naf Reverse

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How a set-aside (LESA) works: who needs one and what it costs

QUICK ANSWER

Here's how I explain it. A Life Expectancy Set-Aside (LESA) holds back part of a reverse mortgage to pay your property taxes and homeowners insurance over time. The lender may require one if its review of your finances shows a concern, and in some cases a set-aside may let a loan go forward. It also lowers the amount you can borrow.

Key points

- **What it pays.** A set-aside holds back loan money to pay property taxes and homeowners insurance, plus flood insurance if you need it.
- **The lender decides.** If the Financial Assessment shows a concern, the lender may require one; some people will qualify with a set-aside and some won't.
- **Other bills stay yours.** HOA dues, repairs and upkeep are not paid from a set-aside, and you still have to pay them to keep the loan in good standing.
- **It lowers what you can borrow.** The money held back reduces your loan amount, and rising taxes and insurance can outrun the set-aside.
- **You can ask for one.** You can ask for one even if it isn't required, but one you choose can't be canceled later.

Why a lender looks at your history

With a reverse mortgage (HECM), there's no required monthly mortgage payment. You still pay property taxes, homeowners insurance, HOA dues and upkeep, and if taxes or insurance go unpaid, the loan can come due and the home can go to foreclosure.

So before approving a HECM, the lender has to check that you're likely to keep those bills paid. That's a fair thing to check, and I want you to know how it works before you apply.

HUD calls this the **Financial Assessment**. The lender looks at two things:

- **Willingness:** your credit history.
- **Capacity:** your income and your regular expenses, to see what's left over each month.

The lender also has to consider **extenuating circumstances** (a documented event that led to the problems in your credit or payment history) and **compensating factors** (other documented strengths that can offset a shortfall).

When a set-aside comes in

If the Financial Assessment shows a concern, the lender may require a set-aside instead of turning the loan down. Whether you need one, and whether you qualify at all, is the lender's decision under HUD's rules. Some people will qualify with a set-aside, and some won't qualify.

You can also ask for a set-aside on your own, even if the lender doesn't require one. Some homeowners like knowing the two biggest bills are handled. If you choose one, it can't be canceled later.

What a set-aside pays, and what it doesn't

Bill	Paid from the set-aside?
Property taxes, including special assessments	Yes
Homeowners (hazard) insurance	Yes
Flood insurance, if you need it	Yes
HOA, condo or PUD dues, ground rent	No, still yours
Repairs and upkeep	No, still yours

There are two kinds:

- **Fully funded:** the lender pays your property taxes and insurance from the set-aside before they become late. Each payment is added to your loan balance, like any other money you use. Available on fixed-rate and adjustable-rate loans.
- **Partially funded:** twice a year the lender sends *you* money from the set-aside, and you pay the bills. The lender checks that they were paid. Available only on adjustable-rate loans.

The lender reviews the set-aside every year. If it runs short when a bill is due, the lender must send you and FHA a written notice and recommend that you talk with a HUD-approved housing counselor.

What it costs you

A set-aside is sized to cover your projected property taxes and insurance over the youngest borrower's life expectancy, using HUD's formula. That money is held back, so **the amount you can borrow goes down**.

For a younger borrower or a home with high property taxes, the set-aside can be a large share of the loan. That's why the numbers have to work for your situation before it makes sense.

Two honest cautions, and I'd rather you hear them from me:

- Taxes and insurance can rise faster than expected. If your set-aside runs short, the bills become yours to pay again.
- A set-aside doesn't pay HOA dues or repairs. You still have to pay those, and live in the home as your main home, to keep the loan in good standing.

The balance also grows over time as interest and mortgage insurance are added. FHA insurance on a HECM protects the lender, not you. New American Funding is not acting for HUD, FHA or any government agency.

Who this may help

- Homeowners 62 and older whose credit or payment history went through a hard season, where a set-aside may help the loan go forward.
- Homeowners who'd like the two biggest bills handled for them.

- Homeowners still paying a mortgage who want to replace it with a reverse mortgage. See refinancing with a set-aside.

It's not a fit if the set-aside plus any mortgage payoff would use up more than the loan can provide, or if HOA dues and upkeep would still be a stretch.

Do and don't

My advice:

Do

- **Do** ask an independent HUD-approved counselor to explain the Financial Assessment and set-asides before you decide.
- **Do** check that HOA dues, repairs and upkeep still fit your budget, since a set-aside doesn't pay them.
- **Do** ask your lender how a set-aside would change the amount you can borrow.

Don’t

- **Don't** assume a set-aside will cover taxes and insurance forever, because they can rise faster than expected.
- **Don't** choose one lightly, since a set-aside you choose can't be canceled later.
- **Don't** count on a reverse mortgage while you're behind on property taxes until you've talked with a counselor and a lender.

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

Example: Gloria and the late tax bills

Gloria is 72 and lives alone in Diamond Bar. Her home is paid off. While her husband was sick, two property tax payments went in late, and she's worried that will count against her.

She talks with a lender, then meets an independent counselor before applying. If the lender's Financial Assessment shows a concern about those late payments, the lender may require a fully funded set-aside. Then the lender would pay her property taxes and homeowners insurance from it, adding each payment to her loan balance.

That money is held back, so less would be available for her to use. Her HOA dues and repairs would still be hers to pay, and a set-aside doesn't promise approval.

Gloria takes a week to compare that with Property Tax Postponement and with doing nothing at all, then writes down her questions for the counselor and the lender.

Questions families ask

Is a set-aside the same as an escrow account?

Not quite. Think of it this way: with a fully funded set-aside, the money isn't sitting in an escrow account; it's part of your loan's available funds that's reserved, and each tax or insurance payment the lender makes is added to your loan balance.

Can I get a reverse mortgage if I'm behind on my property taxes?

Property taxes and insurance that are due at closing are paid first from the reverse mortgage, and the lender may then require a set-aside. Whether you qualify depends on the Financial Assessment and on whether the loan is large enough to cover it all. Talk with an independent HUD-approved counselor and a lender before you count on it.

Does my credit score decide it?

The Financial Assessment looks at your credit history, your income and your regular expenses. HUD's regulation names those things, not a single score cutoff.

Can I cancel the set-aside later?

If you chose a set-aside yourself, it can't be canceled. If the lender required yours, ask the lender in writing whether anything could change it later.

What happens to set-aside money I don't use?

Ask your servicer in writing what happens to money left in the set-aside, including at payoff. I won't guess at it here.

Sources (read November 2, 2026)

- 24 CFR 206.37, Financial Assessment (eCFR, Part 206): 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
- HUD, Financial Assessment help page (revised Oct. 23, 2023): https://entp.hud.gov/sfohlp/f17hfaprhlp.cfm
- CFPB, "Do I still need to pay my property taxes and home insurance with a reverse mortgage loan?": https://www.consumerfinance.gov/ask-cfpb/do-i-still-need-to-pay-my-property-taxes-and-home-insurance-with-a-reverse-mortgage-loan-en-235/



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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