**5 Things to Know about Reverse Mortgages**

A reverse mortgage is a type of loan that allows you to cash out the equity in your home. Many seniors turn to them to enhance their spending money in retirement, but they may not be right for everyone. The \_\_\_\_\_\_\_ Society of CPAs highlights some of the facts you should know before you decide to take out a reverse mortgage.

**Who Is Eligible?**

To qualify, you must be 62 or older and the home you are mortgaging must be your primary residence. If there is an outstanding traditional mortgage on your home, you’ll have to use some of your reverse mortgage proceeds to pay it off. As a result, if you have a very large outstanding traditional mortgage, you may not qualify for a reverse mortgage or you may decide another option is better for you. The amount you receive in a reverse mortgage will depend on the value of your home, any limits set by the government or the lender, and your age, among other considerations.

**How Does It Work?**

Payments can be taken in a lump sum, monthly installments, or through a line of credit. The owner remains responsible for property taxes, homeowner’s insurance and maintenance. Most reverse mortgage loans must be paid off completely when the last surviving borrower dies or no longer lives in the home. At that time, the house may need to be sold in order to repay the loan. If the home sells for more than the reverse mortgage balance, the borrower or his or her heirs will receive the difference.

**Are the Payments Taxable?**

No, you won’t owe taxes on money you receive from a reverse mortgage. However, you will not be able to deduct the interest on a reverse mortgage until you actually pay it, which is usually when the loan is fully paid off. In addition, you will generally not be able to deduct interest on more than $100,000 of reverse mortgage debt.

**Could It Affect My Government Assistance?**

Since the money you receive from a reverse mortgage is not considered taxable income, it will usually have no impact on your Social Security or Medicare benefits. It could limit your eligibility for Medicaid, Supplemental Security Income or food stamps, however, since any reverse mortgage proceeds that aren’t used immediately will be counted as assets.

**When Is a Reverse Mortgage a Bad Idea?**

Your local CPA can offer personalized advice on this question, since the best answer may vary based on each individual situation. In general, though, you probably should not get a reverse mortgage unless you are planning to stay in your current home for more than just a few years, otherwise it may not be worthwhile given the high upfront costs. If you want to leave your home to your heirs, a reverse mortgage can jeopardize your ability to do that unless they are able to pay off the loan when you die. Remember, too, that when you take out a reverse mortgage and later sell your home, some or all of the home equity you’ve built will no longer be available for nursing services, medical care, or other things you might need. In addition, a reverse mortgage may be a good solution for supplementing income required for necessities, but not for splurges on luxury items.

**Turn to Your CPA**

If you’re not sure if a reverse mortgage is right for you, there are many other ways to enhance your income in retirement, including downsizing to a smaller home or taking out a home equity line of credit to cover occasional expenses. Your local CPA can help. Turn to him or her with all your financial questions or visit [360finlit.org](http://www.360financialliteracy.org/) for more information.