naf Reverse

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Are reverse mortgages a scam? 10 myths, the real downsides and the red flags

QUICK ANSWER

A reverse mortgage is not a scam. It's a loan regulated by federal and California law, and for some homeowners 62 and older (55 and older for some loans) it's a sensible choice. But many of the fears people carry come from old rules, bad ads and half-told stories, and some of the downsides are real. I'll tell you which is which, with honest answers on both sides, so you can decide for yourself.

Key points

- **It's a loan, not a benefit.** The balance grows over time as interest, mortgage insurance and fees are added, and it's repaid when the loan ends, usually from the home.
- **You keep the title.** The CFPB says the title stays in your name. The lender has a lien, like any mortgage.
- **Your heirs never owe more than the home is worth.** A HECM is non-recourse. But they may inherit little or no equity.
- **The rules have changed.** Protections for a younger spouse came in 2014, the Financial Assessment in 2015, and new mortgage insurance rates in 2017. Many old horror stories predate them.
- **The real risks are real.** Higher upfront costs, a shrinking equity cushion, and foreclosure if property taxes, insurance or upkeep go unpaid.
- **Scams live around the loan.** Pressure to buy annuities, fees to "arrange" the loan, contractors and fake government mail. See protecting a parent.

From Tom: Most people who come to me are uninformed, or they carry old fears. I hear doubts even from professionals. In my view, reverse mortgages carry old negative ideas,

and "the public needs to be re-educated on the truth behind them." That means telling you the downsides as plainly as the upsides.

Why reverse mortgages got a bad name

Some of it was earned. Federal regulators found real problems with how these loans were sold:

- **Misleading ads.** A 2015 CFPB study found ads could leave the false impression that a reverse mortgage was a government benefit with no risk, and left out that taxes, insurance and upkeep must still be paid. The CFPB later fined companies over ads like these.
- **Fake government mail.** The CFPB took action against companies that made it look like their mail came from the government.
- **Spouses left out.** Before HUD's 2014 rule, a younger spouse who wasn't on the loan had far fewer protections when the borrower died.
- **Borrowers who couldn't keep up the bills.** HUD added the Financial Assessment in 2015 so lenders check whether taxes and insurance are likely to stay paid.

The rules today are stricter. That doesn't make the loan right for everyone. It means the conversation should be about today's rules, not the old ones.

Ten myths, and the honest truth

What people believe	What's true	The real downside
1. "The bank owns your house."	The title stays in your name. The lender has a lien.	The loan comes due when the last borrower dies, sells, moves out for good (or is away more than 12 months in a row for illness), or doesn't meet the loan terms.
2. "My kids will inherit the debt."	A HECM is non-recourse. Heirs never owe more than the home is worth, and HUD lets them sell for 95% of the appraised value when the balance is higher.	The growing balance can use up most or all of the equity, so there may be little left to inherit.

What people believe	What's true	The real downside
3. "They can kick you out any time."	You can stay as long as it's your main home and you meet the loan terms.	Unpaid property taxes, insurance or HOA dues, or letting the home fall apart, can lead to foreclosure. See can you lose your home?
4. "It's a government handout."	It's a private loan from a lender. FHA insures HECMs, but that insurance protects the lender, not you.	You pay interest and mortgage insurance on every dollar you take.
5. "Your home must be paid off."	You can have a mortgage now. It's paid off at closing from the reverse mortgage.	You need enough equity to cover the payoff, costs and any required set-aside, or the loan won't work.
6. "It's always too expensive."	Costs vary by lender, and the origination fee has a HUD cap. You can compare written offers.	Upfront costs are usually higher than most loans, mostly from the 2% upfront mortgage insurance.
7. "You can't pay it off or sell."	You can repay part or all of it any time with no prepayment penalty, and you can sell any time.	If you leave in a few years, the upfront costs make it an expensive way to borrow.
8. "It cuts your Social Security and Medicare."	The FTC says a reverse mortgage won't affect Social Security or Medicare.	Money you hold can affect SSI or Medi-Cal. See benefits.
9. "Your spouse gets put out when you die."	For HECMs with FHA case numbers from Aug. 4, 2014 on, an eligible non-borrowing spouse named in the loan papers can stay.	A spouse who isn't named, and other relatives who live there, have no right to stay. See the non-borrowing spouse guide.
10. "The money is income, so it's taxed."	Loan advances are generally not taxable income. Talk to a tax professional.	How interest and a later sale of the home are taxed depends on your situation. Ask a tax professional.

From Tom, on costs: People tell me reverse mortgages are very expensive. My answer is that they "don't have to be." But the costs are real, and you should see every one of them in writing: the upfront and yearly mortgage insurance, the origination fee, third-party closing costs, and the interest added to the balance. See what it costs and mortgage insurance and closing costs, line by line.

The downsides that are true

I'd rather you hear these from me than find them later:

1. **The balance grows and your equity shrinks.** Interest and mortgage insurance compound on what you owe.
2. **Less for your heirs.** That's the trade for using the equity now.
3. **The bills never stop.** Property taxes, homeowners insurance, HOA dues and upkeep stay yours.
4. **It can come due sooner than planned,** for example after a long stay in care.
5. **It isn't for everyone.** A reverse mortgage may not improve your finances, and it may not be the cheapest option.

From Tom: "If a family can afford to make the payment and they're not in a retirement situation yet, then there's no need for them to go into a reverse." If they are retired, or their income is limited, a reverse mortgage is often the better fit. It depends on each family.

On inheritance, Tom's personal opinion is that "the parents should be living for themselves, not living for the kids." That's his view, not a rule. Talk it over with your family.

For the full list of pros and cons, see is a reverse mortgage a good idea?

Red flags of a reverse mortgage scam

The scams usually aren't the loan. They're the people and pitches around it. My advice: walk away if you see any of these:

- **A fee to "find" or "arrange" a reverse mortgage.** HUD bars using HECM money to pay an "estate planning service firm," a company that charges a fee tied to you getting the loan, or charges for information your counselor gives you. Your counselor is required to ask whether you've signed one of these contracts.
- **"Use the money to buy an annuity or invest it."** No one involved in the loan can require you to buy another product. California law says so too.
- **A contractor who suggests a reverse mortgage to pay for repairs.** The FTC warns about this.

- **Mail with seals or "government" names.** A HECM is offered by a private lender, not the government.
- **Pressure to sign fast.** The FTC says if you feel pressured, walk away. In California, the law requires independent counseling and then a 7-day wait before a final application or any fee.
- **Blank pages to sign.** HUD doesn't allow lenders to have you sign blank or incomplete documents.
- **Someone who wants you to keep family out.** Families are welcome at counseling and meetings, if you want them there.
- **Promises that sound too good:** "you'll never make a payment," "tax-free income," "you can't lose the home." Each leaves out the taxes, insurance and loan terms.

For warning signs with a parent, memory loss, and where to report in LA and San Bernardino counties, see protecting a parent from fraud.

Made-up example: *A made-up example. Soo-jin is not a real person.* Soo-jin, 70, lives in Diamond Bar and owns her home. She'd heard reverse mortgages were a scam and that the bank would take her house.

A neighbor says he paid a company a fee to "set up" his loan, which worries her more. She calls a HUD-approved counselor herself.

The counselor explains that she would keep the title, that the balance would grow, that her property taxes, insurance and upkeep would stay hers, and that the loan would come due when she sells, moves out for good, or dies.

She learns her heirs would never owe more than the home is worth, but might inherit little. She also learns she should never pay a company just to find a loan. She gets written offers from two lenders, takes the full 7 days, and talks it over with her son before deciding.

Do and don't

My advice:

Do

- **Do** judge a reverse mortgage by today's rules, not by stories from before 2014.
- **Do** ask for every cost in writing, and compare at least two lenders.
- **Do** pick your own HUD-approved counselor and bring family if you like.
- **Do** ask what happens to your spouse and anyone else living with you.

Don’t

- **Don't** pay anyone a fee to find or arrange a reverse mortgage.
- **Don't** buy an annuity, insurance or investment with the money, or with anyone pushing it.
- **Don't** believe ads that skip the taxes, insurance, upkeep and the growing balance.

Questions families ask

Are reverse mortgages scams?

No. A reverse mortgage is a regulated loan. The scams are the pitches around it: fees to arrange the loan, annuity sales, contractors, fake government mail and pressure. The loan has real costs and risks, so learn them before you decide.

Why are reverse mortgages bad?

They aren't bad for everyone, but they have real downsides: higher upfront costs, a balance that grows, less left for heirs, and foreclosure risk if taxes, insurance or upkeep go unpaid. For someone who isn't retired and can afford a regular payment, there's usually no need for one.

Who owns the house in a reverse mortgage?

You do. The title stays in your name, or your trust's. The lender has a lien that is paid off when the loan ends. See titles, trusts and probate.

Will my heirs get stuck paying off a huge debt?

No. A HECM is non-recourse: heirs never owe more than the home is worth, and the debt is repaid from the home, not their savings. They can keep it by paying it off, sell it, or sign it over. See keep, sell or walk away.

Will my parents end up selling the house for a fraction of what it's worth?

Not because of the loan itself. When the loan ends, the home can be sold at market value, the loan is paid, and any equity left goes to the borrower or heirs. If the balance is more than the home's value, HUD lets heirs sell for 95% of appraised value and owe nothing more.

Are reverse mortgage ads telling the whole truth?

Not always. The CFPB found ads that made the loan look like a risk-free government benefit and left out the bills borrowers must keep paying. Read the full terms, the cost disclosures, and the counselor's explanation, not the ad.

Sources (read November 3, 2026)

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Talk with me first

I'll answer your questions and tell you plainly if a reverse mortgage isn't the right fit. No pressure.

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Personal estimate and more free guides: thereverseguide.com. Before you can apply, you'll meet with an independent HUD-approved counselor; it's required.

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