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Reverse Mortgage Booklet

How HECMs work, eligibility, and what homeowners 62+ should know.

In this guide you'll learn:

- Reverse Mortgages in Plain English
- The Three Types of Reverse Mortgages
- How a HECM Actually Works
- HECM Eligibility Requirements
- Mandatory HUD-Approved Housing Counseling
- The Financial Assessment and Life Expectancy Set-Asides (LESA)

Reverse Mortgages (HECM), Explained: How They Work, Costs, and Trade-offs

Reverse mortgages, made plain: understand every dollar before you decide. A reverse mortgage lets homeowners age 62 and older convert part of their home equity into cash without a monthly mortgage payment -- but it is a specialized tool with real costs and trade-offs. This guide explains how the FHA-insured HECM works, what it costs, who qualifies, what happens to your heirs, the alternatives, and the warning signs of a scam -- cited to HUD, the FHA, and the CFPB.

Reverse Mortgages in Plain English

A reverse mortgage is a home loan that lets older homeowners turn part of the equity in their home into cash without selling the home or taking on a monthly mortgage payment. The most common version -- and the focus of this guide -- is the Home Equity Conversion Mortgage (HECM), a reverse mortgage insured by the Federal Housing Administration (FHA) and available only to homeowners age 62 and older. (Consumer Financial Protection Bureau)

It is called a reverse mortgage because it inverts the direction of an ordinary "forward" mortgage. With a traditional mortgage, you send the lender a payment every month, your balance shrinks, and your equity grows. With a reverse mortgage, the lender can pay you, no monthly mortgage payment is required, and the loan balance rises over time because interest and fees are added to it each month. (CFPB)

A quick word on who we are: MortEdu is an educational publisher -- not a lender, broker, or loan servicer. This guide explains how reverse mortgages work in neutral terms, cites government and industry sources you can check yourself, and points you to free, unbiased help. We never sell or share your information with lenders or any third party.

Reverse mortgages sit atop an enormous pool of housing wealth: American homeowners age 62 and older hold record levels of home equity. Even so, the product remains a niche one -- the number of new federally insured reverse mortgages endorsed each year is only a small fraction of the traditional mortgage market and runs far below its pre-2009 peak. That gap is a reminder that a reverse mortgage is a specialized tool, not a mainstream one (U.S. Department of Housing and Urban Development).

The Three Types of Reverse Mortgages

Not every reverse mortgage is a HECM. There are three broad categories, and they differ sharply in cost, flexibility, and consumer protections.

- Single-purpose reverse mortgages are offered by some state and local government agencies and nonprofits. They are usually the least expensive option, but the money can only be used for one lender-approved purpose -- often home repairs or property taxes -- and they are not available everywhere.

- Proprietary (or "jumbo") reverse mortgages are private loans that are not government-insured. Because they are not bound by the FHA lending limit, they are sometimes used by owners of higher-value homes who want to access more equity than a HECM allows.

- HECMs are federally insured by the FHA, are the most widely used, and come with standardized rules -- including mandatory counseling and non-recourse protection -- that the other two types may not offer.

Because the HECM is by far the most common and the most heavily regulated, the rest of this guide focuses on how it works.

How a HECM Actually Works

Short answer: a HECM lets you draw on your home equity, charges interest and fees that are added to your balance each month, and does not have to be repaid until a "maturity event" -- typically when the last borrower dies, sells the home, or permanently moves out.

Here is the mechanical picture. At closing, any existing mortgage on the home must be paid off (often using the reverse-mortgage proceeds themselves), so a HECM usually leaves you with no monthly mortgage payment. From there, you receive money in one of several ways described later in this guide. Each month, the lender adds interest and ongoing mortgage-insurance and servicing charges to what you owe. Because nothing is being paid down, the balance climbs and your remaining equity generally shrinks over time. (CFPB)

Crucially, "no monthly mortgage payment" does not mean "no obligations." You must keep paying property taxes and homeowners insurance, keep the home as your principal residence, and keep it in good condition. (CFPB) Falling behind on those responsibilities is the main way a reverse-mortgage borrower can lose the home -- a point we return to below.