'Game Changer'

Overcome tough economic times with a reverse mortgage

BY STEVEN J. SLESS
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Unfortunately, we rang in 2022 with unprecedented inflation, rising cost of goods and income loss that started with the COVID-19 pandemic.

Making things worse, mortgage forbearance has been extended a few times, but now the loans are called due with most lenders. Homeowners have to enter into a loan modification agreement with their lender, refinance or arrange alternative agreements with their lender to start making payments again. Older homeowners in particular are facing real struggles, worrying whether they'll have enough assets to last throughout their retirement.

That's the bad news.

The good news is that there are three safe and strategic solutions for pivoting without having to dip into retirement savings: 1) accessing home equity with a reverse mortgage, 2) replacing a current mortgage with a reverse mortgage to eliminate mandatory mortgage payments, and 3) using a reverse mortgage to purchase a home more suitable for future needs without a mandatory monthly payment.

If you're retired or close to retirement, home equity likely represents a large portion of your net worth. As of 2021, homeowners age 62 and up saw their collective housing wealth increase to $9.57 trillion, according to data provided by the National Reverse Mortgage Lender Association in conjunction with RiskSpan. A HECM reverse mortgage gives homeowners 62 and up access to a portion of the wealth tied up in their home while they still own and continue to live there.

HOW IT WORKS

Reverse mortgages provide qualified homeowners access to home equity, while retaining ownership of their home. The loans are called "reverse" because instead of making monthly payments to a lender, as with traditional mortgages, the lender pays the borrower.

A reverse mortgage can pay off and replace a traditional mortgage loan, reducing the burden of a mandatory monthly payment. This provides immediate savings. With a reverse mortgage, borrowers also can consolidate debt, protect their portfolio from market risk, supplement retirement income, fund long-term care and still keep some liquidity for emergencies.

With a variety of payout options, reverse mortgages are among the most versatile type of mortgage loans available. They offer flexibility that other mortgages don't. Borrowers are not required to pay back the loan until the home is sold or the last remaining homeowner permanently vacates the home.

Borrowers can choose to make payments for any amount at any time but are not required to do so.

They may defer payback, which includes loan interest and any applicable mortgage insurance until they permanently leave the home.

As with any mortgage loan, borrowers must meet loan obligations: paying property taxes and homeowner's insurance, and maintaining the home. They also must live in the home as their primary residence.

Reverse mortgages have gone through many transformations and improvements in recent years. Through advanced research and public policy changes, these products are no longer considered the "loans of last resort" they were in the past. In fact, they are now one of the most well-developed loans in the mortgage industry. Backed by the federal government, reverse mortgages have built-in protections and safeguards to keep borrowers safe.

Now is a particularly good time to consider a reverse mortgage because the housing market has boomed. Some areas of the country have seen 30 percent housing appreciation, but this trend is not going to last.

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Reverse mortgage borrowers can lock in today's house value to hedge against future market corrections.

Because the loan is based on present value, if you wait to lock in the loan and the value decreases, you won't be able to borrow as much. Locking in the loan with today's value can help offset financial losses during the pandemic and help older homeowners protect and prolong their retirement nest egg.

To be clear, reverse mortgages aren't for everyone, but they are fast becoming a mainstream solution recommended many financial professionals. Take ample time, explore your options and seek professional advice before deciding if this is the right option for you.

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