The ins and outs of securing a reverse mortgage

A reverse mortgage is a loan that allows you to get money from your home equity without having to sell your home. This is sometimes called ?equity release?. You may be able to borrow up to a certain percentage of the current value of your home. The maximum amount you will be able to borrow will depend on your age, your home's appraised value and your lender.

You don't need to make any payments on a reverse mortgage until the loan is due. This is usually when you move out of your home, sell it or the last borrower dies. You will owe more interest on a reverse mortgage the longer you go without making payments. This may result in you having less equity in your home.

Eligibility for a reverse mortgage

To be eligible for a reverse mortgage, you must be:

- A homeowner

- At least 55 years old

If you have a spouse and you are both on the title for your house, both of you must be listed on the reverse mortgage application. Both of you must be at least 55 years old to be eligible for a reverse mortgage.

The home you're using to secure a reverse mortgage must also be your primary residence. This usually means you live in the home for at least six months a year.

If you have a mortgage on your house you must pay it off when you get a reverse mortgage. You can use the money you get from a reverse mortgage to pay any mortgage, debt or lien against your house.

Qualifying for a reverse mortgage

When you apply for a reverse mortgage, your lender will consider:

- Your age, and the age of your spouse if they are registered on the title of your house

- Where you live

- Your home's condition, type and appraised value

In general, the older you are and the more home equity you have when you apply for a reverse mortgage, the more money you could get. Current market trends will also impact how much money you could get.

Your lender may ask you and your spouse to show proof that you received independent legal advice before you get a reverse mortgage.

Accessing money with a reverse mortgage

You may be able to get the money from your loan by:

- Taking the money as a one-time lump sum

- Taking some of the money up front and taking the rest over time

- Ask your lender what payment options they offer for a reverse mortgage and whether there are any restrictions or fees.

You must first pay off and close any outstanding loans or lines of credit that are secured by your home, such as a mortgage or home equity line of credit. You could use the money you get from a reverse mortgage to do this.

You can use the remainder of the loan for anything you wish, such as to:

- Pay for home repairs or improvements

- Help with regular bills

- Cover healthcare expenses

- Repay debts

You may not be able to take out another loan secured by your home, such as a home equity line of credit, if you have a reverse mortgage.

Repaying the money you borrow with a reverse mortgage

You don't need to make any regular payments on a reverse mortgage. You have the option to repay the principal and interest in full at any time. However, you may be charged a fee to pay off your reverse mortgage early.

Interest will be charged until the loan is paid off in full. The interest will be added to the original loan amount, which increases the loan amount over time.

If you sell your house or if you move out you'll have to repay the entire amount left owing on the loan. You will also have to repay the entire amount owing if you default on the loan.

You could default on a reverse mortgage by:

- Using the money from the reverse mortgage for anything that is illegal

- Being dishonest in your reverse mortgage application

- Letting your house fall into a state of disrepair that would lower how much it is worth

- Not following any conditions that you agreed to when getting your reverse mortgage

Each reverse mortgage lender may have its own definition of defaulting on a reverse mortgage. Ask your lender what could cause you to default.

When you die your estate will have to repay the entire amount owing on the loan. If both you and your spouse own your home together, then the loan will have to be repaid when the last one of you dies or sells your home.

The amount of time that you or your estate will have to repay a reverse mortgage may vary. For example, if you die then your estate may have 180 days to pay back the mortgage. But if you move into long-term care, then you might have one year to pay it back. Make sure you ask your lender for information about the timing for paying back a reverse mortgage.

Costs to get a reverse mortgage

Costs associated with a reverse mortgage may include:

- Higher interest rate than for a traditional mortgage

- A home appraisal fee

- A setup fee

- A prepayment penalty if you pay off your reverse mortgage before it is due

- Legal fees for closing costs or independent legal advice

The costs will vary depending on your lender. Different lenders may also use different terms to refer to similar fees. Some fees may be added to the balance of your loan, while you may have to pay for others up front.

Shop around and explore your options before getting a reverse mortgage.

Compare the costs of the following potential alternatives to a reverse mortgage:

- Getting another type of loan, such as a personal loan, line of credit or credit card

- Selling your home

- Buying a smaller home

- Renting another home or apartment

- Moving into assisted living, or other alternative housing

You may want to speak with a financial advisor and your family before getting a reverse mortgage. Make sure you understand how a reverse mortgage works and how your home equity may be affected over time.

Make sure you understand the terms and conditions of the contract before you sign it.