REAL ESTATE EDUCATION SERIES

RE/MAX Properties

Reverse Mortgage Basics

How it works, who may benefit, and what to consider

Doug Petersen, Broker Associate
RE/MAX Properties | Colorado Springs

A reverse mortgage is a loan secured by your home that can provide access to part of your equity while you keep title. This guide focuses on the FHA-insured Home Equity Conversion Mortgage (HECM); private reverse mortgages can have different rules and protections.

1 Understand what makes the loan different

A HECM does not require scheduled monthly principal-and-interest payments while loan obligations are met. Interest and financed charges add to the balance, which generally grows over time. You or your estate must eventually repay the debt. The lender does not become the owner simply because you take out the loan.

2 Confirm the basic requirements

HECM borrowers must be at least 62, occupy the property as their principal residence, and meet financial and property requirements. Existing mortgage debt must be paid off at closing using loan proceeds, other funds, or both. The lender assesses whether ongoing property expenses can be covered.

3 See how much money would actually be available

Proceeds depend on factors such as age, interest rates, home value, and program limits. Payoff of existing debt, loan costs, repairs, and required set-asides may reduce spendable funds. Home equity is not the same as the amount a reverse mortgage will make available.

4 Choose the way you receive funds

Depending on the loan, options may include a lump sum, monthly advances, a line of credit, or a combination. Fixed-rate and adjustable-rate options have different features. Ask which choices are available and how each would affect costs, available proceeds, and your expected borrowing needs.

5 Keep property expenses in the budget

You remain responsible for required property charges, including taxes and homeowners insurance, and for maintaining the home. HOA obligations may also apply. You must meet occupancy and other loan terms. Failure to comply can make the loan due and can lead to foreclosure.

The key tradeoff

Accessing equity may improve cash flow and allow you to remain in your home. In exchange, the growing debt can reduce remaining equity, future moving options, and what is left for heirs. Compare both the immediate benefit and the longer-term effect.

Doug Petersen | 970-290-3000 | douglas.petersen@remax.net
Each RE/MAX office is independently owned and operated. | © 2026 Doug Petersen. All rights reserved.

RE/MAX Properties

Reverse Mortgage Basics

Who may be a good candidate - and who should be cautious

Doug Petersen, Broker Associate
RE/MAX Properties | Colorado Springs

Qualifying does not automatically make a reverse mortgage a good choice. Its suitability depends on your housing plans, available equity, ongoing expenses, family needs, and the alternatives.

6 A potentially good fit

A homeowner who expects to remain for many years, has sufficient equity, can afford property expenses and upkeep, and wants to supplement cash flow may benefit. A workable plan also considers future care needs, emergency savings, and the effect of a larger loan balance on future choices.

7 A potentially poor fit

Be cautious if you expect to move soon, struggle to pay taxes or insurance, or need proceeds that the loan cannot provide. Upfront costs can be hard to justify for a short stay. A reverse mortgage may not solve a continuing budget shortfall or a home that no longer meets your needs.

8 Understand repayment triggers

A HECM generally becomes due when the last borrower dies, the home is sold, or it is no longer the borrower's principal residence, subject to applicable spouse protections. A health-related absence beyond 12 consecutive months can trigger repayment if no other borrower remains. Ask the servicer before an extended move.

9 Plan for spouses, other residents, and heirs

A co-borrower can generally remain if obligations are met. An eligible non-borrowing spouse may qualify for repayment deferral but does not receive further loan advances. Other residents are not automatically protected. Heirs wanting to keep a HECM home can generally repay the lesser of the balance or 95% of appraised value.

10 Compare alternatives before deciding

Consider keeping your present loan, refinancing, a home equity loan or credit line, reducing expenses, or moving to a more affordable home. Compare payments, borrowing costs, and accessible savings. Ask qualified advisers about tax questions and any effect on needs-based benefits.

Illustration: $360,000 in equity is not $360,000 to spend

An $800,000 home with a $440,000 mortgage has $360,000 in equity before selling costs. A reverse mortgage calculation is different. Obtain a written proposal showing the permitted loan amount, mortgage payoff, fees, any set-asides, and net available funds. Extra cash may be needed to close.

Each RE/MAX office is independently owned and operated. | © 2026 Doug Petersen. All rights reserved.

RE/MAX Properties

Reverse Mortgage Basics

Lenders, servicing, counseling, and your next steps

Doug Petersen, Broker Associate
RE/MAX Properties | Colorado Springs

For a HECM, a private FHA-approved lender makes the loan and FHA provides mortgage insurance. The lender, servicer, and housing counselor have different responsibilities. Know whom to contact at each stage.

11 The lender evaluates and originates the loan

The lender explains available products, collects documents, reviews credit and finances, arranges the appraisal, and determines whether the application meets program requirements. It calculates proceeds, required payoffs, and any property-charge set-aside, provides disclosures, and coordinates approval and closing.

12 Compare the full cost of written proposals

Ask multiple lenders for comparable scenarios using the same assumptions. Review fixed versus adjustable rates, origination and third-party costs, mortgage insurance, servicing charges, and net proceeds. Ask about Total Annual Loan Cost (TALC) disclosures and projected balances at different future dates. Financed costs still increase what you owe.

13 The servicer manages the loan after closing

The servicer may differ from the original lender. It handles statements, advances, account questions, occupancy checks, and compliance with loan obligations. Contact it promptly about extended absences, property-charge problems, a sale, or a death. Keep written records and tell family members how to reach the servicer.

14 The counselor provides an independent review

HECM borrowers must complete counseling through a HUD-approved reverse mortgage counseling agency. The counselor explains costs, obligations, alternatives, and effects on the household. Counseling is separate from loan approval. A lender's sales explanation does not replace it or your own financial and legal advice.

15 Proceed with a clear plan and no pressure

Begin with your budget and housing goals, obtain counseling, compare proposals, and review the family plan before closing. Avoid pressure to borrow for an investment or contractor project. Ask Doug Petersen to help compare staying in your current home with selling or moving; obtain loan advice from qualified lending professionals.

Before signing, ask the lender to show you

How much cash remains after payoff and costs? Which expenses must I continue paying? What happens if rates rise, I need care, or I move? Who can stay in the home? How will my balance change, and how would the loan be repaid?

Sources: CFPB eligibility, costs, spouses and heirs, counseling questions; FTC reverse mortgage guide. Reviewed October 30, 2026. Educational overview, not individual financial or legal advice. Loan terms and eligibility vary.

Each RE/MAX office is independently owned and operated. | © 2026 Doug Petersen. All rights reserved.