Reverse Mortgages Part 4 â€“ What you need to know - An ACCESS Special Project

November 23, 2015 - This is the fourth and final article in our series on reverse mortgages. So far, weâ€™ve discussed their history and evolution (Part 1), the qualification process to get a reverse mortgage (Part 2) and the available types and costs of reverse mortgages (Part 3). In this segment weâ€™ll discuss the ways you can be declared in default by your reverse mortgage lender, the consequences of defaulting and various alternatives to reverse mortgages.

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How can I default on a reverse mortgage when the lender is the one paying me?

Even though you are receiving payments from a lender, that lender can declare you in default for a fairly wide variety of reasons. These include not paying your property taxes or not paying other bills which result in a lien being placed on your home. You will also be considered in default for not maintaining your homeownerâ€™s insurance policy. Additionally, lenders expect you keep your home in good condition.

What happens if my lender declares me in default?

Once your lender has declared you in default, you will immediately lose access to any additional funds from that lender. For instance, if your lender is sending you monthly payments, those will stop. And if your lender has set you up with a home equity line of credit, you will no longer have access to it.

Unless you can cure the default, the lender will move to foreclose on your home.
As with any loan default, your credit will be impacted.

Can I rent out my house with a reverse mortgage?

You must reside in your home as long as you have a reverse mortgage in place. You could agree to take on a roommate without violating the terms of a reverse mortgage. If you own a two to four unit property with a reverse mortgage in place, you are only required to occupy one of the units. You are free to rent out any additional units in the property.

But you are not allowed to move out of your property and rent it out. Doing so would violate the terms of your loan and

the lender could then demand immediate repayment. Failure to comply with such a demand would likely result in foreclosure.

What if I need to move into a nursing home or assisted living facility for health reasons?

As long as your stay in such a facility is short-term (less than twelve months), you can leave your reverse mortgage in place. If youâ€™ll be living in such a facility for more than twelve months, you will be in violation of your loan terms and the lender can demand repayment in full.

Anyone who finds themselves in this position should seriously consider selling their home as soon as they know that they will not be able to return to it within the twelve month window allowed.

If I take out a reverse mortgage can I still leave my home to my heirs?

Any amount borrowed through a reverse mortgage must be repaid upon your death. The repayment amount will include principle, interest and any associated fees. In most cases, this will mean the sale of your home.

The sale will be used to repay the reverse mortgage lender. Any additional amount received through the sale can be distributed to your heirs as you see fit. In the event that the sale amount isnâ€™t enough to repay your loan entirely, your heirs will not receive anything but they are not responsible for any unpaid debt from the mortgage.

What else should I know about reverse mortgages?

Borrowers should explore other options which may be significantly lower in price prior to taking out a reverse mortgage. These include:

- Standard home loan or home equity line of credit.

- Refinancing any existing loans.

- Downsizing.

Â· Equity sharing arrangements â€“ these are an alternative to reverse mortgages in which you share a portion of your propertyâ€™s future equity growth in return for a lump sum payment. Two programs that we are aware of are EquityKey and REXAgreement by FirstREX. These programs may also offer other benefits such as not forcing you to sell if you have to be moved out of your home for long term care. Check with the providers for a full listing of their rules and qualifications.

If you have considered a reverse mortgage only to find out you donâ€™t qualify for some reason, you may very well still qualify for one of the equity sharing arrangements mentioned above.

And finally, anyone contemplating a reverse mortgageâ€¦ or any of the other alternatives listedâ€¦ would be well advised to speak with a professional financial advisor prior to making a decision.

How do I know if a reverse mortgage is right for me?

Anyone contemplating a reverse mortgage should probably view this financial product as a part of their estate planning process. Just like a will or a living trust, when you take out a reverse mortgage, you are actually in the process of disposing of your assets. And as with any financial product, you need to have a good understanding of the costs and benefits associated with reverse mortgages.

For instance if you have no heirs, or if the heirs you have donâ€™t want your home, then you may want to consider an HECM

mortgage. Or if you are in need of long term care in your home, but donâ€™t have the means to pay for it, a reverse mortgage could provide a viable option. But if you have just turned 62 and are looking at a reverse mortgage as a means to provide you with some extra vacation money, you may want to look at other options.
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