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FOR FINANCIAL ADVISORS, CPAS AND ATTORNEYS

Reverse Mortgages: What Financial Advisors, CPAs and Attorneys Should Know

Where a reverse mortgage fits in a client's plan and where it doesn't, the tax and benefit rules with their sources, trusts and title, the heirs' timeline, and a checklist for your file.



Where a reverse mortgage fits in a plan

A HECM (the FHA-insured reverse mortgage) is a tool for clients 62 and older who plan to stay in their home for years and can keep paying property taxes, insurance and upkeep. It's a loan, not income, and the balance grows over time, so there is usually less equity left for heirs.

Four places it can fit

Retiring a mortgage payment. A HECM can pay off an existing mortgage at closing. After that there's no required monthly mortgage payment, but property taxes, insurance, HOA dues and upkeep stay the client's, and not paying them can make the loan come due. A large payoff leaves less room under the first-year limit.

A standby line of credit. On an adjustable-rate HECM, the unused part of the line grows each month (24 CFR 206.3). That's more room to borrow, not money paid out, and anything drawn adds to the balance. Draws stop if the loan comes due, and first-year limits can apply. A fixed-rate HECM pays one lump sum at closing.

Taxes and insurance through a set-aside. After its Financial Assessment, the lender can require a set-aside (LESA) that pays property taxes and insurance from the loan. It reduces what's available to draw, and each payment adds to the balance.

Downsizing with HECM for Purchase. A client 62 or older can buy a new main home with a HECM, bringing their own funds for the rest, and must move in within 60 days.

Where it doesn't fit

- The client may move or need care away from home within a few years. Upfront costs are hard to justify over a short stay.
- The home's ongoing costs already strain the budget, even with a set-aside.
- Keeping the house in the family matters more than using its equity.
- Someone else lives there who isn't a borrower or an eligible non-borrowing spouse.
- The plan depends on using loan money to buy an annuity or other investment. California's required notice says senior advocacy groups advise against it, and the state's worksheet asks about it (Civil Code 1923.5). No one involved in making the loan may require or refer one before closing or before the right to cancel ends (1923.2(i)).

Compare it with selling, a HELOC or no change. Private (proprietary) loans such as HomeSafe set their own rules.

Tax and benefit rules, with their sources

I'm a loan officer, not a tax adviser or an attorney. These are the rules and where they come from; you and your client apply your own judgment, and confirm the current year's version before you advise.

Topic	The rule	Source
Loan advances	Reverse mortgages "are considered loan advances and not income."	IRS Pub. 936 (2025); Pub. 554 says the same
Interest	Generally, interest accrued on a reverse mortgage "is considered interest on home equity debt and isn't deductible." How it applies to a client is a question for you or their tax professional.	IRS Pub. 936 (2025)
Social Security and Medicare	A reverse mortgage "won't affect your Social Security or Medicare benefits."	FTC, "Reverse Mortgages"
SSI	Loan proceeds aren't income because they must be repaid, but cash still held after the month it was received counts as a resource. Draw timing matters.	SSA POMS SI 00815.350 and SI 01120.220
Medi-Cal	California treats payments as loan proceeds and undrawn money as home equity for state means-tested programs, but only where that doesn't conflict with federal law. Medi-Cal follows federal rules, so check with the county or an elder-law attorney before any draw.	Civil Code 1923.9

The costs, in words: an upfront FHA mortgage insurance premium, an annual premium charged on the balance, a lender origination fee that HUD caps, third-party closing costs such as appraisal and title, and interest. Most can be paid from the loan, which raises the starting balance. Ask the lender for the Total Annual Loan Cost table, which shows how the yearly cost changes with how long the client keeps the loan (12 CFR 1026.33).

Trusts, title, spouses and powers of attorney

HUD's rules for who can be on title and who must sign. Private loans set their own rules, so get them in writing.

Living trusts

A HECM can be made on a home held in a living trust, "either revocable or irrevocable," when the primary beneficiaries are 62 or older, eligible borrowers, counseled and living there at closing; no new beneficiaries are added; and the trust is valid and enforceable, gives each a right to live there for life, and requires notice to the lender of changes in occupancy or beneficial interest (HUD Handbook 4000.1, II.B.2). Expect the lender to ask for the trust agreement itself, not only a certification.

Life estates

A borrower who holds only a life estate qualifies "only if all holders of any reversionary or remainder interest" also sign the mortgage and attend counseling. Count the remainder holders early.

Co-owners

Every borrower must be on title, and a non-borrowing owner must attend counseling, sign the mortgage and sign a consent (24 CFR 206.35, 206.41).

The non-borrowing spouse

For HECMs with FHA case numbers on or after Aug. 4, 2014, an eligible spouse who isn't a borrower can stay after the borrower dies, if they were married at closing, stay married, were "specifically named as an NBS in the HECM documents," and keep living there. A spouse not named at closing can't become eligible later. No more loan money is paid out during that time, and taxes, insurance and upkeep must stay current. Loans before Aug. 4, 2014 follow different rules; ask the servicer in writing.

Powers of attorney and conservators

The lender may accept a durable power of attorney that survives incapacity, if the agent has specific authority to obligate the borrower and has completed counseling. In California, a power used to sign a mortgage must be acknowledged and recorded (Civil Code 2933). A conservator needs court authorization to borrow against the home (Probate Code 2551, or independent powers under 2590 and 2591).

After closing, a borrower can move the home into a qualifying living trust without making the loan due. Ask the servicer in writing before recording anything.



The estate and the heirs

The balance grows: interest, the annual mortgage insurance and any financed costs are added every month. Equity shrinks over time, and sometimes nothing is left. A HECM is non-recourse: neither the borrower nor the heirs ever owe more than the home is worth when it's sold.

1. **The loan comes due**
   When the last borrower dies and no eligible non-borrowing spouse is staying on, the servicer sends a notice. If the home is in a trust, the successor trustee usually handles it.

2. **30 days to choose a plan**
   The estate tells the servicer whether it will pay off the loan and keep the home, sell it, or sign it over (24 CFR 206.125). HUD can approve up to two 90-day extensions with proof of progress, so don't count on the extra time.

3. **The 95% rule**
   If the balance is more than the home is worth, a sale for at least 95% of the current appraised value satisfies the loan. To keep the home, get the exact payoff from the servicer in writing, because HUD's own materials describe it differently.

Property taxes and homeowners insurance stay the estate's job until the title transfers.

Working with older clients, and a checklist for your file

Do

- Come to the meetings. Your client can bring you to every conversation with me, and you can ask the counseling agency whether you may join that session too.
- Plan around California's timeline: independent HUD-approved counseling, then a 7-day wait before a final application or any fees. Counselors: (800) 569-4287.
- Ask the lender for every cost in writing, the first-year limit and any set-aside amount.
- Bring the client's budget for taxes, insurance and upkeep.

Don't

- Tie the loan to an annuity, insurance or investment purchase.
- Promise a loan amount or approval; that depends on age, home value, rates and the lender's review.
- Describe it as a government program or say a client "can't lose the home."
- Rush anyone. Pressure is a warning sign of elder financial abuse.

- ☐ Ages of the client and the youngest borrower or spouse; how long they expect to stay, and any care or move plans
- ☐ Yearly property taxes, insurance, HOA dues and upkeep, and how they'll be paid
- ☐ Payment option chosen and why; first-year limit, set-aside and line of credit in writing
- ☐ Every cost in writing, plus the Total Annual Loan Cost table
- ☐ Tax position reviewed against the current IRS Publication 936; SSI or Medi-Cal checked with the agency or an elder-law attorney
- ☐ Title, trust, life estate, spouse and power of attorney reviewed; no deed changes before closing without telling the lender
- ☐ Heirs' wishes discussed; counseling certificate date and the 7-day wait noted
- ☐ Alternatives compared: selling, a HELOC, or no change

Questions about a reverse mortgage for one of your clients?



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I'll go over the costs first and tell you plainly if it isn't a fit. Free guides for your clients and their families: thereverseguide.com. Your clients are always free to choose any lender, and the counselor they meet is independent.

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