

Family Reverse Mortgage

By [Gina L. Gwozdz, CPA](#)

Originally Published: September 27, 2006



Sam, informed me that his 78 year old father is very ill and is not likely to live more than a few more years. His father's current income is not sufficient to cover his normal living expenses and his additional out-of-pocket medical bills including his medications. Sam's father has considered various options and has decided he wants to take out a reverse mortgage. Knowing Sam's financial condition I convinced Sam to consider funding his father's reverse mortgage himself, eliminating the middleman and having the ability to maintain his father's home in their family, which he could later use as a rental to supplement his own income.

Sam and his father entered into an agreement whereby Sam will pay his father \$750 per month for the next 5 years. This should provide Sam's father with more than enough additional income to pay his bills while continuing to live in his own home.

The agreement is structured as a reverse mortgage and as such Sam has taken a security interest in his father's residence. The residence was appraised at \$60,000. Interest will accumulate monthly at the applicable federal rate (AFR) and is added to the principal balance. Sam's father will owe the entire balance, including interest, at the end of the 5 year term.

Assuming Sam's father continues to use the home as his principal residence for the entire five year period, Sam's father would not be able to deduct the interest until it is actually paid at the end of the five year period, but he doesn't have enough itemized deductions to exceed his standard deduction, so this is not an issue for him. On the other side, Sam would not have to report any interest income until he receives the payment at the end of the five year term.

Reverse mortgages are extremely complex and should not be entered into lightly. A good explanation of reverse mortgages can be found at the [AARP website](#). Just because it works for one family does not mean this situation would work for yours. Please consult a qualified professional before pursuing such a strategy.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.