How much do you understand about reverse mortgages?

According to a recent survey of 1,003 people aged 55-75 who were asked the following 10 true/false questions, most people know less than they think they do about reverse mortgages. How many of these statements do you have misconceptions about?

TRUE — The earliest age at which a person who is the sole owner of a home can enter into a reverse mortgage is age 62.

FALSE — If the value of your home has grown since you bought it, entering into a reverse mortgage would result in a taxable gain to the homeowner.

TRUE — Under a reverse mortgage the homeowner generally is not required to repay the loan until he/she stops using the home as the principal residence.

FALSE — You cannot enter into a reverse mortgage unless your home is completely paid off and there is no outstanding mortgage balance.

FALSE — One downside with a reverse mortgage is that if the home goes under water (the home is worth less than the amount owed to the lender), the homeowner, estate, or heirs need to pay off the additional debt.

FALSE — The only currently available form of payment from a reverse mortgage is a single lump sum distribution.

TRUE — The amount of money that you can borrow as a reverse mortgage depends on the age of the youngest borrower or eligible non-borrowing spouse, the current interest rate, and the value of the home.

FALSE — A reverse mortgage is different from a traditional mortgage in that the homeowner is not responsible for any property taxes or insurance payments.

TRUE — Generally using a reverse mortgage early in retirement to support a retirement plan is better than as a last resort towards the end of retirement.

FALSE — Because of concerns about poor money management and financial elder abuse, the Government has restricted the use of reverse mortgage proceeds to health care expenditures, long-term care costs, home improvements, and tax payments.

Out of the 1,003 respondents

10% of respondents scored a 0 correct

70% of respondents failed the Knowledge Quiz

30% of respondents were able to get a 70% or higher on the quiz

According to Jamie Hopkins, professor of taxation at The American College, and one of the survey's lead researchers...

The benefits of a reverse mortgage are that it:

- Can diversify your home equity
- Can build in a non-market correlated source of funding in retirement
- Can be used to improve cash flow by turning off payments to a traditional mortgage
- Can be used for tax efficiency purposes during retirement*

*consult a tax advisor to find out more information about all of the tax implications of a reverse mortgage

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