

MORTGAGE LIBRARY • LOAN GUIDE 04

Reverse Mortgages

How older homeowners can turn home equity into a planned part of retirement — and stay in the home they love.

A reverse mortgage lets homeowners who meet the program's minimum age convert part of their home equity into cash — without a required monthly mortgage payment — while they continue to own and live in the home. Used thoughtfully, it can help fund in-home care, cover everyday expenses, pay off an existing mortgage, or serve as a financial safety net.

It's also one of the most misunderstood financial tools out there. This guide explains how it really works, what you're still responsible for, what happens for your spouse and your family, and when it may not be the right fit.

At a Glance

WHO IT'S FOR

Older homeowners who want to stay in their home and use their equity as part of a retirement plan.

WHAT YOU KEEP

Ownership of your home. You stay on title and keep living there.

WHAT YOU STILL PAY

Property taxes, homeowners insurance, HOA dues if any, and normal home upkeep.

REQUIRED FIRST STEP

Independent counseling with a HUD-approved counselor before you apply.

How a Reverse Mortgage Works

The most common reverse mortgage is the Home Equity Conversion Mortgage (HECM), which is insured by the Federal Housing Administration. Instead of you paying the lender each month, the loan balance grows over time as interest and fees are added. The loan becomes due when the last borrower sells the home, passes away, or no longer lives there as their primary residence.

How much you can receive depends on factors like the age of the youngest borrower or eligible spouse, your home's value, current interest rates, and program limits. Any existing mortgage is paid off first from the proceeds. For higher-value homes, private (proprietary) reverse mortgages may also be available.

Ways to Receive the Money

Line of credit

Draw funds as you need them. With a HECM, the unused portion of the line has a growth feature, so available credit can increase over time.

Monthly payments

Steady payments for as long as you live in the home, or for a set number of years you choose.

Lump sum

A single payment at closing. Often used to pay off an existing mortgage or a large expense.

A combination

Mix the options above — for example, monthly payments plus a line of credit for emergencies.

Your Questions, Answered

Do I still own my home?

Yes. You keep the title and continue to live in your home. The lender does not take ownership. You're responsible for keeping up with property taxes, homeowners insurance, and maintenance, just as you are today.

What happens for my spouse?

If both spouses are borrowers, the surviving spouse can stay in the home. If a spouse isn't on the loan, there are specific protections that may allow them to remain, provided requirements are met and documented at closing. This is important to set up correctly from the start.

What happens for my children or heirs?

When the loan comes due, your heirs can keep the home by paying off the loan, or sell it and keep any remaining equity. With a HECM, they will never owe more than the home is worth — it's a non-recourse loan. They are not personally liable for any shortfall.

Will it affect Social Security or Medicare?

Loan proceeds are generally not considered income, so they usually don't affect Social Security or Medicare. Need-based benefits like Medicaid or SSI can be affected by money you hold onto, so talk with a benefits specialist or elder law attorney before you draw funds.

What does it cost?

There are upfront costs such as an origination fee, mortgage insurance, and standard closing costs, plus ongoing mortgage insurance and interest added to the balance. Many costs can be paid from the loan proceeds. I'll walk you through every line before you decide.

Can I lose my home?

The loan can become due if you don't pay property taxes or insurance, don't maintain the home, or move out for a long period. Lenders review your finances up front, and may set aside part of the proceeds to help cover taxes and insurance.

What to Expect, Step by Step

- 1 A family conversation.** We talk through your goals, and anyone you'd like included is welcome — adult children, your attorney, or your financial planner.
- 2 Independent counseling.** You meet with a HUD-approved counselor, who explains the program and alternatives. You'll receive a certificate to bring to your application.
- 3 Application and financial review.** We complete the application, and the lender reviews your income and credit to confirm you can keep up with taxes and insurance.
- 4 Appraisal and underwriting.** The home's value is confirmed, and the file is reviewed. I'll explain anything the underwriter asks for.
- 5 Closing and funding.** You sign your documents. You have a right to cancel within a short period after closing, and funds become available afterward.

Mike's Straight Talk

It's a planning tool, not just a last resort. Set up early and on purpose, a reverse mortgage can protect your savings and give you options. It works best as part of a bigger plan.

Bring your family in. I encourage you to include your children or trusted advisors. Clear conversations now prevent confusion later.

Moving soon? It may not fit. Because of upfront costs, a reverse mortgage usually makes the most sense if you plan to stay in your home for the long term.

Never feel rushed. No legitimate professional will pressure you. Take your time, ask every question, and use your counseling session.

Documents You'll Likely Need

- ☐ Photo ID and proof of age for all borrowers
- ☐ Your counseling certificate
- ☐ Your most recent mortgage statement, if you have a mortgage
- ☐ Homeowners insurance and property tax information
- ☐ Income documents such as Social Security or pension statements
- ☐ Trust or power of attorney documents, if they apply

Your list may differ. See the full *What Documents Will I Need?* checklist in the Mortgage Library.

Have a question? Ask me directly.

Asking a question isn't applying for a loan. You'll get a straight answer from a real person.

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