naf Reverse

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# Can heirs walk away from a reverse mortgage? Deed in lieu after a death

**QUICK ANSWER**

Yes. When the last borrower on a reverse mortgage (HECM) dies and no one wants the home, the heirs or estate can sign it over to the servicer with a deed in lieu of foreclosure. HUD's rules say the servicer must accept it if it can get clear title, and the loan is repaid from the home, not from the family's own money. I'll be honest about the trade-off: signing over gives up the home and any equity in it, so it usually only makes sense when the home is worth less than the loan, or close to it.

## Key points

- **Walking away is allowed.** The estate, an heir or whoever holds legal title can give the servicer a deed in lieu of foreclosure, and the servicer must accept it if the title is clear.
- **No personal debt.** A HECM is non-recourse. The heirs don't owe the difference if the home is worth less than the loan.
- **You give up any equity.** If the home is worth more than the balance, selling usually leaves money for the family. A deed in lieu doesn't.
- **There's a deadline.** For FHA case numbers from Sept. 19, 2017 on, the deed must be recorded within 9 months of the due date. Tell the servicer your plan within 30 days of its letter.
- **Moving help may be offered.** "Cash for keys" is the servicer's choice, never promised.

The first call to the servicer and the full timeline are in what happens when a parent dies. Comparing all three choices is in keep, sell or walk away. This page goes deeper on signing the home over.

These are HUD's rules for HECMs. Private (proprietary) reverse mortgages, such as HomeSafe Second, set their own rules, so read those papers and ask the servicer. This is general information, not legal or tax advice.

## What a deed in lieu is

A HECM comes due when the last borrower dies, sells, moves out for good (or is away more than 12 months in a row for illness), or doesn't meet the loan terms, unless an eligible non-borrowing spouse qualifies to stay.

A deed in lieu of foreclosure is a deed that hands the home to the lender instead of the lender taking it through foreclosure.

After the last borrower dies, the servicer's due-and-payable letter must list it as one of the family's options, along with paying off the loan, selling the home for at least the lesser of the balance or 95% of the current appraised value, or telling the servicer about a spouse who may qualify to stay.

HUD's rule says the servicer **must** accept a deed in lieu from the borrower or another party with the legal right to dispose of the home, as long as:

- the servicer can get good and marketable title, and
- for FHA case numbers assigned on or after Sept. 19, 2017, the deed is filed for recording within 9 months of the due date.

Within 30 days of receiving the signed deed, the servicer must give back the canceled note and record the release of the reverse mortgage lien.

FHA mortgage insurance covers the lender's loss when the home is worth less than the loan. That insurance protects the lender, not your family. New American Funding is not acting for HUD, FHA or any government agency.

## Sell or sign over? A quick check

| If... | Usually consider | Why |
|---|---|---|
| **The home is worth clearly more than the balance** | Selling | You keep what's left after the loan and sale costs |

| If... | Usually consider | Why |
|---|---|---|
| **The balance is higher than the home's value** | Selling at 95% of appraised value, or a deed in lieu | Either can end the loan, and the family owes nothing more |
| **No one can manage a sale (distance, repairs, family disagreement)** | A deed in lieu | Fewer steps, and a possible relocation incentive |
| **Someone wants to keep the home** | Paying it off | See keep, sell or walk away |

Think of it this way: the balance keeps growing with interest and mortgage insurance until the loan is resolved, so time matters. Ask the servicer for the payoff and the appraisal in writing before you decide. The servicer orders the appraisal within 30 days of your request.

If the loan is due, the servicer pays for it up front, and it's repaid from the home.

## What can block a deed in lieu: the title

"Good and marketable title" means the servicer can take the home without other claims on it. Things that can get in the way:

- **Other liens.** A second loan, a judgment, or a recorded state lien such as California's property tax postponement lien.
- **Unpaid property taxes.** Taxes and insurance stay the estate's job until the title transfers.
- **No one with authority to sign.** Someone must have the legal right to sign the deed: for example, the trustee if the home was in a living trust, a surviving owner, or an executor or administrator. Not every California estate needs probate. An estate attorney can tell you who can sign.

If the title isn't clear, the servicer may not be able to accept the deed, and selling or foreclosure may be the path. My advice: ask early. A title report shows what's recorded against the home.

## Cash for keys

HUD lets the servicer offer a relocation incentive, called "cash for keys," when the family moves out and gives a deed in lieu. It's optional. Under HUD's Handbook, the most it can be is:

| When the deed in lieu is completed | Up to |
|---|---|
| Within 365 days of the due date | $7,500, plus probate costs up to $5,000 |
| From day 366 to day 547 | $5,000, plus probate costs up to $5,000 |

Probate costs HUD allows include court costs, attorney's fees, notary fees, required notices and mailing or copy fees. Probate costs over $500 need receipts. Before paying, the servicer inspects the home: it must be broom-swept, with built-in appliances and fixtures left in place. No one can promise you a set amount, so ask the servicer in writing.

## Step by step

1. **Call the servicer.** Report the death, and ask for the payoff, the appraisal and its deed-in-lieu instructions in writing.
2. **Tell it your plan in writing** within 30 days of the date on its due-and-payable letter. Silence isn't a plan.
3. **Confirm who can sign.** Gather the death certificate and the papers that show authority, such as the trust or court papers. Ask an estate attorney if you're unsure.
4. **Check the title** for other liens and unpaid taxes.
5. **Keep taxes and insurance paid** until the title transfers.
6. **Clear out the home.** Take what you want to keep. Leave it broom-swept with built-in appliances in place.
7. **Sign the deed the servicer provides,** before a notary, and get a copy.
8. **Get written proof** that the servicer recorded the deed, released the lien and returned the canceled note.

## Taxes on handing the home back

Because a HECM is non-recourse, the IRS treats the whole unpaid loan balance as the amount received when the home is given back, not just its value. Whether that creates a gain or loss depends on the estate's basis.

For inherited property, the IRS says the basis is generally the fair market value at the date of death. Please talk to a tax professional before you sign. I can't give tax advice.

*A made-up example to show how it works. Your situation will be different.*

### Example: Esteban and his brother sign the home over

Years after she set up her power of attorney, Esteban's mother passes away. She was the only borrower on a HECM on her Pomona home, which she held in a living trust, with Esteban as successor trustee.

He calls the servicer the next week and asks for the payoff, the appraisal and the deed-in-lieu instructions in writing. The appraisal comes back below the loan balance, and neither he nor his brother wants to move in or manage a sale from out of state.

Within 30 days of the servicer's letter, Esteban tells it in writing that the family will sign the home over. He keeps the taxes and insurance paid and orders a title report, which shows no other liens. The brothers clear out the house and leave it broom-swept.

Esteban signs the deed as trustee before a notary and asks whether cash for keys is available. Before signing, he meets with a tax professional about the estate's return. A few weeks later he gets written proof that the lien was released.

### Do and don't

My advice, in short:

**Do**

- **Do** ask for the payoff and the appraisal in writing before deciding.
- **Do** tell the servicer your plan in writing within 30 days of its letter.
- **Do** check the title and confirm who has the legal right to sign.
- **Do** keep taxes and insurance paid until the title transfers.

**Don’t**

- **Don't** sign the home over without checking its value. If it's worth more than the balance, selling may leave money for the family.
- **Don't** count on cash for keys or an extension. Both are up to others.
- **Don't** just walk away without telling anyone. If the family doesn't respond, the servicer can start foreclosure after its deadline.

## Questions families ask

### Can heirs walk away from a reverse mortgage?

Yes. The heirs or estate can sign the home over with a deed in lieu of foreclosure, and the servicer must accept it if the title is clear and it's recorded in time. The family doesn't owe the difference if the home is worth less than the loan. Tell the servicer in writing.

### What happens if you walk away from a reverse mortgage without telling the servicer?

Doing nothing isn't the same as a deed in lieu. The servicer must start foreclosure within about 6 months of the due date unless HUD approves more time. The home is still taken, and the family gives up control of the timing and the larger incentive available for a deed in lieu.

Taxes and insurance stay the estate's job until the title transfers. See can you lose your home.

### Can heirs do a short sale or deed in lieu on a reverse mortgage?

Yes, both. If the balance is higher than the home's value, heirs can sell for at least 95% of the current appraised value, and that satisfies the loan. Or they can sign the home over. Cash for keys may be offered for either, at the servicer's choice.

### Will a deed in lieu hurt my credit?

The heirs aren't borrowers and aren't personally liable for a HECM, since it's repaid from the home. Ask the servicer how it reports the account, and keep its written confirmation that the loan is satisfied.

### Who gets the home with a reverse mortgage if there are no heirs?

Someone with legal authority, such as an executor, an administrator or a trustee, still has to resolve the loan. If no one acts, the servicer can take the home through foreclosure. An estate attorney can explain how California handles an estate with no heirs.

### Does a deed in lieu make sense before a parent moves into care?

Sometimes. If a living borrower moves out for good, the loan can come due, and the servicer's letter lists a deed in lieu as one option. But it gives up the home and any equity. Your parent may be able to sell instead and keep what's left.

Talk it over with a HUD-approved counselor and an elder law attorney first. See if your parent has a reverse mortgage.

**Sources (read November 3, 2026)**


- HUD Handbook 4000.1, Part III.B.2 (due-and-payable notice to the estate or heirs; Deed-in-Lieu of Foreclosure; Cash for Keys Consideration and incentives table; broom-swept condition; allowable probate costs), last revised Aug. 12, 2026: https://www.hud.gov/hud-partners/single-family-handbook-4000-1 (full text: https://www.hud.gov/sites/default/files/Housing/documents/40001-hsgh-Update-18-Redline.pdf)
- 24 CFR Part 206 (sections 206.27(b)(8), 206.125), eCFR: https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- HUD Mortgagee Letter 2023-23 (Cash for Keys and deed-in-lieu timing): https://www.hud.gov/sites/dfiles/OCHCO/documents/2023-23hsngml.pdf
- HUD, "Inheriting a Home Secured by an FHA-insured HECM" (Sept. 2019): https://www.hud.gov/sites/dfiles/SFH/documents/inheriting_hecm_09-23-19.pdf
- CFPB, "With a reverse mortgage loan, can my heirs keep or sell my home after I die?": https://www.consumerfinance.gov/ask-cfpb/with-a-reverse-mortgage-loan-can-my-heirs-keep-or-sell-my-home-after-i-die-en-242/
- IRS Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (nonrecourse debt): https://www.irs.gov/publications/p4681
- IRS Publication 551, Basis of Assets (inherited property): https://www.irs.gov/publications/p551
- California Government Code 16182 (property tax postponement lien): https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV&sectionNum=16182
- California Courts Self-Help, probate and simple transfers: https://selfhelp.courts.ca.gov/probate/simple-transfer
- HUD housing counselor search: https://answers.hud.gov/housingcounseling/s/?language=en_US



## Talk with me first

I'll answer your questions and tell you plainly if a reverse mortgage isn't the right fit. No pressure.

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Personal estimate and more free guides: thereverseguide.com. Before you can apply, you'll meet with an independent HUD-approved counselor; it's required.

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