naf Reverse

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What is a reverse mortgage, and how does it work? A plain-English start

QUICK ANSWER

Here's the short version. A reverse mortgage is a loan for homeowners 62 and older (55 and older for some loans) that turns part of your home's equity into money you can use, while you keep living there and keep the title. There's no required monthly mortgage payment, but you still pay property taxes, homeowners insurance, HOA dues and upkeep. The balance grows over time, and the loan is usually repaid from the home when the last borrower dies, sells or moves out for good.

Key points

- **It's a loan, not a benefit.** Interest, mortgage insurance and fees are added to what you owe, so the balance goes up over time and the equity left shrinks.
- **You keep the title.** The lender has a lien on the home, like any mortgage.
- **The bills stay yours.** No required monthly mortgage payment, but property taxes, homeowners insurance, HOA dues and upkeep are still yours to pay.
- **When it comes due.** When the last borrower dies, sells, moves out for good (or is away more than 12 months in a row because of illness, and no other borrower lives there), or doesn't meet the loan terms.
- **It fits some people, not everyone.** It tends to suit people who plan to stay in their home for years and can keep up with its costs.
- **California adds a safety step.** You meet with an independent HUD-approved counselor, then wait 7 days before a final application or any fee.

I'm a loan officer, and I offer reverse mortgages. I'll still give you honest answers on both sides, because I want you to make an educated decision, even if that decision is no.

How it works, in plain words

Think of it this way. With a regular mortgage, you pay the lender every month and what you owe goes down. With a reverse mortgage, you borrow against your home's equity, and what you owe goes up.

The most common kind is the HECM (Home Equity Conversion Mortgage), which is insured by the FHA. That insurance protects the lender, not you. New American Funding is not acting for HUD, FHA or any government agency.

Private (proprietary) reverse mortgages also exist; they set their own rules, and some start at 55 in California. See the types of reverse mortgages.

With a HECM, you can take the money as a lump sum, monthly payments, a line of credit, or a mix of monthly payments and a line of credit (a lump sum comes only with a fixed rate).

If you still have a mortgage, the reverse mortgage pays it off first, but only if the new loan is large enough to cover what you owe plus closing costs and any set-aside for taxes and insurance. See ways to receive the money and how much you can get.

Example: Soledad weighs it at her kitchen table. *(Made-up example, not a real client.)* Soledad, 74, lives in the Walnut home she's owned for decades. She wants to stay and needs more room in her monthly budget.

She learns that the loan could pay off her small remaining mortgage only if it's large enough to cover what she owes plus closing costs and any set-aside for taxes and insurance, that she'd still pay her property taxes, homeowners insurance, HOA dues and upkeep, and that the balance would grow, leaving less for her two sons.

She asks them to sit in on her counseling session, so everyone hears the same facts before she decides.

Who it can fit, and who it doesn't

It can fit if you...	It's usually a poor fit if you...
Plan to stay in the home for years	May move or sell in the next few years (the upfront costs are usually higher than most loans)
Can keep paying taxes, insurance, HOA dues and upkeep	Already struggle with those bills (a set-aside can pay taxes and insurance from the loan, and each payment is added to your balance, as long as it lasts)
Want no required monthly mortgage payment, knowing taxes, insurance, HOA dues and upkeep stay yours	Want to leave the home to family free and clear
Have talked it over with family and a counselor	Feel pressured by anyone, including family or a salesperson

For the full list, read is a reverse mortgage a good idea? and other options, like a home equity line, selling, or California's Property Tax Postponement program.

Five worries, answered

Can I lose my home?

On a HECM, yes, if the loan terms aren't met. A common problem for a living borrower is unpaid property taxes or homeowners insurance. HUD's rules allow help, such as repayment plans, and the sooner you call your servicer, the more choices you have.

Private (proprietary) loans set their own rules, so ask for them in writing. See can you lose your home?

What happens for my kids?

When the last borrower dies, the family chooses: pay the loan off and keep the home, sell it, or sign it over. To keep the home, ask the servicer in writing for the exact payoff figure.

A new loan can pay it only if it's large enough to cover the payoff plus closing costs, and the heir qualifies for it.

On a HECM, 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. See after a parent dies.

Can we owe more than the home is worth?

On a HECM, no. It's non-recourse: the debt is limited to the home's value, and the FHA insurance covers the difference. Your family may still inherit little or no equity. Private (proprietary) reverse mortgages set their own rules, so ask the lender in writing.

Is the money taxed, and does it affect benefits?

Loan advances are generally not taxable income, but talk to a tax professional. For SSI, cash you still hold after the month you receive it can count as a resource. Medi-Cal follows federal rules too, so ask a benefits advisor before you borrow. See SSI, Medi-Cal and benefits.

Is it a scam?

No. It's a loan regulated by federal and California law. But scams happen around it, such as pressure to buy an annuity or someone charging a fee to "arrange" the loan. Nobody involved in your loan can require you to buy another product. See myths, scams and red flags.

What it costs

A HECM has an upfront FHA mortgage insurance premium of 2% of the home's value (up to HUD's limit), a lender origination fee that HUD caps (a lender may charge less), and third-party closing costs. Interest and a yearly 0.5% mortgage insurance charge are added to the balance over time.

Most costs can be paid from the loan, so you pay less out of pocket today, but the balance is bigger later. See what it really costs.

The steps in California

1. **Talk with me.** Ask anything and see whether it fits. No application and no pressure.
2. **Counseling.** You meet with an independent HUD-approved counselor before you can apply. New American Funding doesn't choose or pay them.
3. **The 7-day wait.** California law says no final application or fee until 7 days after counseling.
4. **Review and closing.** The appraisal and the lender's financial review, then closing. Most reverse mortgages that aren't purchases come with a right to cancel until midnight of the third business day after closing (or after you get the notice and disclosures, whichever is later).

Every step in detail: how a reverse mortgage works in California.

Pick your situation

- **Worried about property taxes and insurance?** How a set-aside works
- **Still have a mortgage?** Refinancing into a reverse mortgage
- **Your parent already has one?** What to check and how to help
- **A parent passed away or moved out?** What happens to the house
- **Want to keep your first mortgage?** HomeSafe Second
- **Not sure you qualify?** Who qualifies

Do and don't

Do

- **Do** bring your family into the conversation early.
- **Do** ask for every cost in writing, and compare.
- **Do** plan for taxes, insurance, HOA dues and upkeep for as long as you live there.

Don’t

- **Don't** sign anything you don't understand, or anything with blanks.
- **Don't** let anyone pressure you, or push you to use the money for an annuity or investment.
- **Don't** take it if you expect to move soon.

Questions families ask

How does a reverse mortgage work when you die?

When the last borrower dies, the loan comes due. On a HECM, a spouse named in the loan papers as an eligible non-borrowing spouse may be able to stay; otherwise the heirs pay it off, sell, or sign the home over, and the loan is repaid from the home, not from the family's own bank accounts. Private loans set their own rules.

Does the bank own my home?

No. You keep the title. The lender has a lien, like any mortgage.

Do I need to own my home free and clear?

No. You need enough equity for the new loan to cover what you owe plus closing costs and any set-aside for taxes and insurance.

Sources (read October 28 to November 6, 2026)

- CFPB, "What is a reverse mortgage?" (title stays in your name; balance grows): https://www.consumerfinance.gov/ask-cfpb/what-is-a-reverse-mortgage-en-224/
- CFPB, "Older Americans Housing Guide: Using home equity to meet financial needs" (April 2023), closing costs typically higher: https://files.consumerfinance.gov/f/documents/cfpb_jith-using-home-equity-guide.pdf
- FTC, "Reverse Mortgages" (insurance protects the lender; pressure, annuity and contractor warnings): https://consumer.ftc.gov/articles/reverse-mortgages
- 24 CFR Part 206: 206.19 (payment options), 206.27 (obligations, when the loan comes due, non-recourse), 206.31 (origination fee limit), 206.33 (age), 206.41 (counseling), 206.55 (non-borrowing spouse), 206.125 (95% sale), eCFR: https://www.ecfr.gov/current/title-24/subtitle-B/chapter-II/subchapter-B/part-206
- HUD Mortgagee Letter 2017-12 (2% upfront and 0.5% yearly mortgage insurance): https://www.hud.gov/sites/documents/17-12ml.pdf
- HUD, "Inheriting a Home Secured by an FHA-insured HECM" (95% of appraised value): https://www.hud.gov/sites/dfiles/SFH/documents/inheriting_hecm_09-23-19.pdf
- 12 CFR 1026.23, right to cancel: https://www.ecfr.gov/current/title-12/chapter-X/part-1026/subpart-C/section-1026.23
- California Civil Code 1923.2 (counseling, 7-day wait, no required annuity or other product): https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=CIV&sectionNum=1923.2
- Social Security Administration, POMS SI 00815.350, loan proceeds not income: https://secure.ssa.gov/poms.nsf/lnx/0500815350
- Social Security Administration, POMS SI 01120.220, cash kept past the month received as a resource: https://secure.ssa.gov/poms.nsf/lnx/0501120220
- 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.

Facts change. The facts in this guide were checked on November 6, 2026. Rules, phone numbers and office hours change, so confirm with the official source, or see the latest version at thereverseguide.com. General information, not legal, tax, financial or benefits advice. To report something out of date: support@thereverseguide.com.

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