Using a Reverse Mortgage for Access to Cash

Vaccine Mandates, Inflation and Jobs - Part 3

A special series for the soon-to-be unemployed and those facing financial hardship

November 29, 2021 - Let's be clear here. There are less expensive ways to gain access to cash if you can qualify. For instance, a home equity loan. But most of the methods to gain access to cash reserves also require you to be employed or have some other source of income. That isn't the case with reverse mortgages. So if you need cash, don't want to sell your home and can qualify for a reverse mortgage, it may be your best option.

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There are several payout methods for reverse mortgages. The most popular has been a lump-sum payout. And there are options within the payout methods as well. For instance, you can choose a fixed rate or adjustable-rate mortgage when taking a lump sum. All of the available options won't be available to every buyer, but choosing the right option is very important.

If you still have a standard mortgage on your home, depending upon the amount of that mortgage you may not have any choice other than a lump sum payment. That's because the proceeds from your reverse mortgage must be used to payoff all other mortgages on the home before you use the cash for anything else. While this will immediately eliminate any further monthly mortgage payments you have to make your home, it also means that you won't be able to take out any other loans on the property in the future.

If your goal is just to hang in there until you can find a new job or get through the current financial storm hitting the country, and you have a relatively low existing mortgage balance, you may be able to get a hybrid payout. A portion of the payout would be in the form of a lump sum to pay off the existing mortgage and the rest of the reverse mortgage would be supplied to you in a line of credit. This will mean that your monthly mortgage payment is eliminated and allow you to borrow only what you need going forward. Once you find new employment you can stop borrowing and, if you want to, start the process of paying off the reverse mortgage (yes, that is an option).

And if you are already lucky enough to have paid off your home, you can simply opt for a reverse mortgage line of credit in the first place. Using this, you can borrow what you need and keep the rest of the money in reserve. If your financial circumstances change going forward, you can start paying the loan back. The real upside to the line of credit is that the amount you borrow can't be reduced by the lender even if the value of your home drops, but you have the option to only spend what you need. This can give you access to a lot of cash without unnecessarily increasing your overall debt.

All reverse mortgages do require certain things from the borrowers. You do have to keep up the property and you need to make sure that you pay your property taxes and home insurance. If you default on these obligations, the lender can cut off access to your money (for lines of credit) until the default is cured, force you to sell the property and in extreme circumstances they can even foreclose on the property.

It is also important for anyone taking out a reverse mortgage to have some financial discipline. If having access to large sums of cash is going to lead to a spending issue for you, then the options above may not be your best choice. There are payout options available that will give you fixed monthly income for life or over a set term of years. These may be more beneficial to people who aren't financially disciplined because they will ensure that you don't let all of that money burn a hole in your pocket and spend it all at once.
by Jim Malmberg
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