A reverse mortgage loan is secured by your home, like any mortgage, meaning the lender can foreclose if the loan terms are violated. Unlike most mortgages, there are no monthly payments on the reverse mortgage loan. Instead the loan comes due (with interest) upon a triggering event, typically the borrower passing away or permanently moving out of the home.

There is a limit to how much you can borrow on your home, called the “principal limit.” Your principal limit will be higher the older you are, the higher the value of your home (after subtracting current mortgage balances), and the lower current interest rates are. If you are married or own the home with another person, the principal limit is based on the younger of the two of you.

Your ability to obtain a reverse mortgage is much less tied to your credit score than a traditional mortgage, and you should not be refused a reverse mortgage or pay higher interest because you have low income or a blemished credit rating. Since there are no monthly payments on the loan itself, the lender is not concerned about your ability to make such mortgage payments.

The lender will be checking to see that you have the resources (either on your own or through the reverse mortgage loan) to keep up with certain “property charges”—your property taxes, homeowner’s insurance, any homeowner association (HOA) dues, and necessary home repairs. You are required to pay these property charges during the term of the reverse mortgage. Failure to pay them will result in foreclosure and loss of the home. Many people have gotten into trouble on their reverse mortgage loan because they’re not used to paying the property taxes or insurance once a year when they come due, especially if they had a standard mortgage previously that collected the money through an escrow. It is important to understand this obligation to pay the taxes and insurance yourself, and to set aside the necessary funds.

There are a number of ways you can receive the proceeds from a reverse mortgage loan. If you have a pre-existing mortgage on your home, the reverse mortgage loan proceeds first will be used to pay off that mortgage. If your present mortgage balance is high, paying off this mortgage will significantly reduce what is available to you from your reverse mortgage loan. On the other hand, the reverse mortgage will free up your cash since you will no longer have to make mortgage payments on the pre-existing mortgage. Remember, you will still have to pay property taxes, homeowner’s insurance, necessary repairs, and other home-related expenses.

After paying off any existing mortgage and any other liens on the house, the rest of your reverse mortgage loan can be paid to you in any of the following ways:

- One large payment of the full principal limit given to you in cash. This almost never makes sense. Instead, delay receiving as much of your reverse mortgage proceeds as possible to help you pay for future expenses—such as unexpected home repairs, health care expenses, and other emergencies.
- A fixed monthly payment paid to you for a set period of time. This is called a “term” plan.
- A fixed monthly payment (smaller than the “term plan” amount) that will be paid to you like an annuity for as long as you survive and live in the home (called a “tenure” plan).
- As a line of credit to be drawn at your convenience. Only draw down what you need, and then interest and fees will only accrue on what you draw on. Not only will the remaining principal limit be available for you for future use, but that limit will increase over time. The line of credit option may also be combined with a term or tenure plan.

Your reverse mortgage loan balance (how much you owe) is based on how much the reverse mortgage lender pays you, including paying off your mortgage and any other loans. Also added to the loan balance are any upfront closing costs similar to a regular mortgage—origination fees, real estate closing costs, and an initial mortgage insurance premium. As the lender gives you more money, your loan balance with the lender goes up. The balance also goes up each month with interest charges, mortgage insurance premiums and servicing fees being added to the balance.

The loan balance eventually must be repaid either when you pass away or when you move out of the house. The balance can be paid off by selling your home, by refinancing, or by letting the lender foreclose. If it is sold at foreclosure for more than the reverse mortgage loan balance, your heirs get to keep the difference. If it is sold for less, your heirs will not have to pay anything, because the difference is covered by mortgage insurance.

You can also sell your home before you pass away or move out, and if you do, you would be able to keep the difference if the sale price is greater than the reverse mortgage loan balance at the time of sale. If the house is sold through a foreclosure or short sale for less than the loan balance, you will not owe anything, again because of the mortgage insurance.