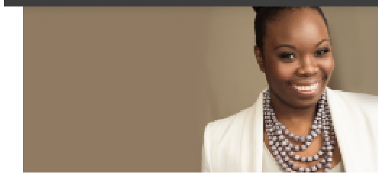

JOHNETTA PAYE ESQUIRE

REAL ESTATE NOVEMBER 14, 2016

The big payback: The legal ups and downs of reverse mortgages

JPAYE

JPAYE

INVESTMENT CONDO OR REAL-LIFE 'MONEY PIT': WHY REAL ESTATE INVESTORS SHOULD BEWARE OF CONDO RESTRICTIONS

Senior citizen homeowners may have noticed a few new notices about homeownership trickle through their mailboxes about reverse mortgages. On the surface, it may look like a reasonable setup: Get payments back in small doses for those who have paid off their mortgages. That's a steady stream of income that may rival Social Security payments or 401(k) plans. This is in addition to an extra security blanket for home repairs or medical emergencies.

401(k) plans. This is in addition to an extra security blanket for home repairs or medical

The U.S. Department of Housing and Urban Development requires that a reverse mortgage applicant fit the following criteria:

- Be 62 years of age or older
- Own your home outright or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan (even if the home was not purchased using an FHA-insured mortgage)
- Have the financial resources to pay ongoing property charges including taxes and insurance
- Live in the home associated with the reverse mortgage
- Residence is a single family home or a two-to-four unit home

A reverse mortgage is a loan that a homeowner takes out against the equity that has accrued on his or her home. If approved, instead of getting a lump sum and having to pay it back (the way a second mortgage works), a reverse mortgage pays the homeowner instead. However, the homeowner will still be required to pay real estate taxes, all utilities, and hazard

Tax time (Photo credit: Pixabay)

mortgage pays the homeowner instead. However, the homeowner will still be required to pay real estate taxes, all utilities, and hazard and flood insurance premiums. (The income from the reverse mortgage is eligible to be used for it, but this could seriously limit any profits made as well.)

The balance of the borrow funds that the homeowner has received must be repaid in full if/when the homeowner no longer occupies the home as his or her primary residence (i.e., sells the home, moves out of the home or dies). The good news is should the homeowner pass away, any remaining equity in the home is still eligible to be passed onto heirs. However, the cash, interest and other Home Equity Conversion Mortgage HECM finance charges must be repaid. The remaining amount is then transferred over to the heirs.

But it's not all good news. According to a compelling article from The New York Times, there are pitfalls. For example, when a homeowner with a reverse mortgage passess away, the surving family members often have to deal with foreclosure actions. Lenders are required to give surviving family members 30 days to decide what they want to do with the

There's no place like home, but what happens to deal with foreclosure actions. Lenders are required to give surviving family members 30 days to decide what they want to do with the property before initiating a foreclosure action. Lenders are also required to offer surviving family members the ability to settle the reverse mortgage for 95 percent of the home's current value. If a lender fails to comply with these requirements, then the surviving family member can use this as a defense in the foreclosure action.

There's no place like home, but what happens when it's time to give that home up anyway? (Photo credit: Pixabay)

Under a reverse mortgage, a lender can commence foreclosure proceedings if the homeowner defaults on the terms of the mortgage. For example, the terms of the reverse mortgage may require the homeowner to stay current on his or her property taxes. If the homeowner falls behind on those property taxes, then the bank can foreclose on the home.

Before taking out a reverse mortgage, the homeowner should be mindful that he or she could also outlive the lump sum or monthly payments that will be received under the reverse mortgage. If that happens, then the homeowner could be in a situation where the equity has depleted on the home and now needs to repay back a mortgage.

———-

reverse mortgage. If that happens, then the homeowner could be in a situation where

———-

Have more real estate transaction questions? Contact J. Paye & Associates today.

Shamontiel L. Vaughn contributed to this blog. Find out more about her at ***Shamontiel.com****.*

The information contained here is intended to provide useful information on the topic covered but should not be construed as one-size-fits-all legal advice. Speak to an attorney specifically about your contractual agreement for specific terms and conditions.

RELATED ITEMS

LEAVE A REPLY

Your email address will not be published. Required fields are marked *

Comment