LESSON · HOUSING

Reverse Mortgages Explained: How a HECM Works

A reverse mortgage lets you turn home equity into cash without selling or making monthly payments. It can be useful, and it’s easy to misunderstand. Here’s how it actually works.

Read time: 7 minutes **Level:** Intermediate **Includes:** Knowledge check

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A reverse mortgage is a loan against your home that you don’t repay month to month. Instead, the balance grows, and the loan is repaid when you sell, move out, or pass away. Most reverse mortgages in the U.S. are **Home Equity Conversion Mortgages (HECMs)**, insured by the Federal Housing Administration (FHA).

Who qualifies

- You must be **62 or older**.
- The home must be your **main residence**, and you must own it outright or have paid down a large share.
- You must meet with a **HUD-approved counselor** before you apply.
- You must show you can keep paying **property taxes, homeowners insurance and HOA fees**.

How you can take the money

HECM payment options

OPTION	HOW IT WORKS
Lump sum	One payment at closing (fixed-rate loans)
Line of credit	Draw what you need, when you need it; the unused credit can grow over time
Tenure	Monthly payments for as long as you live in the home
Term	Monthly payments for a set number of years

Line of credit, tenure and term options are available on adjustable-rate loans, and can be combined. For 2026, the most home value a HECM can be based on is $1,249,125.

What it costs

Reverse mortgages are expensive to set up. FHA charges an upfront mortgage insurance premium of **2%** of the home's value (up to the limit) and **0.5% a year** on the balance. Add lender origination fees, closing costs and interest. On a $400,000 home, the upfront insurance alone is $8,000.

Because you make no payments, interest and insurance are added to the balance and compound:

How the balance grows

YEARS	BALANCE ON $100,000 DRAWN
At closing	$100,000
5 years	About $140,000
10 years	About $197,000

Assumes 7% a year in combined interest and mortgage insurance, with no repayments. Illustrative.

What happens to your heirs

The loan comes due after the last borrower, or an eligible non-borrowing spouse, dies. Heirs then generally have 30 days from the due-and-payable notice to buy, sell or hand over the home, and they can request extensions of up to six months to sell or arrange financing. To keep the home, they must repay the full balance.

A HECM is **non-recourse**: heirs never owe more than the home is worth. If the balance is higher, they can satisfy the loan by selling for at least 95% of the appraised value, and FHA insurance covers the rest.

> **You still have to pay to keep the home**
>
> The loan can come due early if you stop paying property taxes or insurance, don't maintain the home, or move out. A reverse mortgage removes the mortgage payment, not the cost of owning a home.

Taxes and benefits

Reverse mortgage money is a loan, not income, so it isn't taxed and typically doesn't affect Social Security or Medicare. It can affect eligibility for needs-based programs such as Medicaid.

When it can make sense

- You plan to stay in the home for many years and want to age in place.
- You want to replace an existing mortgage payment to lower your monthly costs.
- You want a standby line of credit to draw on after a market drop, instead of selling investments at a loss.

It usually makes less sense if you may move within a few years, if leaving the home to heirs matters most, or if you'd struggle to keep up with taxes and insurance.

How Blueprint approaches this

- Blueprint doesn’t model a reverse mortgage directly. Your home’s equity isn’t counted as spendable savings in your monthly paycheck.
- To see what a lump-sum draw could do, you can enter it as a **Cash Windfall** (Plus) with a taxable amount of $0. Remember the loan balance grows, leaving less equity for later or for your heirs.
- If a HECM would replace your mortgage payment, lower your **Housing** line, and compare the two plans with a **what-if scenario** (Plus).

Before you consider a reverse mortgage:

- [ ] Meet with a HUD-approved counselor
- [ ] Get every fee in writing, including the 2% upfront insurance
- [ ] Decide how you’d take the money
- [ ] Confirm you can keep paying taxes, insurance and upkeep
- [ ] Talk with your heirs about what happens to the home
- [ ] Compare it with downsizing

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. What's the minimum age for a HECM?

- A. 55
- B. 62
- C. 70

2. What happens to the loan balance if you make no payments?

- A. It stays the same
- B. It grows as interest and insurance are added
- C. It's forgiven after 10 years

3. If the balance is more than the home is worth, what do heirs owe?

- A. The full balance
- B. Nothing beyond the home's value; the loan is non-recourse
- C. Double the balance

4. Which can make a reverse mortgage come due early?

- A. Not paying property taxes or insurance
- B. Taking a vacation
- C. Claiming Social Security

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Sources: HUD, How the HECM Program Works; Mortgage Bankers Association, "FHA Increases HECM Limit to $1.25M in 2026"; HousingWire, "When a reverse mortgage comes due, heirs face a clock"; Boldin, "The Tax Implications of Reverse Mortgages."

Blueprint Tomorrow provides educational planning tools, not individualized investment, tax, insurance or legal advice. Nothing in this lesson is a recommendation to take any specific action with your accounts. Reverse mortgage terms vary by lender; review all terms with a HUD-approved counselor.