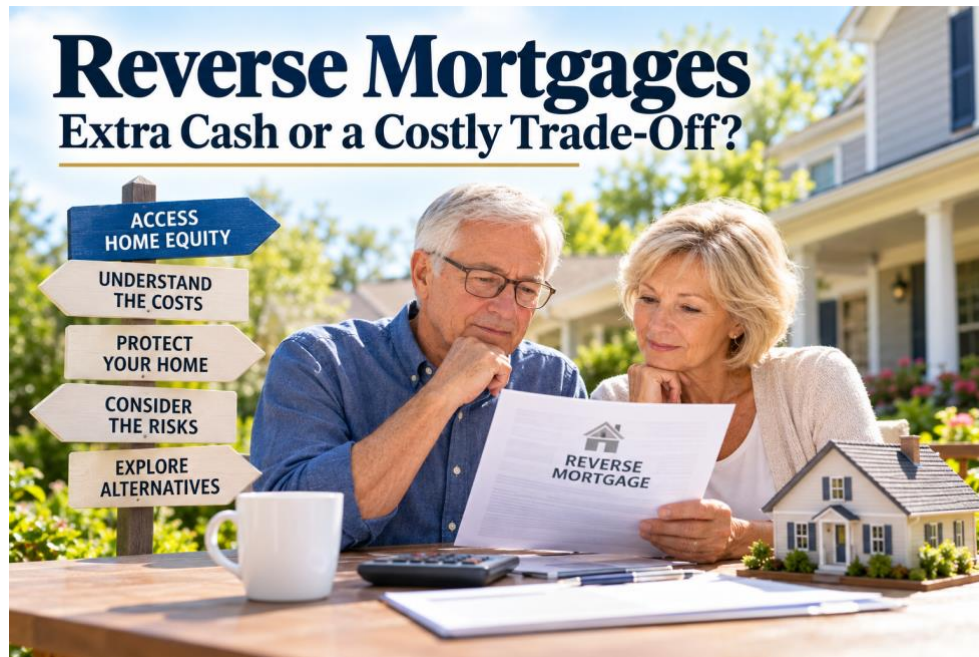




Reverse Mortgages: Extra Cash or a Costly Trade-Off?

If you are “house-rich” but “cash poor,” a reverse mortgage can provide access to some of the equity you have accumulated in your home. For some retirees, that money can supplement Social Security, pay off an existing mortgage, cover home improvements, or simply provide a financial cushion.

A reverse mortgage, however, is still a loan. Interest and other charges accumulate rather than being paid down every month, so the balance generally grows over time while your home equity shrinks. Before signing up, it is important to understand both what a reverse mortgage can provide and what it can eventually cost.

How a Reverse Mortgage Works

The most common reverse mortgage is the **Home Equity Conversion Mortgage, or HECM**, which is insured by the Federal Housing Administration. HECMs are generally available to homeowners age 62 or older who meet HUD requirements. The home must be the borrower’s principal residence, and the borrower must own it outright or have enough equity to pay off an existing mortgage when the HECM closes.

Unlike a conventional mortgage, you normally do not make monthly payments toward the principal. Instead, you receive money from the lender, and interest and fees are added to the balance. You keep title to the home. The loan generally becomes due when the last borrower dies, sells the house, or no longer uses it as a principal residence.

How Much Can You Borrow?

The amount available through an HECM depends primarily on the age of the youngest borrower or eligible non-borrowing spouse, the home's value, prevailing interest rates, and FHA limits. Generally, older borrowers, lower interest rates, and more valuable homes result in a higher available principal limit.

For **2026**, the FHA maximum claim amount for an HECM is **\$1,249,125**, up considerably from the \$726,525 limit cited in the earlier version of this article. That does not mean every borrower can receive \$1.25 million. It is the maximum home value FHA will use when calculating an HECM for 2026.

Ways to Receive the Money

Depending on the type of HECM chosen, borrowers may be able to receive proceeds through a line of credit, monthly advances, a lump sum, or a combination of payment methods.

An adjustable-rate HECM can offer more flexibility in how proceeds are received. A fixed-rate HECM generally provides its available proceeds as a lump sum at closing. The amount that can be taken during the first year may also be restricted under FHA rules.

One attraction of a reverse-mortgage line of credit is that unused borrowing capacity may increase over time. That does not mean the home itself is earning money; it is simply part of the way the available HECM credit is calculated.

FHA Insurance Provides Important Protection

An FHA-insured HECM is a **non-recourse loan**. If the amount owed eventually exceeds the home's value, neither the borrower nor the estate is normally required to make up the difference beyond the value of the property.

FHA mortgage insurance protects both the borrower and lender under the HECM program. If the home is sold for less than the outstanding balance, mortgage insurance can cover the eligible shortfall.

This protection is valuable, but it is not free.

Upfront Costs Can Be Significant

A reverse mortgage has many of the same closing expenses as an ordinary mortgage. These can include an appraisal, title work, recording fees, credit checks, inspections, and other third-party closing costs.

The lender can also charge an origination fee. Under current HECM rules, the fee generally may be the greater of \$2,500 or 2 percent of the first \$200,000 of the maximum claim amount, plus 1 percent of the amount above \$200,000. The total origination fee cannot exceed **\$6,000**.

Borrowers also pay an upfront FHA mortgage-insurance premium. For HECMs originated under the current structure, the initial premium is generally **2 percent of the maximum claim amount**. That premium can usually be financed as part of the loan rather than paid in cash, but financing it means starting with a larger loan balance and less available equity.

The Loan Keeps Getting More Expensive

Closing costs are only the beginning. Interest accrues on the outstanding loan balance, and an annual FHA mortgage-insurance premium equal to **0.5 percent of the outstanding balance** is also added under the current HECM program.

Depending on the loan, servicing charges may apply as well. Because interest and fees are added to the amount already owed, the loan balance compounds over time. The longer the loan remains outstanding and the more money the borrower takes, the larger that balance can become.

That is the central trade-off of a reverse mortgage: **cash today in exchange for some of tomorrow's home equity**.

You Still Have to Pay the Household Bills

A reverse mortgage does not eliminate the ordinary expenses of owning a house. Borrowers must continue paying property taxes, homeowners insurance and, when applicable, flood insurance, homeowners-association assessments, and other property charges.

They also must keep the house in reasonable condition and continue using it as their principal residence. Failure to meet these obligations can cause the loan to become due and can ultimately lead to foreclosure.

Before approving an HECM, lenders conduct a financial assessment to determine whether the borrower appears able to meet those continuing obligations. In some cases, money from the reverse mortgage may have to be set aside to cover future taxes and insurance.

What Happens to the Home?

A reverse mortgage does not transfer ownership of the house to the lender. The borrower remains the owner.

When the last borrower dies or the loan otherwise becomes due, heirs can generally choose to sell the home or keep it. If they sell, the reverse mortgage is repaid from the proceeds, and any remaining equity belongs to the estate.

If the debt exceeds the home's value, heirs can generally satisfy an FHA-insured HECM by selling the property for at least 95 percent of its appraised value. If they want to keep the property, they can generally repay the lesser of the loan balance or 95 percent of the appraised value, depending on the circumstances.

A Spouse May Have Additional Protection

The old advice that anyone not named on the mortgage must automatically leave when the borrower dies is no longer accurate in every case.

A co-borrowing spouse can generally remain in the home after the other borrower dies as long as the loan requirements continue to be met. Certain spouses who are not borrowers may also qualify as **Eligible Non-Borrowing Spouses** and may be permitted to remain in the home under HUD rules. Eligibility depends on factors such as when the loan originated, marital status, residence in the home, and continued compliance with HECM requirements.

Other relatives or occupants who are not borrowers ordinarily do not receive those protections.

Moving to Long-Term Care Can Trigger Repayment

Health problems deserve special consideration before taking out a reverse mortgage. If the borrower moves permanently from the home, the loan may become due.

For HECMs, an absence from the home for more than **12 consecutive months** because the borrower is living in a hospital, nursing facility, rehabilitation center, assisted-living facility, or similar healthcare setting can cause the home to stop qualifying as the borrower's principal residence. Unless a co-borrower or qualifying eligible non-borrowing spouse remains, repayment may then be required.

That makes a reverse mortgage potentially less attractive for someone who expects to leave the home in the near future.

When a Reverse Mortgage Deserves Extra Caution

A reverse mortgage may be worth reconsidering if preserving substantial home equity for heirs is a high priority. The loan does not prevent children from inheriting the house, but they will have to deal with the reverse-mortgage balance when the loan becomes due.

It also deserves extra scrutiny if another family member depends on the home but is neither a co-borrower nor an eligible non-borrowing spouse. That person may eventually have to move unless the loan can be repaid.

Likewise, a reverse mortgage may be a poor fit if you expect to sell the house soon. The substantial upfront costs make more financial sense when spread over a longer period.

Finally, a homeowner already struggling to pay property taxes, insurance, repairs, or association fees should proceed carefully. Receiving reverse-mortgage proceeds does not eliminate those expenses.

Consider the Alternatives

Before tapping home equity through a reverse mortgage, compare it with other ways of improving retirement cash flow.

You might refinance an existing conventional mortgage if doing so would meaningfully reduce the monthly payment. A home-equity loan or home-equity line of credit may provide less expensive access to equity for borrowers who can comfortably make monthly payments.

Selling the home and downsizing can release equity while also reducing property taxes, insurance, utilities, and maintenance expenses. Renting may make sense for someone who wants to eliminate many of the unpredictable costs of home ownership.

Some families also consider private arrangements involving children or other relatives. These might include an intrafamily sale or sale-leaseback, but such arrangements can have significant tax, estate-planning, Medicaid, legal, and family consequences. They should not be treated as a simple do-it-yourself substitute for a reverse mortgage.

Counseling Is Part of the Process

Before obtaining an FHA-insured HECM, prospective borrowers must receive counseling from a HUD-approved housing counselor. That requirement is designed to make sure applicants understand the costs, alternatives, payment options, and long-term consequences before they commit themselves.

That counseling is especially worthwhile because reverse mortgages are more complicated than their basic sales pitch can make them appear.

The Bottom Line

A reverse mortgage can provide valuable cash to a homeowner who has substantial equity and wants to remain in the house. It can eliminate an existing monthly mortgage payment and turn part of a home's value into usable retirement income without requiring an immediate sale.

But the money is borrowed money, not free money. Interest accumulates, fees consume part of the home's value, and the balance generally increases over time.

For the right homeowner, an HECM can be a useful retirement-planning tool. For someone who expects to move soon, wants to preserve as much equity as possible for heirs, or may struggle with continuing property expenses, another approach may make more sense.

The important thing is to understand exactly what you are trading: **some of your future home equity for greater access to cash today.**

This article provides general information and is not individualized financial or legal advice. Reverse-mortgage terms and HUD regulations can change, so prospective borrowers should review current terms with a HUD-approved counselor and qualified financial or legal adviser.