Reverse Your Thinking ®

**EDUCATIONAL RESOURCE SERIES**
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# Life Estates

Understanding property ownership during a person's lifetime and how life estates affect reverse mortgage transactions.



## What Is a Life Estate?

A life estate is a type of ownership interest in real estate. In a life estate, one person is given an ownership interest in real estate for their lifetime. This person is called a life tenant.
At the death of the life tenant, the real estate passes automatically to one or more other individuals or organizations. The people or organizations that receive the property at the death of the life tenant are called remaindermen.

### Advantages and Disadvantages

A life estate is a form of co-ownership. Both the life tenant and remainderman have an ownership interest in the real estate, but at different periods in time. Unlike other forms of co-ownership, the co-owners do not have rights to the property at the same time. The life tenant possesses the property during their lifetime, while the remainderman holds a current ownership interest but cannot take possession until the life tenant's death.

### Why Use a Life Estate?

Generally, a life estate is conferred by a deed, but it may also be conferred in a will or trust.
The most common situation involves a parent who wants their home to go to their children after the parent dies. The parent transfers the real estate by deed to the children, reserving a life estate for themselves.
Under this scenario, the parent retains the exclusive right to possess the property until death. At the time of the parent's death, the property passes to the children (remaindermen), who then take possession.

## Reverse Mortgages & Life Estates

Life estates are often encountered by reverse mortgage professionals during the origination process. Reverse mortgage professionals should have a good understanding of what a life estate is in order to guide their clients and transactions to a successful closing.
Reverse mortgage professionals will generally encounter two different types of life estate deeds: those “with powers” and those “without powers.”

### Life Estate With Powers

A life estate with powers (often referred to as an enhanced life estate or Lady Bird deed) does not change the life tenant's legal authority to control and manage the property. Under this form of ownership, the life tenant has full authority to mortgage, refinance, sell or otherwise convey the property without notifying the remainderman or obtaining their consent.
This type of ownership is very common in Florida. Only the life tenant's signature and consent are needed to complete a reverse mortgage transaction.

### Life Estate Without Powers

In a life estate without powers, the life tenant's legal authority to mortgage, refinance, sell or otherwise convey the property is restricted.
The remainderman must be given notice and join in the transaction, thereby establishing the remainderman's consent to the life tenant's actions.
In this type of ownership, both the life tenant and remainderman are required to execute the mortgage to complete the transaction.
Additional information, including the risks involved with life estates, can be obtained by contacting an attorney or an estate planner.

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