naf Reverse

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The Financial Assessment: what a reverse mortgage lender checks

QUICK ANSWER

Here's the short version. Before approving a reverse mortgage (HECM), the lender reviews your credit history and your income and expenses to judge whether you're likely to keep paying property taxes and homeowners insurance. HUD calls this the Financial Assessment. If it shows a concern, the lender may require a set-aside (LESA) for those bills, and in some cases the loan may not go forward.

Key points

- **Two things are reviewed.** Willingness (your credit history) and capacity (your income, your expenses and what is left each month).
- **It isn't one score.** HUD's regulation names your credit history, cash flow and residual income, not a single cutoff number.
- **Hard seasons can be explained.** The lender considers documented extenuating circumstances and compensating factors.
- **A set-aside may follow.** It covers property taxes and insurance only, and it lowers what you can borrow.
- **You can prepare.** Bringing your bills and income papers to the first conversation saves time.

Why the lender looks at this

Here's how I explain it. With a reverse mortgage there is no required monthly mortgage payment. You still pay property taxes, homeowners insurance, HOA dues and upkeep. If taxes or insurance go unpaid, the loan can come due and the home can go to foreclosure.

So before approving, the lender checks that those bills are likely to stay paid. The balance also grows over time as interest, mortgage insurance and fees are added, so the loan has to work for the long run.

Willingness: your history

This is your credit history. The lender uses it to judge how likely it is that your bills will keep getting paid.

Capacity: your income and expenses

The lender reviews your income and your regular expenses to see what is left over each month. HUD calls this residual income, and HUD's guide sets the standard by household size and region. HUD's figures are on credit and income requirements.

Hard seasons and strengths

The regulation uses two terms: **extenuating circumstances** (a documented event that led to the problems in your credit or payment history) and **compensating factors**. Both must be documented. They give the lender a way to weigh the story behind the numbers.

What can lead to a set-aside

If the review supports it, the lender may require a set-aside. If none is required, you can still choose one, and a set-aside you choose can't be canceled later. It pays property taxes (including special assessments), homeowners insurance and flood insurance. It doesn't pay HOA dues or upkeep.

Type	Who pays the bills	Loan types
Fully funded	The lender pays taxes and insurance from the set-aside and adds each payment to your loan balance	Fixed or adjustable rate
Partially funded	The lender sends you money twice a year, and you pay the bills	Adjustable rate only

Either kind lowers the amount you can borrow. Read more in how a set-aside works.

What to gather before you talk to a lender

The review looks at records of your income, assets, debts, and property tax and insurance payments. Ask your lender for its exact list. These are good places to start:

- Records of your income, such as benefit letters and pension statements
- Records of your assets, such as bank statements
- Your current mortgage statement, if you have one, and any HOA bill
- Recent property tax bills and your homeowners insurance bill, with proof of what you've paid
- A simple list of your regular monthly expenses
- Notes or records about any hard season that affected your bills

Do and don't

My advice, in short:

Do

- **Do** gather your income papers and recent tax and insurance bills before you call a lender.
- **Do** tell the lender about any hard season and keep the papers that show it.
- **Do** meet with an independent HUD-approved counselor, who can explain this review.
- **Do** ask whether a set-aside could apply, so nothing surprises you later.

Don’t

- **Don't** hide late bills, because the lender will see them and your explanation matters.
- **Don't** assume one late payment ends the conversation.
- **Don't** treat a set-aside as a rescue, since it lowers what you can borrow.

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

Example: Carol's year after losing her husband

Carol, 71, a widow in Walnut, lost her husband last year. In the months after, two property tax payments were late, and she still has a small mortgage. She brought her income papers, her tax and insurance bills, and a short note about that year.

The lender reviewed her history, her income and her regular expenses, and weighed the reason for the late payments. It said a set-aside might be needed. That would lower what she could borrow, and after her mortgage payoff there might be little left, so the loan might not make sense.

Carol went over her numbers with a lender and met with a HUD-approved counselor before applying.

Questions families ask

Can I get a reverse mortgage if my credit isn't good?

A HECM has no minimum credit score. The lender reviews your credit history, income and expenses, and considers documented hard seasons and strengths. Some people qualify with a set-aside, and some don't.

Why would someone with a paid-off home be denied?

Owning the home isn't the only test. The lender also needs to see that taxes and insurance are likely to stay paid and that income covers regular expenses. If the review shows a concern that can't be addressed, the lender may not be able to approve the loan.

Who keeps paying the property taxes and homeowners insurance?

You do, unless you have a fully funded set-aside. Then the lender pays them from it and adds each payment to your balance. HOA dues and upkeep stay yours either way.

What is a LESA?

A Life Expectancy Set-Aside is part of the loan held back to pay property taxes and insurance, sized over the youngest borrower's life expectancy. It lowers what you can borrow. See how it works.

Sources (read November 2, 2026)

- 24 CFR 206.37, Financial Assessment (eCFR, Part 206, section 206.37): https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- 24 CFR 206.205, property charges and LESA (eCFR, Part 206, section 206.205): https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- 24 CFR 206.19(f), set-asides (eCFR, Part 206, section 206.19): https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- 24 CFR 206.27(c), when the loan comes due (eCFR, Part 206, section 206.27): https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- HUD, Financial Assessment help page (revised Oct. 23, 2023): https://entp.hud.gov/sfohlp/f17hfaprhlp.cfm
- HUD, HECM counselor search information: https://www.hud.gov/hud-partners/single-family-hecmhome



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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