Flexible Financing

Buying your next home with a reverse mortgage

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Did you know that homebuyers 62 and older can purchase their next home with a reverse mortgage?

It's called a Home Equity Conversion Mortgage (HECM) for purchase, and it's tailored to better suit the needs of the growing number of older homebuyers.

Whether you want to upsize to the home of your dreams, downsize or right size to a home more suited to meet your long-term needs, an HECM for Purchase may be a better option versus paying cash or taking out a 15-, 20- or even 30-year mortgage at this stage in life.

Simply put, a HECM for Purchase loan combines a reverse mortgage with the equity from the sale of your previous home — or from other savings and assets — to buy your next primary home in one single transaction.

Regardless of how long you live in the home or what happens to the home's value, you only make one initial down payment of roughly 50 percent toward the purchase, provided that you pay property taxes and homeowner's insurance and maintain the home.

Once the purchase is complete, you can make payments on the home or defer payback until the last remaining borrower leaves the home. There is no mandatory mortgage payment, making this option a great way to preserve cash flow later in life.

Let's consider this example: Tom (67) and Barb (65) live in a three-story home. They wish to purchase a single-story home, where they can comfortably age in place. Their current home value is $400,000. They owe $100,000 on it with an ongoing payment of $1,100 a month. Tom and Barb sell their current home and purchase a ranch-style home for $300,000.

Let's take a closer look at the numbers. Tom and Barb sold their home for $400,000, of which they used $100,000 to pay off their mortgage. Their net proceeds before Realtor commissions was $300,000. They paid $300,000 for the new home and financed it with a HECM for Purchase. The required down payment based on the age of the youngest borrower (in this case, 65) was $145,000, which included all closing costs. Tom and Barb walked away with a new home and $155,000 in cash.

Now Tom and Barb have a home more suitable for their present and future. They have no mandatory monthly payment, freeing up cash flow and providing flexibility as they grow older. The $155,000 in cash can be used to supplement their retirement income, help fund long-term care or pay off debt, and still keep some liquidity for emergencies.

The alternative would have been to pay cash for the new home using all of the proceeds from the sale of the former home. Or they could have chosen a traditional mortgage, which would have required a mandatory mortgage payment into their 80s or even 90s, leaving them with far less flexibility in the event of a market correction or health event.

An HECM for Purchase is a better option for many buyers nearing or in retirement. In fact, there are even options for younger homeowners with higher-value homes. Jumbo/proprietary reverse mortgages are customized solutions for homeowners age 55 and up. All other reverse mortgage loans have 62-plus as the minimum age requirement.

To be clear, reverse mortgages aren't for everyone, but they are fast becoming a mainstream solution recommended by many financial professionals. As with any financial product or service, education is paramount. Take the time to discuss your options with a knowledgeable professional before committing.

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