naf Reverse

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Refinancing your mortgage into a reverse mortgage with a set-aside

QUICK ANSWER

If you're 62 or older and still paying a mortgage, here's the short version: a reverse mortgage (HECM) can pay off that mortgage, and then you have no required monthly mortgage payment. It only works if the new loan is large enough to pay off what you owe plus any set-aside for taxes and insurance and the closing costs, and you still pay property taxes, insurance, HOA dues and upkeep.

Key points

- **It only works if the numbers fit.** The new loan must be large enough to pay off your mortgage, any set-aside and the closing costs.
- **No required monthly mortgage payment, with conditions.** There is no required monthly mortgage payment, but taxes, insurance, HOA dues and upkeep are still yours to pay.
- **The balance grows.** Interest and mortgage insurance are added every month, so you owe more over time and there is less equity for you or your heirs.
- **Same review as any reverse mortgage.** It goes through independent counseling, California's 7-day wait, the Financial Assessment, an appraisal and required disclosures.
- **It can come due.** The loan comes due for several reasons, including the last borrower dying or selling, or unpaid taxes, insurance, HOA dues or upkeep.

How it works

Here's how I explain it. At closing, some costs must be paid from the reverse mortgage first. HUD calls these mandatory obligations. They include:

- **Your current mortgage** and any other liens on the home.
- **Property taxes and insurance** due at closing.
- **Delinquent federal debt**, if any.
- **Upfront costs**: the upfront FHA mortgage insurance, the origination fee, the counseling fee and other closing costs.
- **Required repairs**, if the appraisal calls for them.

Also held back from the amount you can borrow: a **set-aside (LESA)**, if the lender requires one or you choose one (how a set-aside works).

Whatever is left after that, if anything, is money you can use, within HUD's limits. On an adjustable-rate loan, how much you can draw at closing and in the first 12 months is capped, and HUD figures that cap from the amount you can borrow minus any set-aside money held back for after the first year.

The math that decides it

Think of it this way: everything on the left has to fit inside the amount on the right.

What it has to cover: (1) what you owe on your mortgage now, (2) property taxes and insurance due at closing, (3) the set-aside, if any, and (4) closing costs and upfront fees you finance.

It all has to fit inside the amount you can borrow, which depends on the youngest borrower's age, your home's value (up to HUD's limit, $1,249,125 for FHA case numbers assigned in 2026) and interest rates.

If the left side adds up to more than the right, the refinance doesn't work as a HECM, and I'll tell you so.

Why people do it

- To stop a monthly mortgage payment that's stretching a fixed income. (Taxes, insurance, HOA dues and upkeep are still yours. With a fully funded set-aside, the

lender pays the taxes and insurance from it and adds each payment to your balance, as long as it lasts.)
- To have property taxes and insurance paid from a fully funded set-aside, when the lender requires one or they choose one.
- To stay in the home they know, as long as they live there and meet the loan terms.

What it costs you, honestly

I'd rather you hear this from me.

- **The balance grows.** Interest and mortgage insurance are added every month, so you'll owe more over time, and there will be less equity for you or your heirs.
- **Upfront costs.** Like any mortgage, there are closing costs, plus FHA mortgage insurance. See what it costs.
- **A set-aside lowers what you can borrow**, and it may not cover rising taxes and insurance forever.
- **It comes due** when the last borrower dies or sells; when the home stops being the main home of every borrower; when a borrower is away more than 12 months in a row for illness and no other borrower lives there; or when taxes, insurance, HOA dues or upkeep aren't kept up.

FHA insurance protects the lender, not you. New American Funding is not acting for HUD, FHA or any government agency.

The same review as any reverse mortgage

A refinance isn't a shortcut, and I won't treat it like one. It goes through the same steps as any HECM: independent counseling, California's 7-day wait after counseling, the Financial Assessment, an appraisal, and the required disclosures. See the steps.

Want to keep your first mortgage instead?

If your current mortgage has terms you'd rather keep, a reverse **second** mortgage such as HomeSafe Second sits behind it instead of paying it off. You keep making your first mortgage payments, and no monthly mortgage payment is required on the new loan.

You still pay property taxes, homeowners insurance, HOA dues and upkeep, and live in the home as your main home. It's a proprietary loan, not a HECM, available from age 55 in California. See HomeSafe Second.

Already have a reverse mortgage?

You can refinance one HECM into a new one, but HUD only allows it when the increase in what you can borrow is more than the total cost of the refinance by an amount HUD sets, and the lender must give you a written estimate of both.

Counseling is required again unless every one of HUD's conditions for waiving it is met, including that no more than five years have passed since the first loan closed.

If you're behind on taxes or insurance on a reverse mortgage you already have, call your servicer first. See behind on taxes or insurance and can you lose the home?

Do and don't

My advice:

Do

- **Do** add up your current mortgage, any property taxes and insurance due at closing, a set-aside and closing costs before you decide.
- **Do** meet with an independent HUD-approved counselor before you apply.
- **Do** ask your lender to run the numbers on your own mortgage and expect to hear if it doesn't work.
- **Do** call your servicer first if you're behind on taxes or insurance on a reverse mortgage you already have.

Don’t

- **Don't** expect a shortcut, because a refinance goes through the same steps as any HECM.
- **Don't** forget that property taxes, insurance, HOA dues and upkeep are still yours to pay.
- **Don't** overlook that the balance grows every month, leaving less equity for you or your heirs.
- **Don't** assume a spouse under 62 is protected unless they were married to you at closing and stay married, are named in the loan documents, and live in the home; even then, no more loan money is paid out after you die.

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

Example: Rosa and her mortgage

Rosa, 74, lives in Walnut and still pays a mortgage that stretches her fixed income. She asks a lender to run the numbers and meets with an independent HUD-approved counselor before applying.

The lender adds up what she owes now, any set-aside and the closing costs, and compares the total with what the loan could provide based on her age, her home's value and interest rates.

The total comes out larger than the loan could provide, so as it stands the refinance doesn't work as a HECM, and the lender tells her so.

Rosa also learns that even if it had worked, taxes, insurance, HOA dues and upkeep would still be hers to pay, and her balance would grow. She decides to compare it with a cash-out refinance or a HELOC.

Questions families ask

Can you refinance a mortgage into a reverse mortgage?

Yes, if you're 62 or older, the home is your main home, you meet the Financial Assessment, and the reverse mortgage is large enough to pay off your current mortgage and everything else required at closing.

Will I still have a monthly payment?

There's no required monthly mortgage payment with a HECM. You still pay property taxes, homeowners insurance, HOA dues and upkeep. With a fully funded set-aside, the lender pays the taxes and insurance from it and adds each payment to your balance, as long as it lasts. You can make voluntary payments if you want to slow the balance's growth.

My spouse is under 62. Can we still do this?

Possibly, but the rules for a younger spouse who isn't on the loan matter a lot, and they must be named in the loan documents to be protected. Ask your counselor about it before anything else, and bring your spouse along.

Is it better than a cash-out refinance or a HELOC?

It depends on your situation, and I'll go over both with you. Those loans have monthly payments; a reverse mortgage doesn't, but its balance grows. Compare your options.

Sources (read October 28 to November 2, 2026)

- 24 CFR 206.25(b), mandatory obligations, and 206.25(a)(1), first-year limit (eCFR, Part 206, section 206.25): 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 206.53, refinancing a HECM (eCFR, Part 206, section 206.53): https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- 24 CFR 206.55, non-borrowing spouse (eCFR, Part 206, section 206.55): 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 news release No. 25-145, 2026 HECM limit (Dec. 11, 2025): https://www.hud.gov/news/hud-no-25-145
- California Civil Code 1923.2(k), the 7-day wait: https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=CIV&sectionNum=1923.2



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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