



Making Use of Your Home Equity for Retirement

You have probably heard that a home purchase is one of the biggest investments you will make in your life. At no time may that fact be more apparent than when you retire or are nearing retirement. If your other savings plans fall short, the home equity you have built up might be a great way to boost your retirement funds. You can take advantage of this valuable equity in several ways.

Reverse Mortgage

If you definitely want to stay in your current home through your retirement years, you should really consider getting a reverse mortgage. With this type of loan you basically turn the tables on your mortgage payments. Instead of paying the bank for your home, the bank starts paying you. Typically you must already own your home to participate. If you qualify, the lender will either make period payments to you or a lump sum at the beginning. The rules allow you to stay in your home as long as you want, but when you do vacate the property (either due to relocation or because of death), the reverse mortgage loan becomes due. If you want your posterity to keep the house, they must come up with the funds to repay the loan. Otherwise the lender takes possession of the home and sells it to cover the cost of the mortgage. This is the more popular option.

Currently there are limits on the amount of money you can receive from a reverse mortgage. If you live in a state where real estate values are much higher than the limit, you may better use your home equity by selling and downsizing.

Sell and Buy Cheaper

In many parts of the country, you can get the best return on your investment by selling your home, buying a cheaper home, and depositing the extra equity into a savings account or retirement fund. If your left-over equity is enough, you can use it for both your retirement living expenses and the upkeep of your new smaller home. This plan allows you to leave something for your heirs in the form of the house, unlike the reverse mortgage program.

Sell and Rent

You could also sell your home and use the equity profits to rent a new home. This is really only profitable if rent prices where you live are relatively low. In this scenario, you do not have a home to leave to your posterity, but neither do you have the costs and maintenance duties associated with home-owning.

HELOC

You could also stay in your current home and take out a home equity line of credit (HELOC.) This would allow you to pull money out of your equity account, perhaps even up to 80% of your home's value. You could draw on this money like you would a checking account. Unlike a reverse mortgage however, typically you will have to start repaying this loan while you are still living in the home. In this case you do have a home to leave to your heirs but they may have to finish paying off the HELOC loan if they want to hold on to it.



The decision you make will obviously depend on how much, if anything, you are determined to leave to your heirs and how desperate you are for retirement funds. No matter what your choice, your hard-earned home equity can be a life-saver as you come to the end of your working years.