1. What Are the Requirements of a Reverse Mortgage?

In order to qualify for a reverse mortgage, the Federal Housing Administration has mandated several requirements. First and foremost, any potential borrower must 62 or older. Furthermore, an applicant must must own his or her home outright, or else have a minimally low outstanding mortgage balance. Moreover, said applicant must be able to claim the home as his or her primary place of residence. Lastly, all prospective borrowers must provide evidence indicating the possession of sufficient financial resources to cover continued maintenance, insurance, and taxation fees.

2. What Are the Benefits to a Reverse Mortgage?

By eliminating the need for monthly mortgage payments, and adding a source of retirement income, reverse mortgages are usually seen as a way to relieve the financial strain of one's retirement years. By supplementing existing retirement funds, this source of income can either extend one's retirement, or allow for a more comfortable lifestyle. Furthermore, if a retiree is able to delay withdrawing from his or her 401(k), then associated taxes will be delayed as well.

3. What Are the Risks to a Reverse Mortgage?

As long as the borrower of a reverse mortgage is alive and maintaining primary residence at the designated property, a key selling point of these loans is that they guarantee continued homeownership. To retirees, this provides peace of mind that they will not be without a place to live in their twilight years. Unfortunately, that guarantee becomes null and void once it’s time to repay. In the case of the borrower’s death, non-borrowing spouses and other family members are given the first opportunity to pay back the loan balance. If that fee cannot be met, then foreclosure and liquidation by the bank are common avenues of recourse.

4. What Are the Costs to Getting a Reverse Mortgage?

When getting a reverse mortgage, particularly an HECM variant, associated costs are regulated by law. Loan origination costs, specifically, are set to the formula of 2% of the initial $200,000 of the property’s value, and 1% of the additional value. In total, fees may not exceed $6,000. Beyond origination, other reverse mortgage costs include closing costs, mortgage insurance, title fees, home appraisal, wire fee, credit report, and flood certification. Down the line, additionally, when the borrower no longer claims residence at the specified property, then the balance and accumulated interest will have to be paid.

5. What If the Interest Exceeds the Value of the Home?

If the interest accumulated from a reverse mortgage exceeds the value of the property, it’s not a problem. Reverse mortgages are intended to last for the duration of time that the borrower claims primary residence at the home in question. As such, given enough time, interest can overtake the property’s value. In the event of the borrower’s death, that financial loss would be compensated to the lender by the FHA. This hold true even if the borrower, instead of dying, changes residence.

6. How Can a Reverse Mortgage Loan Be Paid Back?

In the case of a reverse mortgage, no regular payments are required. Conversely, the bank will make regular payments to the borrower. These disbursements, as they are paid out, will be added to the total loan balance. This is not to say that the loan will not have to be repaid eventually.

Repayment will typically occur either when the borrower sells his or her property, or upon his or her death.

7. What Is the Difference Between a Regular and Reverse Mortgage?

A regular mortgage is a long-term loan that assists the borrower in buying a home. This is achieved by spreading repayment across decades, albeit with interest. A reverse mortgage, on the other hand, is a type of home equity loan that grants borrowers access to their homes' equity, by way of cash, without necessitating relocation. As opposed to a traditional loan, the lender of a reverse mortgage will pay the borrower each month, rather than the other way around. Without monthly payments, repayment only occurs when the borrower sells the home or dies.

8. Is It Possible to Have a Reverse Mortgage and Regular Mortgage at the Same Time?

It is not possible to hold both variants simultaneously. Generally speaking, many of those applying for reverse mortgages own their homes fully. That said, if the borrower still maintains a small balance on his regular mortgage, then a predetermined amount of funds from the reverse mortgage can used to pay off the original.