

Can I file a Chapter 7 bankruptcy with a reverse mortgage and keep my home?

In general, reverse mortgages are treated in bankruptcy the same as any other mortgages, but "in general" isn't enough in this situation. As they say, the devil is in the details.

Reverse mortgages can be valuable to many people, in particular to people on a fixed income who have significant equity in their home and who need additional monthly income. Typically, a reverse mortgage provides a line of credit that either allows loans to be taken periodically or pays a set amount per month (from loans taken) for a period of time which may be the remainder of the person's life. As the person receives money from the lender, the person's equity in the home is reduced by the increased amount borrowed.

If a person with a reverse mortgage files bankruptcy, several issues pop up.

- What is the remaining equity in the home? Whatever it is, it's treated as any other home equity and must be protected by available exemptions (a very important subject in bankruptcy) or the home may be lost to creditors. You must get an accurate current valuation of your home and then obtain from the reverse-mortgage lender the current mortgage balance on the property.
- The unused line of credit is not an asset in the bankruptcy, to be taken by the trustee for creditors, in spite of information to the contrary that seems to get published on the internet.
- The reverse mortgage agreement may contain provisions that the amount owed becomes due and payable when filing bankruptcy, which would mean that the lender could foreclose and take the house. If the agreement doesn't contain such a clause, it nevertheless may provide that the remaining credit line (if any) will be closed upon filing bankruptcy.
- If the payments from the lender continue after filing bankruptcy, the Chapter 7 trustee might tell the lender to stop disbursing money to the debtor because those payments reduce the equity in the property which is property of the bankruptcy estate.

So the answer to the original question is a strong "maybe" and an even stronger "be very careful". Filing a Chapter 7 bankruptcy when you have a reverse mortgage requires very careful examination and evaluation.

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