Reverse Mortgage Myths

Myth #1: The lender or government will own the Borrower's home
False: With a HUD Reverse Mortgage (HECM), the Borrower and/or estate continue to retain ownership of the home. The lender does not take control of the title. The lender's interest is limited to the outstanding balance as a lien on title.

Myth #2: The Reverse mortgage requires that the Borrower must make monthly payments.
False: There are no monthly payments required to your lender, however, the borrower is responsible for payment of all property taxes, insurance, assessments, HOA fees (if applicable) and general upkeep of the home.

Myth #3: The Borrower's children, heirs and/or their estate will be held responsible for the repayment.
False: A HUD HECM is a non-recourse loan. This means that the lender can only derive repayment of the loan from the proceeds of the sale of the property. Even if the value of the home is reduced due to economic, market or property perils, the Borrower, nor the estate can never owe more than the value of the home. Although the heirs will not be responsible for repayment, they are able to work with the loan servicer to repay the loan and as an option buy the home for themselves.

Myth #4: : Borrower needs a certain level of income, credit, or health to qualify.
Quasi False: While a HECM currently does not factor credit score, or health into the overall borrower ability and willingness evaluation rules, the Borrower will need to provide income and asset information for program financial assessment purposes, government monitoring and reporting purposes. Also, the Lender will run a credit report prior to loan approval to determine the willingness of the borrower to pay property charges and liabilities as well as the presence of any past due federal debt, which must be brought current at the time of loan closing. Most important, the lender will consider circumstances and situations unique to the Borrower's profile to provide for their best interests and needs going forward.

Myth #5: To qualify, the Borrower's home must be debt free and paid off "Free & Clear."

False: The Borrower may have a mortgage or other debt liens on their home. The mortgage or debt liens, however, must be paid off with the proceeds of the HECM at or prior to closing with an acceptable source of funds. In fact, many borrowers obtain a HECM for this reason…to be mortgage payment (P & I) free!

Myth #6: Reverse Mortgage lenders just want to obtain and sell your house.

False: HECM borrowers may occupy the property as their primary residence for as long as they wish. Should they decide to sell the home, or all borrowers no longer occupy the property as their primary residence, the HECM would then become due and payable.

Myth #7: If a Borrower gets a Reverse Mortgage, they will not be able to leave the house and/or equity to their children.

False: Although it is possible that the HECM will use up all the equity over time, it could take several years for that to happen. "Retained Equity" is a very important concept to grasp, and the Borrower will retain the equity in their property provided it exceeds the balance on the HECM. If the HECM balance is greater than the property value, the Borrower nor their Estate are responsible for the overage since a HECM is a non-recourse loan. The Borrower needs to understand that their property will continue to appreciate while the HECM is negatively amortizing. Plus, the Borrower can choose to pay interest only on the outstanding principal and the monthly Mortgage Insurance to keep the balance from growing. Interest and charges will accrue through the payoff date. Consult your loan amortization disclosure for additional details.

Myth #8: If a Borrower gets a Reverse Mortgage, they cannot sell their home.

False: If the Borrower decides to sell their home, the HECM is like any other loan that must be paid off at closing. There are no prepayment penalties for paying off early through a refinance or selling of the property.

Myth #9: If the lender or servicer changes, the loan terms can change.
False: A HECM is secured by two Mortgages or Deeds of Trust depending on the appropriate security instrument filing in the Subject Property's state. One set is for the Lender, and one set is retained by the Secretary of HUD. Once executed, the terms are defined and cannot be changed by law as long as the mortgages or deeds remain in force.

Myth #10: The Borrower's Social Security, Medicare and/or Medicaid benefits will be affected.
False: The money from a reverse mortgage is considered borrowed money and thus is not taxable income by the IRS. Consult with your tax advisor for your specific situation. The proceeds of the HECM will not affect Social Security or Medicare but could affect Medicaid and/or other need's-based benefits.

Myth #11: The property can only be held individually.
False: The borrower can own the property in a Trust provided it meets HUD guidelines. They can also have the property titled in a Life Estate if the remainder attend counseling.

Myth #12: Everyone on Title to the property must be 62 or older.
False: As long as one borrower is 62 or older, the spouse can be less than 62 if they are classified as a Non-Borrowing Spouse. They must attend counseling, sign all appropriate documentation and the Principal Limit (Benefit) will be based on the youngest age. If they meet the requirements of an eligible Non-Borrowing Spouse when the Borrower passes away, they can continue to occupy the property, but they cannot receive any future benefits such as monthly payments and/or access to the line of credit.

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