9 Surprising Ways to Use a Reverse Mortgage

Reverse mortgages allow homeowners age 62 or older who own their home outright or have a mortgage to convert the equity in their primary residence into a liquid, tax-free asset. Borrowers can take their money in a lump sum, as a monthly payment, or set up a line of credit. Interest accrues only on borrowed funds. Unused lines of credit continue to grow at the same compounded-interest rate as the cost of money.

Financial advisers who dismissed reverse mortgages in the past may want to take a second look. Consumer protections have increased and origination fees have been dramatically reduced. And leading researchers now believe reverse mortgages could solve some of the income challenges of retirees who saved too little to finance a retirement that could last decades.

#1 - PAYOFF EXISTING MORTGAGE

Using a lump sum from a reverse mortgage to pay off a traditional mortgage balance instantly increases a retiree's monthly cash flow and reduces the need to withdrawal from limited reserves or a managed portfolio. It really improves the odds for retirement success to not carry a mortgage into retirement. Studies find, retirement is easier and retirees are happier when they don't have a mortgage to worry about.

#2 - REPLACE A HOME EQUITY LINE OF CREDIT

Unlike a HELOC, a reverse mortgage can never be reduced, frozen or cancelled and there are no monthly loan repayment requirements. A reverse mortgage is not due until the borrower sells the home or moves out permanently. And the estate or heirs can never owe more than the house is worth, even if it is less than the amount borrowed.

#3 - FUND FUTURE LONG-TERM CARE OR INCOME NEEDS

A 62-year-old couple with no long-term-care insurance may want to set up a reverse mortgage line of credit as an "insurance" policy. For example, with a home worth $625,000, the initial line of credit at current interest rates would be worth $327,375. Left untouched, the equity line would be worth $613,365 in 10 years and $1,149,143 in 20 years. The couple could tap the loan for future long-term care costs (as long as they remain in their home) or to serve as a deferred annuity if they needed additional income in the future.

#4 - PROTECT YOUR PORTFOLIO

If a portfolio is declining in value or reserves get tight, you can draw from the line of credit on the reverse mortgage with no monthly repayment required. And the interest paid on the line of credit is tax-deductible if retirees itemize their deductions on their income tax returns.

#5 - CREATE A SOCIAL SECURITY BRIDGE

Supplement income with monthly payments from a reverse mortgage either for a set number of years (term) or for as long as you live in the home (tenure). Term payments can provide an income bridge to allow a retiree to delay claiming Social Security until benefits are worth the maximum amount at age 72.

#6 - MANAGE TAXES

Proceeds from a reverse mortgage are tax-free. Tapping a reverse mortgage can decrease withdrawals from taxable retirement accounts, reducing income taxes and the amount of Social Security benefits subject to income taxes. For higher-income retirees, tax-free reverse mortgage payments can reduce their modified adjusted gross income that could trigger higher monthly Medicare premiums.

#7 - PAY ROTH CONVERSION TAXES

Sometimes the only thing preventing a retiree from converting a traditional retirement account to a Roth IRA is the amount of income taxes owed on the converted amount. Tax-free proceeds from a reverse mortgage can pay Roth conversion taxes all at once or over several years, reducing future income taxes and possibly reducing future Medicare premiums.

#8 - BUY A HOME

A reverse mortgage can be used to purchase a new home. Rather than using all of the proceeds from a home sale, downsizers can use just a portion of the sale profits and take out a reverse mortgage to make up the balance. This way, they are able to purchase a new home without the need to make monthly mortgage payments—plus they can put the remaining cash reserves into an investment, savings account or use it to supplement their current income.

#9 - GRAY DIVORCE STRATEGY

Older couples can use a reverse mortgage to divide a marital housing asset in a divorce. In one scenario, the spouse remaining in the home could take a lump-sum distribution from a reverse mortgage to buy out the other spouse. In a second scenario, the home can be sold, and each ex-spouse can use some of the proceeds from the home sale to purchase a new home. By using a reverse mortgage for purchase, they each can put down the minimum required down payment, keep the rest of the proceeds as cash, and not have a mortgage payment.

It's safe. It's easy. And it could be the perfect solution. Call one of our Reverse Mortgage Experts to learn more.

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