

How to Buy a Dream Retirement Home With No Monthly Payments

Admin User · January 19, 2026

Reverse mortgages can allow retirees to buy new homes without any monthly mortgage payments. Here's how.

By Steve Resch

By now, most people understand that a reverse mortgage is a type of loan that allows eligible homeowners to borrow money from the equity in their home. However, what is not well understood is that it is also possible to use a reverse mortgage to purchase a home that may be more suitable for a current lifestyle, with no monthly mortgage payment.

Keep in mind that the borrower must still pay property taxes, fees and insurance, as well as maintain the home and live in it as a primary residence, but a reverse mortgage can help in covering expenses and preserving other retirement assets.

Reasons for relocating may include a new location, where both housing costs and the cost of living might be less, or “rightsizing,” where a home is better suited for mobility, accessibility and function.

Before demonstrating how to use a reverse mortgage to purchase a home, let us briefly review what a reverse mortgage is and how it works. Then, we will explore how to increase home buying power with a reverse mortgage for purchase.

What Is a Reverse Mortgage?

The most common type of reverse mortgage is the “Home Equity Conversion Mortgage” (HECM). The Federal Housing Administration (FHA) insures about 95% of all reverse mortgage loans.

With a HECM, a borrower can access a portion of their equity with no monthly mortgage payment, until they sell their home or leave it permanently due to illness or death. To qualify, they must be 62 or older, have sufficient home equity and be responsible for the

home's upkeep and payment of property taxes and homeowners' insurance.

The HECM will refinance and pay off their current mortgage, if one exists, then distribute the remainder of the loan proceeds to them in a lump sum, monthly payments or as a line of credit.

What Is HECM for Purchase?

The HECM for Purchase functions the same way as the traditional HECM regarding eligibility, the repayment process and available loan amounts. As part of a purchase transaction, however, the borrower would make a cash contribution, typically between 50% and 70% of the purchase price, and the HECM loan makes up the difference.

Why Use HECM for Purchase?

A recent [Nationwide Retirement Institute Survey](#) noted that 40% of non-retired investors plan to move to a different city or region after retiring, with the main incentive being to lower their cost of living (43%) and lower taxes (34%).

For many decades in the pre-pandemic world, it was a common strategy for retirees to downsize and sell their equity-rich home, pay all cash for a less expensive one in a more affordable city and then use their new-and-improved cash flow to maintain or even upscale their lifestyle.

However, this sell-high, buy-lower strategy has faced persistent headwinds of rising home prices and shrinking housing inventories in the post-pandemic world. With a HECM for Purchase, many retirees can still realize their goals of living well and affordably in retirement.

Let us do some number-crunching to show the HECM for Purchase in action.

New York to Florida

Assume the borrower wants to retire to Florida and sell a New York home for the median value of [\\$522,000](#). If we subtract 10% for closing and relocating costs (\$52,200) they now have \$470,000 available to purchase a new home in Florida.

With the median home value in Florida of [\\$433,000](#), they could pay cash and have an extra \$37,000 in their pocket – nice but hardly enough to impact retirement assets. Let us see if we could do better:

HECM for Purchase Alternative

\$470,000 available cash from the sale of New York property

+ \$177,963 HECM Loan amount (based on the age of borrower and current interest rates).

- \$433,000 purchase price

- \$ 24,526 (loan financing costs)

= \$190,437 Remaining Cash

Takeaway: Buying a new home with a HECM for Purchase leaves the borrower with \$153,437 more in loan proceeds than if they had bought the home outright. Their cash position remains strong because they have no required monthly mortgage payments for as long as they live in that home and meet other loan obligations. They still have a loan to repay, but it is not due until they sell or permanently leave their home or fail to comply with all loan terms, which includes maintaining the home, paying property taxes and homeowners' insurance.

(Loan Assumptions: Illustration is for educational purposes only and reflects a variable rate HECM with borrowers age of 66 who reside in Florida purchasing a home with a value of \$433,000 and closing costs of \$24,526. Closing fees vary depending on the location and value of the home. The initial interest rate is 5.50% (6% APR). The APR corresponds to the periodic interest rate and does not include costs other than interest. Based on these assumptions, the borrower has an initial principal limit of \$177,963, finances \$24,526 of closing costs (which includes an upfront mortgage insurance premium of \$8,660, origination fee of \$6,000, and closing costs of \$9,866 and has \$153,437 in loan proceeds remaining to use towards the home purchase. An FHA annual mortgage insurance premium of 0.50% of the outstanding loan balance, divided by 12, will be added to the loan balance each month. Rate quote generated December 19, 2024. This rate could change or not be available at commitment or closing.)

Moving On Up

While saving money is the number one reason retirees move, the [desire for a more accessible home, community or just being closer to family is also near the top of the wish list](#). But what happens if the right home is more expensive than the one they are living in?

For example, let us say they sold their current home, and after all expenses walked away with \$400,000. The new home they would like to purchase is \$600,000. To make up the \$200,000 difference, they could:

1. Drain investments or savings.
2. Do traditional financing, adding a monthly payment to their budget.
3. Do HECM for Purchase.

HECM for Purchase Option

\$400,000 available cash from the sale of current home

+ \$246,600 HECM Loan amount (based on the age of borrower and current interest rates).

– \$600,000 purchase price for a new home

– \$ 30,171 (loan financing costs)

= \$16,424 Remaining Cash

Takeaway: Buying a more expensive home with HECM for Purchase helps leverage equity proceeds to get into the property without adding a monthly expense or spending down investments. Again, this loan must be repaid, but not until they sell or permanently leave their home or fail to comply with all loan terms.

(Loan Assumptions: Illustration is for educational purposes only and reflects a variable rate HECM with borrowers age of 66 who reside in Florida purchasing a home with a value of \$600,000 and closing costs of \$30,171. Closing fees vary depending on the location and value of the home. The initial interest rate is 5.50% (6% APR). The APR corresponds to the periodic interest rate and does not include costs other than interest. Based on these assumptions, the borrower has an initial principal limit of \$246,600, finances \$30,171 of closing costs (which includes an upfront mortgage insurance premium of \$12,000, origination fee of \$6,000, and closing costs of \$12,171) and has \$216,429 in loan proceeds remaining to use towards the home purchase. An FHA annual mortgage insurance premium of 0.50% of the outstanding loan balance, divided by 12, will be added to the loan balance each month. Rate quote generated December 19, 2024. This rate could change or not be available at commitment or closing).

Stay, or Move On?

No matter what the reason for moving is, it is always a big decision that has many factors to consider. The HECM for Purchase can help with decision-making by providing more options for retiring well, and in the home that is right.

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