

MONEY MYTHS SERIES

Reverse Mortgage Myths: What the Ads Don't Tell You

What reverse mortgage ads leave out: the real HECM costs, how borrowers lose homes, regulator fines, and California's counseling protections.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/reverse-mortgage-pros-and-cons/

Part of our [money myths series](#), where we check the money advice on TV, Instagram, TikTok and YouTube against the actual rules.

The claim: A reverse mortgage is tax-free money from your house, backed by the government. No monthly payments, and you can never lose your home.

The verdict: A reverse mortgage is a loan, and it's an expensive one. Interest and FHA insurance premiums compound on the balance every month, the loan comes due when the last borrower dies or moves out, and you can lose the house for failing to pay property taxes, insurance or upkeep. Federal regulators have fined lenders for ads claiming otherwise. It's a real tool for some older homeowners, and it should be chosen with the costs in front of you.

62

Minimum age of the youngest borrower on a HECM (24 CFR § 206.33)

2% + 0.5% a year

FHA upfront and annual mortgage insurance premiums (HUD Mortgagee Letter 2017-12)

\$6,000

Maximum HECM origination fee (24 CFR § 206.31)

\$1,249,125

2026 HECM maximum claim amount (HUD)

\$790,000

Combined CFPB penalties on three lenders for deceptive reverse mortgage ads (2016)

Who gets paid when you take a reverse mortgage? The lender, through an origination fee of up to \$6,000 and interest that compounds for as long as the loan runs. The FHA, through a 2% upfront mortgage insurance premium and 0.5% a year on the balance. The broker or lead generator behind the TV spot or online ad. And sometimes a salesperson waiting to sell you an annuity or insurance policy with the proceeds, which is why California bars lenders from requiring one and from referring you to anyone for one before closing (Civ. Code § 1923.2). The celebrity in the commercial is paid too. The CFPB noted in 2015 that reverse mortgage ads "frequently feature celebrity spokespeople."

What is a reverse mortgage, in plain terms?

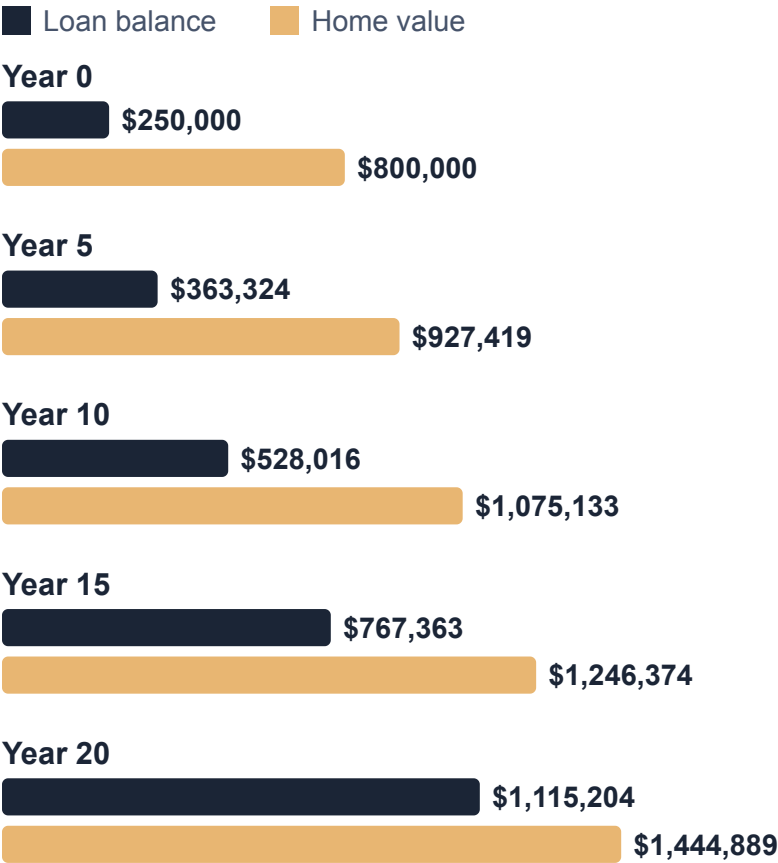
It's a loan against your home's equity that you don't repay monthly; instead, the balance grows and comes due when you die, sell or move out. Almost all reverse mortgages in California are FHA-insured Home Equity Conversion Mortgages (HECMs), governed by 12 U.S.C. § 1715z-20 and HUD's rules at 24 CFR part 206.

California defines a reverse mortgage as a nonrecourse loan that gives cash advances based on the equity in an owner-occupied principal residence and "requires no payment of principal or interest until the entire loan becomes due and payable" (Civ. Code § 1923). No payment until then isn't the same as no interest. Interest and premiums are added to what you owe every month.

Is reverse mortgage money free?

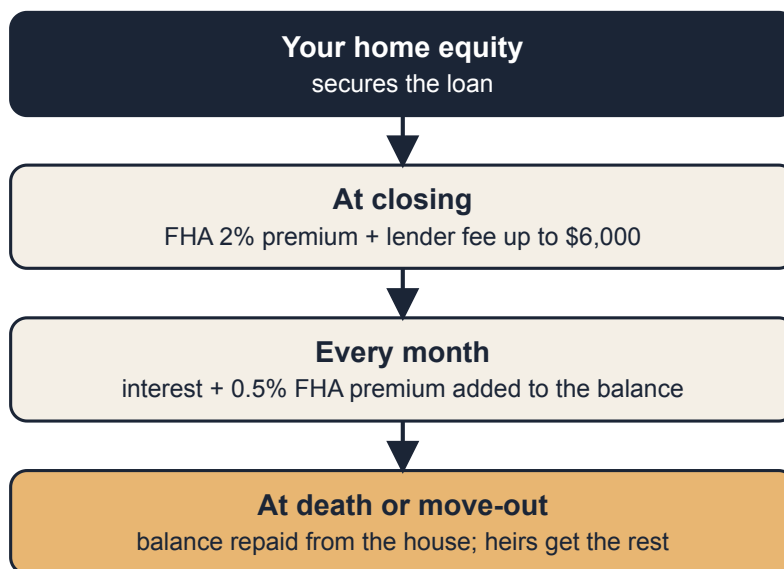
No. It's borrowed money, and the cost grows over time, as this hypothetical California example shows:

- A 72-year-old owns an \$800,000 home free and clear.
- The FHA upfront premium is 2% of the maximum claim amount: \$16,000. The origination fee formula (2% of the first \$200,000 plus 1% above that) would give \$10,000, but HUD caps it at \$6,000.
- The loan opens with a \$250,000 balance, which includes those \$22,000 of financed costs; title, appraisal and other closing costs come out of the rest.
- We assume a 7.0% interest rate plus the 0.5% annual premium, compounding monthly, and 3% a year home appreciation. Both are assumptions, not quotes.



Years after closing	Loan balance	Home value (3% a year)	Equity left
0	\$250,000	\$800,000	\$550,000
5	\$363,324	\$927,419	\$564,096
10	\$528,016	\$1,075,133	\$547,117
15	\$767,363	\$1,246,374	\$479,011
20	\$1,115,204	\$1,444,889	\$329,685

At 7.5% compounding monthly, the balance doubles in a little over nine years. If the home's value stays flat instead of rising, the balance passes \$800,000 in about 15 and a half years. The loan is nonrecourse, so neither you nor your heirs owe more than the house is worth (24 CFR § 206.27(b)(8)), but the equity you meant to leave is what pays for that protection.



Can you lose your home with a reverse mortgage?

Yes. You keep title, but the loan requires you to live there, insure the house, keep it in good repair and pay property charges (24 CFR § 206.27(b)). Fall behind on property taxes or insurance and the lender can call the loan.

The loan also comes due when the last borrower dies and the home isn't a surviving borrower's principal residence, or when the borrower conveys title (24 CFR § 206.27(c)(1)). The FTC notes a HECM borrower can generally live in a nursing home or other medical facility for up to 12 consecutive months before the loan has to be repaid. A longer stay can trigger repayment, and a sale.

California's required worksheet is blunt: it asks "Do you know that you can default on a reverse mortgage?" and answers that "Uncured defaults lead to foreclosures" (Civ. Code § 1923.5).

Have regulators taken action against misleading reverse mortgage ads?

Yes. In December 2016 the CFPB ordered American Advisors Group, Reverse Mortgage Solutions and Aegean Financial to stop deceptive advertising and pay civil penalties of \$400,000, \$325,000 and \$65,000. The agency said the companies "tricked consumers into believing they could not lose their homes with a reverse mortgage." It also said Aegean's Spanish-language ads falsely suggested the loan came from the U.S. housing department.

A year earlier, the CFPB studied 97 reverse mortgage ads and tested them with 59 homeowners 62 and older. It warned that ads touting "tax free" money and a federal program may lead older homeowners to believe reverse mortgages are "a risk-free government program or benefit." The federal insurance protects borrowers in some ways, but these are secured loans and homeowners can lose the home.

What happens to your spouse and your heirs?

A spouse who isn't a borrower on the loan has had real trouble. In *Bennett v. Donovan* (D.C. Cir. 2013) 703 F.3d 582, two widowed spouses who weren't named borrowers faced foreclosure after their husbands died, after brokers had assured them they'd be protected. The court held they could challenge HUD's rule. HUD's regulation now requires HECMs to include a deferral for an "Eligible Non-Borrowing Spouse" (24 CFR § 206.27(b)), but the conditions are technical. If a spouse is under 62, get advice on how the loan treats them before anyone signs.

When the loan comes due, the servicer gives the estate and heirs 30 days to pay the balance in full or sell the property for an amount HUD sets by notice at no more than 95% of the appraised value, even if the balance is higher (24 CFR § 206.125(a)(2)). Heirs can also sell and keep any equity, or let the lender take the house. Our page on [inheriting a house with a reverse mortgage](#) covers the deadlines, and [what to do with an inherited house](#) covers the rest. A living trust still avoids probate for a house with a reverse mortgage, but it doesn't stop the loan from coming due at death.

What protections does California law add?

California adds counseling and anti-cross-selling rules on top of HUD's. Under Civ. Code § 1923.2, the lender must give you a list of at least 10 HUD-approved counseling agencies, the counselor can't be paid by anyone selling the loan or annuities, and the lender can't accept a final application or charge fees until seven days after counseling. The lender can't require you to buy an annuity and can't refer you to anyone for one before closing or before your right to rescind expires.

Before counseling, the lender must hand you a notice in 16-point type warning that senior advocacy groups advise against using reverse mortgage proceeds to buy an annuity, plus a five-question worksheet you sign with the counselor (Civ. Code § 1923.5). Federal law adds the same counseling independence rule and bars requiring the purchase of insurance or annuities (12 U.S.C. § 1715z-20(d), (o)). If a salesperson is pushing a product to buy with your loan proceeds, that's the moment to stop. If an older relative was pressured into a reverse mortgage or into products bought with the money, see our guide to [elder financial abuse in California](#).

What should you consider before a reverse mortgage?

1 Price the alternatives

California's worksheet itself points to less costly home equity lines of credit, property tax deferral programs and family loans. Downsizing can free more equity at a lower cost. If the goal is to delay Social Security, compare the loan's cost with the benefit increase first; see [the Social Security at 62 myth](#).

2 Plan the property charges

Budget for property taxes, insurance and repairs for as long as you expect to stay. Those are what put borrowers into default.

3 Talk to your family, and your spouse especially

Who lives in the house with you, and what happens to them when you die or move to care? Put both spouses on the loan if you can.

4 Line up your estate plan

Decide who inherits the house and whether they'd keep or sell it. A reverse mortgage changes what's left for them. California's worksheet also warns that a reverse mortgage can affect Medi-Cal eligibility and recovery; see [whether Medi-Cal can take your house](#). And don't solve the problem by deeding the house to the kids first; [that has its own costs](#).

What the ad implies	What the rules say
Free money	A loan with interest, a 2% upfront FHA premium, 0.5% a year, and up to \$6,000 in origination fees
A government benefit	FHA insures it; a private lender makes it. The CFPB fined a lender for implying government affiliation.
You can never lose your home	Default on taxes, insurance or upkeep can lead to foreclosure (24 CFR § 206.27; Civ. Code § 1923.5)
No payments ever	No monthly payments; the full balance is due at death, sale or move-out
Your family is protected	Heirs owe no more than the home's value, but the equity shrinks; a non-borrowing spouse needs to qualify for deferral

When is a reverse mortgage a good idea?

For some homeowners it's a sound choice. If you're house-rich and cash-poor, intend to stay for many years, can comfortably cover taxes and insurance, and don't need to leave the house to your children, a HECM can fund aging in place. A HECM line of credit set up early can act as a standby reserve. Some people use a HECM for purchase to buy a smaller, single-level home without a monthly payment. The point is to choose it with the cost and the default rules in view, after counseling that isn't paid for by anyone selling you something.

Frequently asked questions

Is a reverse mortgage a good idea?

It can be for an older homeowner who plans to stay put, can pay taxes and insurance, and accepts leaving less equity to heirs. It's a poor fit for someone who may move to care within a few years or who expects the house to pass to children.

Can you lose your house with a reverse mortgage?

Yes. Failing to pay property taxes or insurance, failing to maintain the home, or no longer living there can make the loan due and lead to foreclosure (24 CFR § 206.27; Civ. Code § 1923.5).

How much does a reverse mortgage cost?

On a HECM, a 2% upfront FHA premium on the maximum claim amount, 0.5% a year on the balance, an origination fee of up to \$6,000, standard closing costs, and interest. On an \$800,000 home, the upfront premium alone is \$16,000.

Is a reverse mortgage a government program?

No. The FHA insures HECMs, but private lenders make and service them. The CFPB has penalized a lender for ads suggesting the loan came from the government.

What happens to a reverse mortgage when the borrower dies?

The loan becomes due if no surviving borrower lives in the home. Heirs can pay it off, sell (HUD accepts a price of no more than 95% of appraised value when the balance is higher), or let the lender take the house. They never owe more than the home is worth.

Do I need counseling for a reverse mortgage in California?

Yes. HUD requires counseling from an approved counselor, and California bars the lender from accepting a final application or charging fees until seven days after it (Civ. Code § 1923.2).

What is the maximum reverse mortgage amount in 2026?

The HECM maximum claim amount is \$1,249,125 for case numbers assigned in 2026 (HUD). The amount you can actually borrow is a percentage of that, based on age and interest rates.

This page is general information, not legal, tax or financial advice for your situation. The loan example is hypothetical; rates and principal limits vary by lender, age and market.

If you're weighing a reverse mortgage alongside your estate plan, Ridley Law can review how it fits with your trust and what it means for your family. See also [what happens to a regular mortgage when you inherit a house](#). More myths are in our [money myths series](#).

SOURCES

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- 24 CFR § 206.105, Amount of MIP: law.cornell.edu
- 24 CFR § 206.125, Acquisition and sale of the property: law.cornell.edu
- HUD Mortgagee Letter 2017-12, HECM mortgage insurance premiums and principal limit factors (August 29, 2017): hud.gov
- HUD, "HUD's Federal Housing Administration Announces 2026 Loan Limits," HUD No. 25-145: hud.gov

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- Cal. Civ. Code §§ 1923, 1923.2, 1923.5: leginfo.legislature.ca.gov
- Consumer Financial Protection Bureau, "CFPB Takes Action Against Reverse Mortgage Companies for Deceptive Advertising" (December 7, 2016): consumerfinance.gov
- Consumer Financial Protection Bureau, A closer look at reverse mortgage advertisements and consumer risks (June 2015): files.consumerfinance.gov
- Federal Trade Commission, Reverse Mortgages (consumer advice): consumer.ftc.gov
- Bennett v. Donovan (D.C. Cir. 2013) 703 F.3d 582

Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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