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Inheriting a house with a reverse mortgage: keep it, sell it, or walk away

QUICK ANSWER

Here's the short version. When you inherit a home with a reverse mortgage (HECM), you have three choices: keep it by paying off the loan, sell it and use the sale to repay the loan, or walk away by signing the home over to the servicer. You never owe more than the home is worth. If the loan balance is higher than the home's value, a sale for at least 95% of the current appraised value satisfies the loan.

Key points

- **Three choices.** Keep the home, sell it, or sign it over with a deed in lieu of foreclosure.
- **No personal debt.** A HECM is non-recourse: it's repaid from the home, not from the heirs' own money, and the lender can't come after you for the difference.
- **The 95% rule.** If the home is worth less than the loan, heirs can sell for at least 95% of the current appraised value and the loan is satisfied.
- **The clock is short.** You have 30 days from the servicer's letter to tell it your plan, and about six months to finish, with up to two 90-day extensions only with proof and HUD's approval.
- **Taxes change.** Inherited homes have their own income tax and California property tax rules (Prop 19). Talk to a tax professional before you decide.

The step-by-step timeline and the first call to the servicer are in what happens when a parent dies. If a surviving spouse lives there, read the non-borrowing spouse guide first. This page goes deeper on the choice itself.

The rules below are HUD's rules for HECMs. Private (proprietary) reverse mortgages such as HomeSafe set their own rules, so read the loan papers and ask the servicer.

The three choices at a glance

Choice	What you pay	What you get	Good fit when
Keep the home	The payoff the servicer confirms in writing, from a new loan, savings or other funds	The house, free of the reverse mortgage	Someone wants to live there and can qualify for a loan or has the cash
Sell the home	The loan is repaid from the sale	Any money left after the loan and sale costs	No one wants to live there, and the home is worth more than the balance
Walk away (deed in lieu)	No payoff from your own pocket (taxes and insurance stay the estate's job until the title transfers)	The loan ends; possibly moving help, at the servicer's choice	The home is worth less than the balance and no one wants to keep it

Choice 1: Keep the home

To keep it, someone has to pay the loan off. Families often do it with a new mortgage in the name of the person keeping the home. Others use savings, life insurance or other funds. You can't take over (assume) the reverse mortgage itself. HUD's notice to heirs lists paying off, selling, or signing over, not taking over.

How much? Ask the servicer in writing for the exact payoff figure and how it was worked out. HUD's own consumer materials describe the payoff for heirs who keep the home differently, so don't rely on a number from a website, including this one.

If the home is worth more than the balance, expect to pay the balance in full. Either way, the balance keeps growing with interest and mortgage insurance until it's paid, so time matters.

If you'll use a new loan, my advice is to talk to a lender in the first weeks. A new loan needs an application, an appraisal, income and credit approval, and someone with legal authority to sign, all inside the servicer's deadline.

A lender working on your payoff is one of the reasons HUD may approve an extension, but extensions aren't promised.

Choice 2: Sell the home

Many families sell. The servicer orders an appraisal within 30 days of your request and pays for it up front if the loan is due. Then:

- **If the home is worth more than the balance,** sell at market value. The loan is repaid at closing and the heirs keep what's left after sale costs.
- **If the balance is higher than the home's value,** you can sell for at least the lesser of the balance or 95% of the current appraised value. That satisfies the loan, and FHA mortgage insurance covers the rest. That insurance protects the lender, not your family. New American Funding is not acting for HUD, FHA or any government agency.

List early and keep records that you're actively marketing the home: that, or a delayed sales contract, is what supports an extension request. Before accepting an offer below the balance, ask the servicer in writing to confirm the price works.

Choice 3: Walk away (deed in lieu of foreclosure)

If no one wants the home and it's worth less than what's owed, the family can sign it over to the servicer with a deed in lieu of foreclosure. HUD's rules say the servicer must accept one if it can get clear title.

For newer loans (FHA case numbers from Sept. 19, 2017 on) it has to be recorded within 9 months of the due date.

Cash for keys. HUD lets the servicer offer a relocation incentive, called "cash for keys," when the home is signed over or sold this way. It's the servicer's choice, so ask.

Under HUD's handbook, the most it can be for a deed in lieu completed within 365 days of the due date is $7,500, plus up to $5,000 for probate costs; from day 366 to day 547 it's $5,000 plus up to $5,000 for probate costs.

The home must be left broom-clean with built-in appliances in place. No one can promise you a set amount.

Walking away is not the same as doing nothing. If the family doesn't respond, the servicer can start foreclosure after its deadline (see can you lose your home). Taxes and insurance stay the estate's job until the title transfers. A deed in lieu is a decision you tell the servicer about. Silence isn't.

Because a HECM is non-recourse, the borrower and the heirs have no personal liability for the balance, and the lender can't seek a deficiency judgment.

The deadlines, in short

Clock	How long	Notes
Tell the servicer your plan	30 days from the date on its due-and-payable letter	Not 30 days to close
Finish the sale or payoff	About 6 months from the due date	Before the servicer must start foreclosure
More time	Up to two 90-day extensions	Only with proof (marketing, a delayed contract, or a payoff in progress) and HUD's approval
Deed in lieu recorded	Within 9 months of the due date	Case numbers from Sept. 19, 2017 on

The full timeline, from the first phone call on, is in what happens when a parent dies.

Taxes on an inherited home

Income tax. The IRS says the basis of inherited property is generally its fair market value on the date of death (often called a "step-up in basis"). That can mean little or no gain if the home sells soon after for about that value.

There are exceptions, and rules for married couples and trusts can differ, so please talk to a tax professional before you sell or keep it. I can't give tax advice.

California property tax (Prop 19). If a child inherits a parent's main home and makes it their own main home within one year, the child may keep the parent's property tax base,

up to a limit.

For transfers from Feb. 16, 2025 through Feb. 15, 2027, the limit is the parent's factored base value plus $1,044,586. Value above that is added to the taxable value.

The reassessment catch: if the child doesn't move in, for example if it becomes a rental or a second home, the exclusion doesn't apply and the county reassesses the home. The Board of Equalization says a child who later moves out also loses the exclusion and the home is reassessed.

To claim it, file with the county assessor: the homeowners' exemption within 1 year, and form BOE-19-P within 3 years of the death (or before a sale to someone else, if sooner). Prop 19 covers property tax only. It doesn't pay off or change the reverse mortgage.

Do and don't

My advice, in short:

Do

- **Do** decide together, early, which of the three choices fits, and tell the servicer in writing within 30 days of its letter.
- **Do** ask for the payoff, the appraisal and how the servicer figured the amount, in writing.
- **Do** keep property taxes and homeowners insurance paid until the title transfers.
- **Do** talk to a tax professional about the sale and to the county assessor about Prop 19 before you decide.

Don’t

- **Don't** assume you'll owe the difference if the house is worth less than the loan. A HECM is non-recourse.
- **Don't** count on an extension or on cash for keys. Both are up to others.
- **Don't** let the deadline pass in silence. Even "we're walking away" needs to be said.
- **Don't** rent out the home while the loan is unresolved without asking the servicer and the assessor first.

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

Example: the Nguyen siblings decide

After their mother passed away, Tam and Bao Nguyen inherited her home in Rowland Heights, which had a HECM. Tam called the servicer, asked for the payoff and appraisal in writing, and kept the taxes and insurance paid. Bao wanted to move in and keep the house.

Tam wanted to sell. When the appraisal came back, the balance was well below the home's value, so walking away made no sense. They met a HUD-approved counselor together and talked to a lender.

The lender said a new loan in Bao's name might be possible, but couldn't promise it would close in time. They told the servicer in writing, within 30 days of its letter, that Bao would try to pay it off, and that they'd list the home if his loan wasn't approved.

Bao called the county assessor about Prop 19, since he'd make it his main home, and they both booked a tax professional to ask how to handle Tam's share.

Questions families ask

Am I responsible for my parents' reverse mortgage after they die?

Not personally. A HECM is repaid from the home, and the lender can't collect the difference from you if the home is worth less than the loan. The estate still has to resolve the loan by paying it off, selling, or signing the home over.

Can heirs walk away from a reverse mortgage?

Yes. The family can sign the home over with a deed in lieu of foreclosure, and the servicer must accept it if the title is clear. Tell the servicer in writing. Don't just stop answering, because the servicer can then start foreclosure.

Can I take over or buy out my parents' reverse mortgage?

You can't take over the loan itself. You can keep the home by paying it off, usually with a new mortgage in your name. Ask the servicer in writing for the exact payoff figure. HUD's own materials describe it differently when the home is worth less than the balance, so get the number from the servicer.

Would heirs owe the balance if it's more than the home is worth?

No. If the home sells for at least 95% of its current appraised value (or the balance, if less), the loan is satisfied and FHA insurance covers the rest. That insurance protects the lender. Your family keeps nothing from the sale in that case, but owes nothing either.

How long do you have to sell a house with a reverse mortgage after death?

Think of about six months from the due date, with 30 days from the servicer's letter to say your plan. Up to two 90-day extensions are possible with proof you're selling or paying off and HUD's approval. See the full timeline.

Will my property taxes go up if I keep my parent's house?

If it was your parent's main home and you make it your main home within one year, Prop 19 may let you keep their tax base, up to the limit above. If you rent it out or don't move in, it is generally reassessed. Ask your county assessor.

Sources (read November 3, 2026)

- HUD Handbook 4000.1, HECM default servicing, Part III.B.2 (notice to heirs; selling the property, "sell includes any post-death transfer of title by operation of law"; deed in lieu; Cash for Keys incentives table), Update 18, 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, 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, "You have a reverse mortgage: Know your rights and responsibilities" (Aug. 2021), p. 16: https://files.consumerfinance.gov/f/documents/cfpb_reverse_mortgage_rights_responsibilities.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/
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- IRS Publication 551, Basis of Assets (inherited property): https://www.irs.gov/publications/p551
- California Board of Equalization, Prop 19: https://www.boe.ca.gov/prop19/ and transfer amount notice: https://boe.ca.gov/news/2025/NR-25-02.htm
- 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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