

# Kiplinger

Timely, Trusted Personal Finance Advice and Business Forecasts

 [License or reprint this article](#)

## Buy a Home With a Reverse Mortgage

A reverse mortgage for purchase may help some seniors finance a new place to live.

By Rachel L. Sheedy, From *Kiplinger's Retirement Report*, January 2013

[Follow @KiplingerRetire](#)

### Tax-Friendliest States for Retirees



Most seniors take out a reverse mortgage to help them stay in their existing home as they get older. But Myra Simmons, 67, took advantage of a little-known product: She used a reverse mortgage to finance a new home.

**See Also:** [Retiree Tax Map](#)

Myra's 83-year-old husband, Billy, was having trouble using the stairs in their two-story townhome in Fort Myers, Fla. The couple sold their home and used a "reverse mortgage for purchase" to move into a one-story house nearby last summer. "Now I take what would have been my mortgage payment and put it in savings," says Myra, who works for the local county sheriff's office.

The Home Equity Conversion Mortgage (HECM) for Purchase was created by Congress four years ago to streamline home-buying transactions and cut costs, says Peter Bell, president of the National Reverse Mortgage Lenders Association. Before, seniors would buy a new home, incurring closing costs, and then take out a reverse mortgage on the new home, triggering new closing costs. The HECM for Purchase rolls this into one transaction and one set of closing costs.

But the loan has had a slow take-up rate, Bell says. "It's a concept people don't fully understand," he says.

### Advertisement

As with a traditional HECM, a homeowner must be 62 or older to qualify for the federally insured HECM for Purchase. You don't make payments while you live in the house, but the loan and interest come due when you sell, move out for 12 months or more, or die.

Borrowers generally get a fixed-rate, lump sum loan, which goes toward the house purchase. The balance starts accruing interest immediately. You can leave some reverse mortgage proceeds in a line of credit for future use by taking an adjustable-rate loan, and you will pay interest only on the proceeds you use.

Unlike a conventional HECM, the HECM for Purchase requires a down payment. When you take out a conventional reverse mortgage, the loan proceeds are based on the equity in your home. With the new product, you start out with no equity because you don't own the new house yet.

For there to be equity to cover the accrued interest, the HECM for Purchase requires that you pay about half the home's sales price with your own cash. The reverse mortgage picks up the difference.

"Essentially, the money you're putting in is your equity," says Ted George, a certified financial planner in Scotts Valley, Cal.

To pay your half, you can use money from savings, the sale of your other house, or a gift from a family member. But the money cannot be borrowed.

## Age Makes a Difference

Like any reverse mortgage, the older you are, the more money you can get from the loan and the less you must bring to the closing table. For instance, a 62-year-old who buys a \$400,000 home with a reverse mortgage for purchase must make a down payment of \$159,450, according to a recent quote using All Reverse Mortgage Company's [calculator](#). He can get a loan for \$250,000 at a fixed rate of 3.99%, and the proceeds will cover \$9,450 in fees and \$240,550 of the purchase price.

If instead the homeowner is 82, the down payment drops to \$115,450. The loan proceeds, which cover fees and the rest of the home price, rise to \$294,000.

Be careful, though. While you don't have to make monthly payments, the interest can eventually devour the money you put down. "If you live there long enough, the equity could disappear," says Anthony Webb, a research economist at the Center for Retirement Research at Boston College. This could be an issue for seniors who want to leave the house to heirs or later need the equity to pay for long-term care.

You must still pay insurance, maintenance and taxes on the home—or the lender can foreclose. Keep that in mind if you trade up to a house that has more expensive upkeep than your current home. And snowbirds, take note: You can only get a reverse mortgage for a home that will be your primary residence.

**Haven't yet filed for Social Security? Create a personalized strategy to maximize your lifetime income from Social Security. Order [Kiplinger's Social Security Solutions](#) today.**

### Editor's Picks From Kiplinger

- [Reverse Mortgages: Risky for Boomers?](#)
- [What Retirees Need to Know About 3 High-Cost Financial Products](#)
- [New Reverse Mortgage Hits the Market](#)
- [Tap Home Equity When Markets Drop](#)

Subscribe  
and get  
**12 ISSUES  
FOR \$12!**

