



Good Evening!

I hope this email finds you doing well. For this newsletter, I'd like to discuss reverse mortgages and the potential pitfalls to taking out a reverse mortgage.

Have you seen those TV ads featuring famous actors praising the benefits of the reverse mortgage? So what is a reverse mortgage? It is a mortgage you can take out against your home if your home has equity and you are at least 62 years of age. You basically cash out on the equity in your home, so you have additional funds available in the latter part of your life.

Let me give you an example. Let's say there is a 63 year old woman named Susan. She has owned her home for many years and has finally paid off her mortgage. Her home is currently valued at \$250,000.00. Susan may be able to take out a reverse mortgage of up to 80% of the value of her home. In this case, Susan may be eligible to pull about \$200,000.00 in cash with a reverse mortgage.

How about payments? Susan would not have to make any payments as long as she continued to live in the home. The money doesn't have to be paid back until Susan moved out or passed away.

Here are at least a few of the potential pitfalls Susan could face with her reverse mortgage:

1. *She could fall behind on her property taxes, property insurance, or HOA/condo dues.* Most reverse mortgages require the homeowner to keep the property taxes, property insurance, and homeowner's association ("HOA") fees current. If the homeowner falls behind on any of this, the bank can foreclose on the property.
2. *She could spend some time away from the property, risking foreclosure.* If the bank believes that the property is vacant, the bank may foreclose on the property because vacant properties can decline in value. Let's say Susan gets really sick and has to spend some time in a rehabilitation center, the bank could be under the impression that the property is vacant, even though Susan plans to return. For this reason, it



is very important to always promptly respond to any requests from the bank as to whether the property is vacant or occupied.

3. *She could leave a stressful burden for a surviving spouse.* If Susan was married and her spouse also signed the reverse mortgage documents and Susan passed away first, the bank would most likely not be permitted to foreclose until the surviving spouse stopped living in the property or passed away. If, however, Susan had a partner that she was not married to or a spouse that she married after she had already taken out the reverse mortgage, the surviving spouse could be foreclosed on if Susan died first.

4. *Susan's heirs might inherit a headache instead of an asset.* Let's say Susan was single but wanted to leave her home to her family. Susan's heirs would inherit the home, but with an unpaid reverse mortgage attached to it. Once Susan passed, the bank would declare the full amount of the mortgage to be due. If the heirs wanted to keep the home, the loan must be paid with another source of funds. Susan's heirs would never be required to pay more than the full loan balance or 95% of the home's appraised value, whichever is less.

The heirs could also sell the home. If the home sells for less than is owed on the loan, the heirs cannot be held liable for the difference. With reverse mortgages, usually Federal Housing Administration ("FHA") insurance will cover the difference.

Main takeaway: Do not ever sign for a reverse mortgage without first consulting with a competent attorney. If you have an estate plan in place, you would certainly want to consult with your estate attorney as well about how the reverse mortgage would impact your goals for your estate plan.

I hope this newsletter will be helpful to you and your family.

Have a great evening!

Best Wishes,

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