

Reverse Mortgages: Yes or No?

Situation 1

Sam and Valerie Fraser are both 65, retired, and live in their own home with no mortgage. They are residents in an area of a large city where home real estate prices are high. They have three adult children. Being retired, they want to spend some time traveling but are concerned about having enough money to travel on their retirement funds. They are now in the position where they have to hire someone to look after their property.

Situation 2

Susan Allan is also retired and is a 72 year old widow with no children. She owns a modest home which also has no mortgage because she and her husband were able to pay it off before he died. She lives on her pension and investments. She wants to stay in her home as long as she is able, but can't look after the property herself. On her limited income she is finding it hard to find the money to pay for repairs and maintenance.

Reverse Mortgage: Yes or No?

Both the Frasers and Mrs. Allan are considering a reverse mortgage. Taking out a reverse mortgage would allow them to live in their home for free. When they eventually sell, they would pay off the mortgage with the proceeds of the sale of their property.

A reverse mortgage would be the wrong choice for the Frasers who are in their sixties. Since they make no payments, the mortgage debt doubles every seven or eight years. The Frasers would not be able to keep most of the equity in their home for their children. The Frasers would be better off looking at these options: a home-based line of credit; moving to a smaller home now that their children are gone and they don't need as much room; or renting part of their home to provide additional income.

In Susan Allan's case, a reverse mortgage would be a good choice. She would be able to use the money now for repairs and maintenance or other emergencies. Being older, she will probably sell within a few years and can pay back the mortgage from the sale of the home. With no children it is not as critical to maintain the equity in the home.

The bottom line is that while the answer may be yes for some, it may be no for others.