees, utilities, and other home-related expenses.

? You are paying interest, insurance, and servicing fees on a reverse mortgage loan, so that even if you do not draw down a lot of money, over time this loan obligation will grow. Then if you want to sell your home, you have to pay off a surprisingly large loan balance. It may mean that when you decide to sell, you have almost no remaining equity.

? A monthly reverse mortgage payment is not considered income. But if the loan proceeds are taken as a lump sum, while that money is in the debtor’s hands it can be treated as an asset that could affect eligibility for means-tested government benefits like Supplemental Social Security Income, Medicaid, or food stamps. (Social Security payments are not affected.) Check with your benefits provider before taking out a reverse mortgage loan.

? Some shady lenders offer very unfair reverse mortgages or conventional mortgages that look like reverse mortgages. Only work with a reputable lender in an established program. As a rule, only sign up for a HECM reverse mortgage.

? A reverse mortgage may make it difficult to pass your home on to your heirs after your death. If your heirs want to keep the home they will need to pay off the amount due on the reverse mortgage. This is different from a regular mortgage, for which your heirs could simply keep making the monthly payments. At the time of your passing, the balance of the reverse mortgage may have grown to the point where there is little or no equity left to leave to your heirs. Using your home equity now and leaving less for your heirs may be the right decision if you need money now, but be aware of what it may mean for the future.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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