

New Protections for Older Homeowners with HECM Reverse Mortgages

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About Reverse Mortgages

A reverse mortgage is a loan secured by a home that allows older homeowners to convert home equity into cash. Monthly payments are not required on a reverse mortgage. Rather, the loan comes due (with interest) upon a triggering event, typically the borrower passing away or permanently moving out of the home. Unlike a traditional mortgage, the amount the borrower owes on a reverse mortgage will go up rather than down over time as they receive payments from the lender and interest and fees are added to the loan. Most reverse mortgages are insured by the Federal Housing Administration (FHA) under its Home Equity Conversion Mortgage (HECM) program.

The borrower must have the financial resources to make timely payments on property taxes, insurance, homeowner association fees, and other property charges. Based on a financial assessment, a portion of the HECM proceeds may be set aside to pay future property taxes and insurance. If no loan funds are set aside to pay future property charges, or if the amount set aside runs out during the borrower's lifetime, the borrower will be required to pay these property charges during the term of the reverse mortgage. Failure to pay the property charges will result in foreclosure and loss of the home.

Updates to Reverse Mortgage Protections

The U.S. Department of Housing and Urban Development (HUD) recently made significant improvements to the options available for reverse mortgage borrowers at risk of foreclosure due to property charge default. The agency enhanced the program by eliminating the ban on successive repayment plans for larger arrears and clarified that HOA and condominium fees may be included in a repayment plan, at the servicer's discretion.

HUD has also improved the "At-Risk Extension" option that allows a reverse mortgage servicer to delay foreclosing when the borrower in default on property charges is over age 80 and either they or another member of the household has a critical health circumstance. Under updated rules announced in a new version of the FHA Servicing Guide that takes effect April 29, 2024, the At-Risk Extension stays in place for as long as the borrower is residing in the home, removing any need for an annual renewal.

Additionally, mortgage servicers have the flexibility to work with borrowers who are less than \$5,000 behind on their property charges without calling the mortgage due and payable. During this period, the mortgage servicer will work with the borrower to put a plan in place to catch up on the arrears. Borrowers should make sure their contact information and annual occupancy certification are up to date. In another change to the program, mortgage servicers can now contact borrowers and any eligible nonborrower spouse by phone to verify occupancy for the required annual occupancy certification.

As of March 25, 2024, mortgage servicers can offer enhanced incentives, known as Cash-for-Keys, to borrowers or heirs who pursue a deed-in-lieu of foreclosure, short sale, or a post-foreclosure alternative to eviction. Servicers may now offer up to \$7,500, plus an additional \$5,000 for probate costs for deed-in-lieu of foreclosures and short sales, and up to \$7,500 for avoiding eviction after foreclosure. Probate costs include court costs, attorney fees, and fees for notary, notices and mail/ copy fees, and documentation is required if

the costs exceed \$500.

The amount of the Cash-for-Keys incentive payment will vary depending on the option and how quickly the borrower or heir completes it. For example, a borrower may receive \$7,500 for vacating a property within 60 days of a Cash-for-Keys offer following a foreclosure, but only \$5,000 if the property is vacated within 90 days.

Additional Resources

- [HUD Mortgagee Letter 2023-23](#), November 30, 2023.
- HUD-approved Housing Counseling Organization, borrowers can find a counselor by calling 800-569-4287 or [online here](#)
- National Consumer Law Center: [Guide to Surviving Debt](#)
- Consumer Financial Protection Bureau: [Reverse Mortgage Loans](#)

Case consultation assistance is available for attorneys and professionals seeking more information to help older adults. Contact NCLER at ConsultNCLER@acl.hhs.gov.

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