

Reverse Mortgages

What happens to my house after a Home Equity Conversion Mortgage (HECM)*?

It depends on the status of the homeowner: whether the homeowner is living or deceased.

Owner Is Alive

Owner decides not to keep the HECM reverse mortgage

Owner sells the home

Owner keeps the home

Owner pays the lender for the reverse mortgage.

Owner pays off the reverse mortgage.

Owner keeps any proceeds from the sale of the home that exceed the reverse mortgage balance.

Owner also can pay down the loan balance but keep the reverse mortgage in place in case it's needed later. The balance required to keep the reverse mortgage open varies by servicing company.

Owner Is Deceased

House has a lot of debt

House has a lot of equity

Non-borrowing spouse lives in the home

Heirs want the house.

Heirs don't want the house.

Heirs want the house.

Heirs don't want the house.

The non-borrowing spouse may remain in the home indefinitely as a permanent residence as long as the property taxes and homeowner's insurance are paid and the house is maintained properly.

They can repay the loan at 95% of HUD appraised value, minus closing costs and Realtor commission.

They can do nothing and allow foreclosure. The heirs aren't responsible for repaying the debt.

They can repay the loan balance. As long as they notify the servicer of their intentions and keep the servicer updated, they have up to one year to repay the loan.

They can sell the house and get the funds to repay the loan balance. They will net the difference between the loan balance and sales price.

Other heirs have no recourse on the home as long as the non-borrowing spouse remains in it.

Note: HECMs may be one type of reverse mortgage.

Source: Jack Guttentag, The Mortgage Professor, http://www.mtgprofessor.com/A-Reverse-Mortgages/What_Happens_to_the_House_That_Se_cures_a_Reverse_Mortgage.html

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