What is reverse mortgage?

Since your home is probably your largest single investment, it's smart to know more about reverse mortgages, and decide if one is right for you!
Reverse mortgages represent a small fraction of the mortgage market. But they're growing fast because of a tantalizing advantage: They let seniors with small nest eggs tap equity in their homes for cash, without having to repay the loans as long as they stay in the homes. As the oldest baby boomers turn 62 this year, they're likely to face high-pressure pitches for reverse mortgages.
Reverse mortgages are designed to enable elderly homeowners to unlock illiquid wealth tied up in their housing equity to generate income. The elderly borrow against the value of their homes. However, no repayments are made until the house is sold or the elderly borrower dies. The findings from this paper indicate that the scope for reverse bad credit mortgage to improve economic well-being is considerable in Australia. Elderly homeowners who are likely to receive the largest gains from reverse mortgages are very elderly, single, female and have significant housing equity. However, in areas with slow house price appreciation rates elderly homeowners who enter into reverse mortgages face the risk of being left with little housing equity to draw on when needed or to bequeath to their beneficiaries when they pass away.
The three basic types of reverse bad credit mortgages are:

1. single-purpose reverse mortgages, which are offered by some state and local government agencies and nonprofit organizations;
2. federally-insured reverse mortgages, which are known as Home Equity Conversion Mortgages (HECMs),
3. And proprietary reverse mortgages, which are private loans that are backed by the companies that develop them.

The equity built up over years of home mortgage payments can be paid to you. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence. HUD's reverse mortgage provides these benefits, and it is federally-insured as well.
You can get reverse mortgage paid in the following forms:
as an immediate cash advance at closing, that is, a lump sum of cash paid to you on the first day of the loan
a credit line account that lets you take cash advances whenever you choose during the life of the loan - until you use it all up
OR as a monthly cash advance for a specific number of years that you select,
OR for as long as you live in your home,
OR - if you use the loan to buy an annuity - for the rest of your life, no matter where you live
OR as any combination of immediate cash advance,
credit line account, and monthly cash advance
However, be careful in some questions, for example, it's almost always a bad idea to use the loan from a reverse mortgage to buy other financial products. Be especially wary of anyone who encourages you to take out such a costly loan in order to fund an investment such as an annuity. Predators seeking rich commissions from sales of annuities and other complicated products sometimes promote reverse mortgages as a way to get at their victims' cash.

About the Author

Peter Nay is an independent scientist and economist, researching bad credit mortgage system in UK and USA.