

Reverse Mortgages -- Fixed Rate or Adjustable Rate?

By Steven Moline

Reverse Mortgages are available in fixed interest rate and adjustable interest rate loans. How should a senior decide which is best for them? To get to the answer we'll need to understand how a Reverse Mortgage works, but let's start with a quick review of traditional 'forward' mortgages.

When you purchased your home you most likely took out a mortgage which resulted in you making payments to the bank every month until the loan was paid in full. These are called amortized loans. The monthly payment covers the interest and principal over a specific number of years. If you had a fixed interest rate the monthly payments remained the same. If you had a (monthly) adjustable interest rate the payments could go up or down each month.

If you and your neighbor bought identical homes and borrowed the same amount of money, but they got an adjustable rate and you got a fixed rate your neighbor likely paid less over the life of the loan. Now I don't want to loose you in technical jargon, so just think for a minute how an adjustable rate loan is better for the bank and cost effective for the borrower. With an adjustable rate loan when prevailing rates go down the bank can lower the rate (and payment) on your loan and still make money. When prevailing rates go up they raise your rate (and payment) and of course they still make money. With a fixed rate loan the bank charges a higher rate from the very start to hedge their bets against rising interest rates. You pay the higher rate for the entire loan in exchange for the security of a fixed monthly mortgage payment. Our justifiable fear of adjustable rate loans was that rates would soar and the monthly payments would become unaffordable.

With a Reverse Mortgage there are no monthly mortgage payments ever. So if our fear of the adjustable interest rate loan is that our payment will go up, that fear is unfounded with a Reverse Mortgage. If we are concerned about reducing the cost of a Reverse Mortgage then likewise the adjustable rate Reverse Mortgage also provides the best solution because we benefit by having the lowest possible rate each and every month.

There are two more important aspects to the fixed rate Reverse Mortgage we need to understand. One, because the Reverse Mortgage benefit calculation takes the interest rate into account, the higher (fixed) rate loan pays the senior less money. The lower rate on the adjustable loan would pay a larger benefit to the senior. Two, fixed rate Reverse Mortgages require the borrower to take 100% of the available benefit on day one, whereas the adjustable rate Reverse Mortgages allow the borrower to choose to receive monthly payments, have a line of credit or receive a lump sum.

The adjustable rate Reverse Mortgage costs less gives a larger benefit and has more flexibility over the comparable fixed rate loan. Therefore most seniors select the adjustable rate loan.

Steven Moline is a Reverse Mortgage Consultant with First Priority Financial serving all of California. For more information, to ask questions or to receive a complimentary brochure contact him toll free at 866-885-5573 or on the web at

http://www.RoyalReverseMortgage.com/Contact_Steve.htm