Top 10 Myths about Reverse Mortgages

Myth 1 – The bank takes the house!

With a reverse mortgage, the borrower retains title to the home throughout the life of the reverse mortgage. The bank is not on title. They can move or sell at any time. The borrower cannot be forced out of his or her home, as long as property charges such as taxes and insurance are paid and the home is maintained in reasonable living condition.

Once the last borrower permanently moves out of the home, the bank doesn't take the house; the loan simply must be repaid. Most properties secured by reverse mortgages still have equity when a maturity event occurs and therefore the borrower or heirs choose to sell the home to repay the loan.

Myth 2 – The home must be paid off or be debt-free to qualify for a reverse mortgage.

Not true. As long as there is sufficient equity in the property, the homeowner may be eligible for a reverse mortgage. In fact, many seniors use a reverse mortgage to pay off an existing mortgage in order to eliminate a required monthly mortgage payment.

Myth 3 – The borrower could end up owing more than the home is worth.

Fact is, the borrower or his estate can never owe more than the value of the home upon repayment, regardless of what happens in the future. The products are structured as non-recourse loans and insured by the Federal Housing Administration, an arm of the U.S. Department of Housing and Urban Development (HUD).

Myth 4 – Reverse mortgages are only for seniors in need, or for the 'house rich, cash poor.'

Many times that's the case. However, the reverse mortgage is an excellent financial planning tool that has been used by homeowners to enhance their retirement years. Even seniors with million-dollar homes use a reverse mortgage to put themselves in a better financial position. One man simply put it this way: "I don't like my money tied up in brick and mortar."

Myth 5 – When a reverse mortgage becomes due, the bank sells the home.

The borrower is in control of the home and retains title, not the bank or lender. So while it's common for the borrower or the heirs to sell the home to repay the loan, it's a decision the borrower or his heirs make. The borrower or the heirs also has the option of refinancing the home in order to repay the loan.

Myth 6 – It's cheaper to move to a smaller house.

But what if the folks want to stay where they are? What's more, while doing so might be right for different reasons, seniors need to analyze their costs carefully before making this assumption. The process of selling a home and moving into a new home can be expensive. The typical real estate commission of 6% on a $300,000 home would be $18,000. Add moving costs plus the effect of disrupting their lives and relationships and the decision is not so simple.

Myth 7 – Children want the home or don't feel comfortable with a reverse mortgage.

Seniors are encouraged to talk with their children about reverse mortgages. Heirs will still receive the house. Very few children will ever actually live in the home and fewer and fewer are expecting to receive an inheritance from their parents. Some children are happy that their parents have a financial solution available to help them live a more independent and financially secure life.

Myth 8 – Reverse mortgage proceeds will impact Social Security and Medicare benefits.

A reverse mortgage will generally not affect regular Social Security payments or Medicare benefits. Depending upon the borrower's situation, a reverse mortgage may affect benefits one receives, if any, from the Federal Supplemental Security Income (SSI) program, or state-administered programs like Medicaid. It is recommended that the borrower speak with his or her financial advisor and appropriate governmental agencies.

Myth 9 – There are restrictions on how the money is used.

Actually there are no restrictions. The cash proceeds from the reverse mortgage can be used for any purpose. They can go to Vegas and put it all on red or black (not recommended).
Many seniors have used reverse mortgages to travel, pay off debts, help their kids, make their home more livable, pay off more expensive credit, conserve their portfolio, make a luxury purchase or just live more comfortably.

Myth 10 – Receiving the money means more income taxes.

The cash proceeds from a reverse mortgage are tax free. In essence, the homeowners are lending themselves money. It can be a lifeline for some, an inspiration for others, working in tandem with an astute financial advisor.