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Fairfield > Business

Purchasing a home with a reverse mortgage

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By Vivian Dye

Senior homeowners face more difficult challenges with the financial pressures throughout the economy. Today there is wisdom in looking at ways in which home equity can be put to work. Reverse Mortgage loans were designed specifically for senior-aged homeowners to access the money that has built up over the years as equity.

What you may not realize is that there is now a way for seniors to use a reverse mortgage to purchase a new primary residence. If a senior wants to downsize, upgrade, move closer to the family, move to a warmer climate, need single story home or just make a change, a reverse mortgage for purchase can help make that happen. The senior does not need to currently own a home to make this happen.

From a dollar standpoint there are two pieces to the purchase transaction: (1) the amount of money available through the reverse mortgage and (2) the remaining dollar investment the homeowner brings to purchase the home. You are required to make a monetary investment with your own funds (most often from the sale of an existing residence) and the HECM (FHA Home Equity Conversion Mortgage) is used for the remainder of the purchase.

This could enable you to make your move without having to tap into your savings and potentially have extra cash when the purchase is complete.

Since you are not making monthly mortgage payments, interest accrues monthly based on the current amount borrowed. HECM borrowers can choose an adjustable interest rate or a fixed rate. Interest is due at the point in time when the loan is repaid. The amount of money you can receive from a reverse mortgage is determined by your home value, the number and age of the homeowner(s) and the current interest rate.

Borrowers must continue to pay homeowner's insurance and property taxes during the loan period and keep up with repairs. Repayment typically is not required until the end of the loan which occurs when the borrowers pass way, the home is sold or the borrowers move out.

When the loan must be repaid, you or your heirs can either pay the balance due on the reverse mortgage or sell the home and use the proceeds to pay off the reverse mortgage. Remaining equity belongs to the borrower or the borrower's estate and not the bank. Down the road, if you wanted to leave your house to your children and they wished to live in it, they would have to repay the reverse mortgage with either cash or through refinancing with another mortgage.

This is an FHA-insured loan; it is a non-recourse loan; senior retains title; has just one set of closing costs at purchase and potentially allows the senior to have additional savings and/or cash flow for retirement needs.

Vivian Dye can be reached at Altantic Residential Mortgage 203-227-7100,**vdye@atlanticresidential.net**

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