Top 10 reverse mortgage myths dispelled; learn the facts today

As reverse mortgages have increased in popularity, so have the myths about these unique loans. While there's better information available today, many seniors and their adult children who are exploring reverse mortgages still encounter a host of misconceptions. Here's a look at common myths and the facts:

1. The bank takes the house or the borrower can lose the house.

With a reverse mortgage, the borrower retains title throughout the life of the reverse mortgage. The borrower cannot, as a result of the reverse mortgage, be forced out of the home as long as property taxes and insurance are paid and the home is maintained in reasonable living condition. Once the borrower permanently moves out of the home, the loan must be repaid. Most properties secured by reverse mortgages still have equity when a maturity event occurs; the borrower or heirs can opt to sell the home to repay the loan and preserve this equity for the benefit of the borrower or his/her estate.

2. The home must be paid off or be debt-free to qualify.

Reverse mortgages convert home equity into cash. 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.

3. 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. While it's common for the borrower or heirs to sell the home to repay the loan, it's a decision they make. They might instead refinance the home to repay the loan.

4. It's cheaper to move to a smaller house.

Seniors need to analyze their costs carefully before making this assumption. Selling a home and moving can be expensive. The typical real estate commission of 6 percent, combined with moving expenses, can make finding a new home a serious financial undertaking.

5. Children want the home or don't feel comfortable with their parents obtaining a reverse mortgage.

Seniors should talk with their family about reverse mortgages. Often adult children are pleased their parents have a financial solution available to help them live more independently and financially secure.

6. The borrower could owe more than the house is worth.

Due to built-in safeguards, the borrower or his estate can never owe more than the value of the home upon repayment. In addition, the HECM product are insured by the Federal Housing Administration.

7. Reverse mortgage processes will impact Social Security and Medicare benefits.

Generally, a reverse mortgage will not affect regular Social Security payments or Medicare benefits, although some Federal Supplemental Security Income of state programs may be impacted. Borrowers should speak with a financial advisor or the appropriate agencies.

8. There are restrictions on how the money is used.

Actually, there are no restrictions, and proceeds from the reverse mortgage can be used for any purpose - travel, to pay off debt, make purchases or just live more comfortably.

9. Once proceeds are received, taxes will need to be paid.

Since the proceeds are already the borrower's money, they are tax-free.

10. Reverse mortgages are only for seniors in need or for the "house rich, cash poor."

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