WHAT'S THE CATCH WITH A REVERSE MORTGAGE

When someone asks "what's the catch," the worst possible answer is "there isn't one."

There is always one.

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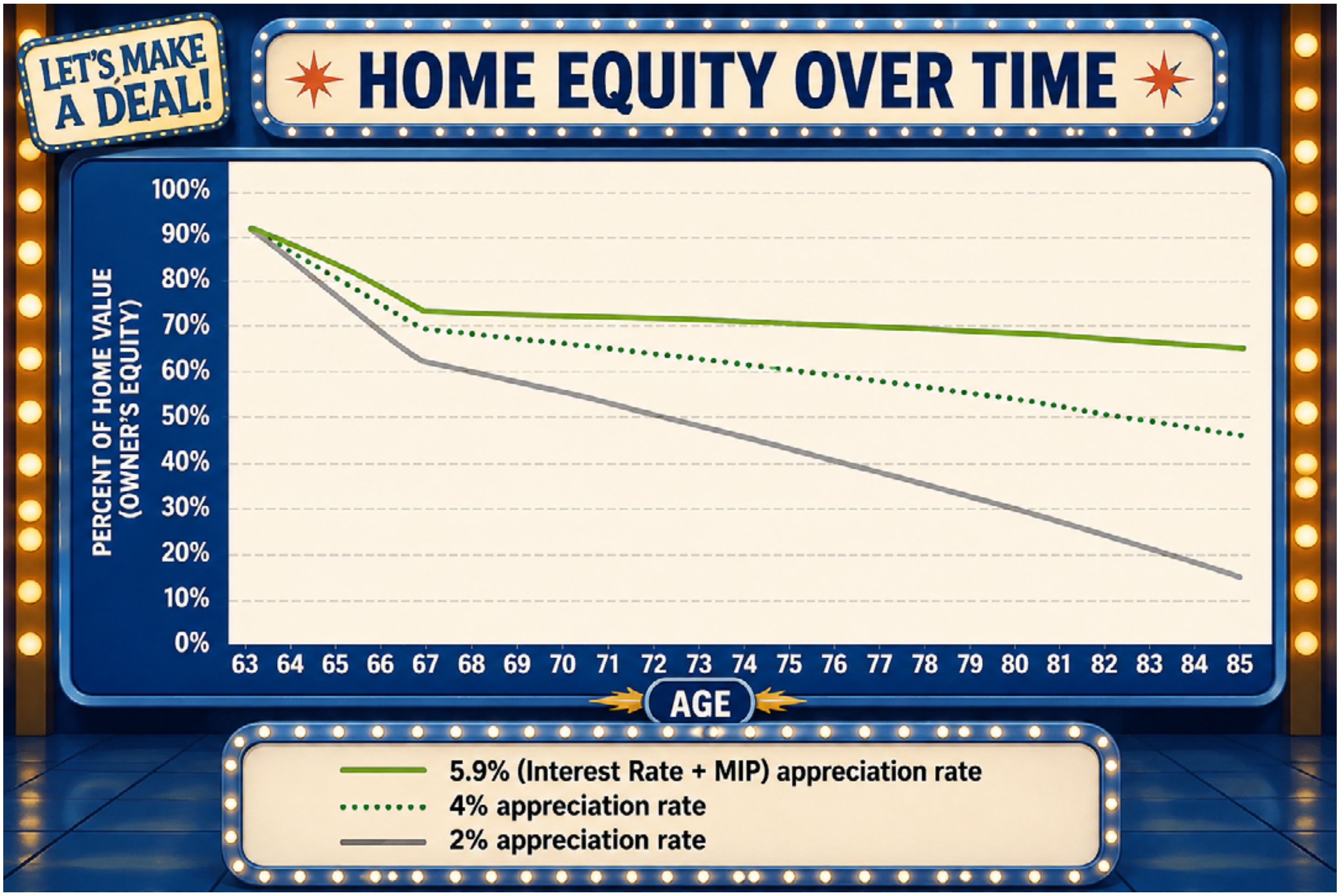
In the case of reverse mortgages, there are several.

A reverse mortgage is a financial product with real trade-offs. People who don't realize that often feel cheated.

So here they are: The six catches explained in simple terms.

Catch #1: The Interest Compounds, and It Eats Your Equity



This is the fundamental trade. You make no monthly payments, which is the entire appeal, but that means interest adds to your balance, and then future interest is charged on the larger balance.

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The CFPB modeled this explicitly: a 62-year-old with a $175,000 home appreciating at 4% annually, on a loan at 5.9%. By age 67, the home is worth roughly $212,914, but the owner's equity has dropped to about 64% of the home's value. The house appreciated. Their share of it shrank.[1]

Catch #2: Leaving Early Is Expensive

Most of what you pay comes at the beginning: the 2% upfront mortgage insurance premium, the origination fee, and third-party closing costs. Those don't scale down if the loan ends early.

That matters more than most people expect, because loans end sooner than people expect. The CFPB reports the average reverse mortgage taken at age 62 lasts about seven years.[2]

Spread $12,000 in upfront costs over twenty years and it's reasonable. Spread it over four years because health or family changed your plans, and it's an expensive loan. If there's a meaningful chance you'll move within five years, this product probably isn't for you.

Catch #3: You Can Still Lose the Home

Federal regulators have fined reverse mortgage companies for advertising that you couldn't lose your home in the past.[3]

You can.

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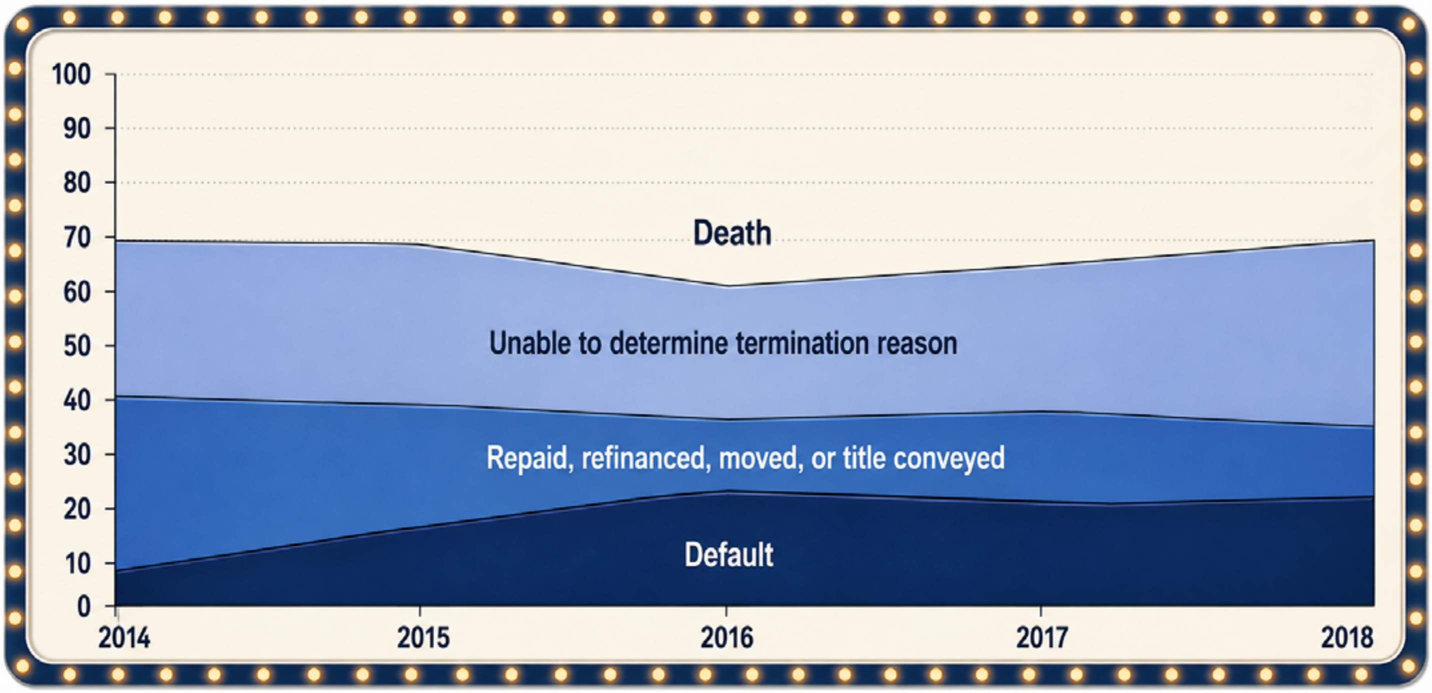
A reverse mortgage requires you to keep paying property taxes and homeowner's insurance, maintain the property, and live there as your primary residence. A default occurs when a borrower fails to meet loan conditions, either by not paying property charges or not meeting occupancy requirements, and borrowers risk foreclosure and loss of their homes if the situation isn't corrected.[4]



However, for borrowers who do fall behind, options have improved. A 2024 consumer guide on HECM protections notes HUD eliminated the ban on successive repayment plans for larger arrears, clarified that HOA and condominium fees may be included in a repayment plan, and improved the "At-Risk Extension" option.[5]

Catch #4: Your Heirs Are on a Clock

When the loan becomes due, your family doesn't have the leisurely timeline that normally accompanies settling an estate.

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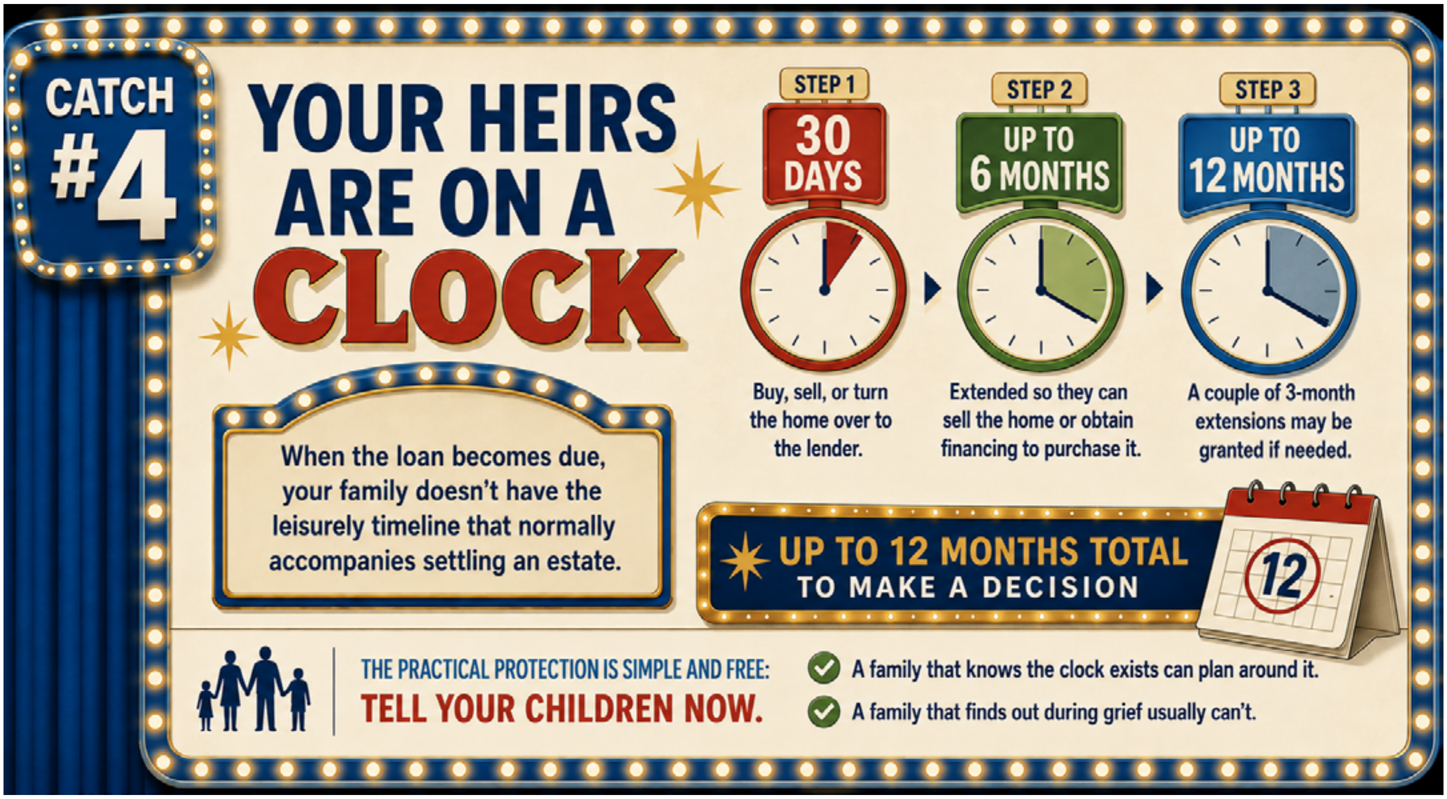
Per the CFPB, once heirs receive a due-and-payable notice, they have 30 days to buy, sell, or turn the home over to the lender. The timeline may be extended up to six months so they can sell the home or obtain their own financing to purchase it.[6]



But they can also be granted a couple of three-month extensions if they need. This allows them to have a full year to make their decision.

The practical protection here is simple and free: tell your children now.

A family that knows the clock exists can plan around it. A family that finds out during grief usually can't.

The "Catch" That Isn't Real

Now the flip side.

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The most feared catch, that your family could inherit your debt, is not true. A HECM is non-recourse. Per the CFPB, if your heirs want to keep the home, they repay either the full loan balance or 95 percent of the home's appraised

value, whichever is less. If the loan balance exceeds the home's value, FHA insurance, funded by the premiums you paid, covers the difference. Your heirs are never pursued for a shortfall, and no other estate assets are at risk.

What's the Verdict?

A reverse mortgage tends to work when you plan to stay long-term, can comfortably cover taxes and insurance, have your spouse properly on the loan or documented, have told your family, and have a specific purpose for the money.

It tends to go badly when you may move within a few years, are already stretched on property charges, are taking a large lump sum without a plan, haven't discussed it with the people who'll inherit the home, or are using it to patch a short-term cash problem that will recur.

Still Doing Your Homework?

Good. Every claim above came from a public government source you can read yourself. Keep going through our educational library at www.greenmonarch.com, where we cover the costs, the rates, and the rest of the honest downsides. When you want to talk through whether these catches apply to your situation, call (800) 345-2041 or feel free to keep exploring our educational library at www.GreenMonarch.com.

SOURCES

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