

Could reverse mortgage solve financial trouble?

By Ilyce Glink
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Tribune Content Agency

Q: In a recent column, you provided advice to the relative of an underemployed person who owned a home free of mortgage but was in financial distress with inconsistent cash flow and was falling in arrears with their property taxes.

Wouldn't a reverse mortgage work here, providing a consistent cash flow? What would be any possible downsides? Is there a minimum age requirement for reverse mortgages (since we don't know the person's age but who is probably a senior citizen because the mortgage is paid off)?

A: Thank you for your comment. We aren't huge fans of reverse mortgages, though they can be useful in some circumstances. Let's walk through the issue and see if a

reverse mortgage might work here.

If we assume the person seeking a reverse mortgage was 62 years old (the minimum age to get a reverse mortgage), and owned the home outright (or had a very small mortgage), that person might qualify for a reverse mortgage. But we're not sure that taking money from the equity in the home to pay for her housing expenses would solve our reader's problems, and that is often the best use for a reverse mortgage. For that reason, we suggested that our reader consider selling the home.

While you are correct that our reader didn't have a mortgage on the home, our reader appears to have accumulated some debt over time due to her inability to pay her living expenses. So, the question is: Would it be worthwhile to get

a reverse mortgage and use the proceeds to pay off her debt issues?

Since we don't have exact numbers, let's walk through a hypothetical situation. If we assume the home was worth around \$100,000 and she had about \$10,000 in debt to pay off, she might get about 50 percent of the home's value through a reverse mortgage. She also might have paid \$5,000 or more in fees to get that reverse mortgage (though this is generally built into the loan). With this scenario, she would take out \$50,000 and use \$10,000 to pay off her debt, leaving her with \$40,000 in cash.

We were also told that she had accumulated the \$10,000 in debt over the prior few years, so our reader with the reverse mortgage could expect to run out of money at the rate of her expenses within the next 10

or so years. That might have kept her in the home, but at the end of the 10 years she would have blown through half her equity in the home (assuming that the home appreciated a bit, but there's interest tacked onto the reverse mortgage) and she would be around 75 years of age.

We thought it might be better for her to evaluate her living situation and make a decision to sell based on her current income and expenses. What happens if she lives to be 95? If she eats up half her equity but only gets 10 years out of it, what will happen after that? And, she'll still have home maintenance expenses, property taxes and insurance premiums to pay.

Instead, imagine she sells the home and downsizes to something that's more affordable based on her project retirement

income. She could invest the \$100,000 she gets from the home and use it for some extras or for an emergency fund.

Given that the home seemed to be her largest expense, we thought it would be better for her to look at alternative living situations with the hope that she might find something to her liking but at a much lower monthly cost. At the same time, she'd have any money she had from the sale of the home in the bank. *Ilyce Glink is the creator of an 18-part webinar+ebook series called "The Intentional Investor: How to be wildly successful in real estate," as well as the author of many books on real estate. She also hosts the "Real Estate Minute," on her YouTube channel. Samuel J. Tamkin is a Chicago-based real estate attorney. Contact Ilyce and Sam through her website, ThinkGlink.com*

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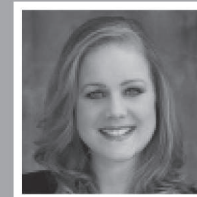
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