Downsizing - Using a Reverse Mortgage to Purchase a Home

Vaccine Mandates, Inflation and Jobs - Part 4

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

December 8, 2021 - For anyone trying to economize, the prospect of getting money out of your house is an attractive notion. Of course, if you are employed and have good credit, you can probably look at the various home equity loan options available to you. But if you are facing unemployment, unemployed already or don't have good credit, that may not be an option even if you have a lot of equity in your home. So let's take a look at other options.

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If you can sell your current home and use the equity to purchase a new, smaller place using cash, you may be able to eliminate your mortgage payment that way. That's certainly a more attractive alternative to either losing your current home in a foreclosure or going further into debt. But it won't work for everyone and it isn't likely to leave you in the position of having access to a lot of cash by the time you complete your new purchase.

Another alternative though is to use a reverse mortgage to finance the purchase of that new home. Not a reverse mortgage on your existing home, mind you. But one on the new house.

Most people aren't aware that they can do this. But your can. It works like this. You work with a reverse mortgage lender to arrange financing, much like you would a standard home loan. Once you know the amount the lender if willing to finance for you and the percent of down payment you will have to make, you come up with a budget. When you find the perfect home, you place your down payment into escrow and the reverse mortgage lender puts in their money to close. Once the closing takes place, you own the home but you don't have a mortgage payment. You can now stay in the home for the rest of your life without having to worry about a mortgage.

Anyone purchasing this way needs to understand that they will never be able to borrow against the house again in most cases. There is also a very real possibility that by the time they die, there will be no remaining equity in the house to pass down to their heirs. But they will get all of the other benefits of home ownership and have no monthly mortgage payments. That's an attractive proposition. And if you do have the opportunity to go back to work at some point, you can always start paying off the reverse mortgage. You may even be able to refinance out of it into a traditional mortgage and

reduce your interest rate.

If used properly, a reverse mortgage could be the way to get through difficult financial times and provide you with some sense of financial security.
by Jim Malmberg
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