

Top Ten Questions When Considering A Reverse Mortgage

Q: How can I use the proceeds from a reverse mortgage?

A: Any way you wish. It is after all, your money.

Q: Are reverse mortgage proceeds considered taxable income?

A: No. Currently the IRS views the proceeds from a reverse mortgage as a loan, not income. As with any tax question it is wise to consult your tax advisor to evaluate your individual situation.

Q: When is the loan due?

A: You must repay the loan in full when the last surviving borrower dies, sells the home, or permanently moves out of the home. A “permanent move” means that neither you nor any other co-borrower has lived in your home for one continuous year.

Q: What if I owe more than the home is worth?

A: FHA reverse mortgages are considered “non-recourse” loans. That means that you or your heirs can never owe more than what your home is worth at the time the loan is repaid.

Q: Can a reverse mortgage be taken out if I have an existing mortgage?

A: Yes. However you must pay off the existing mortgage with the money you get from a reverse mortgage or pay off the existing mortgage before you get a reverse mortgage. Most reverse mortgage borrowers pay off any prior debt with an initial lump sum advance from their reverse mortgage.

Q: Will a reverse mortgage affect Medicaid or SSI benefits?

A: No. As long as you are sure to spend all your loan proceeds in the month you receive them. Please consult your elder law attorney for information that may be specific to your situation.

Q: How are interest rates for reverse mortgages determined?

A: For The Federal Housing Administration’s Home Equity Conversion Mortgage (which makes up the vast majority of reverse mortgages) you will be given a choice between a monthly adjustable rate and an annually adjustable rate. The rates are set and capped by Fannie Mae with a set margin over the one-year U.S. Treasury rate for monthly adjustable and a slightly higher margin above the one-year U.S. Treasury rate for annually adjustable rates.

Q: My children and I own the property jointly. Do we still qualify?

A: Yes, if the children are age 62 or older and live in the property. Otherwise, they would need to be taken off the title for you to participate. It is recommended that you consult with an attorney before making this decision.

Q: Are reverse mortgages safe?

A: Reverse mortgages are very safe. FHA guarantees the payments that are made to you. FHA also guarantees you can stay in your home as long as you like, and you will never owe more than your house is worth.

Q: Since I don’t make monthly payments with a reverse mortgage, what are my responsibilities?

A: You are required to pay property taxes, maintain the home and have property insurance in place.