What is a reverse mortgage?

A reverse mortgage is a loan where the lender pays a homeowner (in a lump sum, a monthly advance, a line of credit, or a combination of all three) while he or she continues to live in the home. With a reverse mortgage, the homeowner retains title to the home. Depending on the plan, a reverse mortgage becomes due with interest when the homeowner moves, sells the home, reaches the end of a pre-selected loan period, or dies. Because reverse mortgages are considered loan advances and not income, the amount received is not taxable. Any interest (including original issue discount) accrued on a reverse mortgage is not deductible until the loan is paid in full. The deduction may be limited because a reverse mortgage loan generally is subject to the limit on home equity debt.[[1]](#footnote-1) A lender commits itself to a principal amount, not to exceed 80 percent of the property’s appraised value.

**Planning Point: Although available through the private sector the vast majority of reverse mortgage borrowers choose to use a Home Equity Conversion Mortgage (HECM), which are regulated by the Department of Housing and Urban Development (HUD) and only available through an approved Federal House Administration (FHA) lender.**

1. . IRS Publication 17. [↑](#footnote-ref-1)