WHY DO PEOPLE THINK REVERSE MORTGAGES ARE A SCAM

The reverse mortgage industry spent years genuinely misleading older Americans. Federal regulators caught it, documented it, fined companies for it, and rewrote the rules because of it. If you're suspicious of this product, you didn't invent that suspicion out of nowhere.

What's also true is that nearly every specific abuse that created the reputation has since been addressed by a rule change, a court ruling, or an enforcement action.

So the reputation is real; but it's also dated.

Here is a brief history of all the loopholes crooks used to deceive people that made people think reverse mortgages are a scam:

Reason #1: The Advertising Was Genuinely Deceptive

In 2015, the Consumer Financial Protection Bureau released a focus group study in which it collected 97 real reverse mortgage ads from TV, radio, print, and the internet, then showed them to roughly 60 homeowners age 62 and older in Chicago, Los Angeles, and Washington, D.C.[1]

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The results were damning. According to that same CFPB study, after viewing the ads, consumers were confused about reverse mortgages being loans at all, and were left with false impressions that they were a government benefit, or that they would ensure they could stay in their homes for the rest of their lives.

The study concluded that consumers found it difficult to understand from the ads that these were loans with fees and compounding interest, because most ads didn't include interest-rate information or buried it in fine print. Some consumers believed that because the money represented equity they had built up themselves, there was no reason they would ever have to pay it back.

In his prepared remarks on the study, then-CFPB Director Richard Cordray mentioned that the celebrity endorsements made it measurably worse. He noted that well-known actors and even a former senator added a false air of credibility to the products; and quoted one focus group participant who summed up the whole problem in a sentence: when a former Congressman endorses it, it makes it sound like a good idea.[2]

That's how a product gets a scam reputation. Not because the loan is fraudulent, but because the marketing around it was.

Reason #2: Regulators Fined Reverse Mortgage Companies

In 2016, the CFPB took enforcement action against three reverse mortgage companies, American Advisors Group, Reverse Mortgage Solutions, and Aegean Financial. These companies were awarded a fine of up to $400,000 for deceptive advertisements. The Bureau's language was blunt: these companies tricked consumers into believing they could not lose their homes with a reverse mortgage. And per that same enforcement announcement,

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American Advisors Group was the largest reverse mortgage lender in the United States, running television advertisements almost daily and distributing its information kit to approximately one million consumers.[3]

It happened again in 2021. The CFPB ordered Nationwide Equities Corporation to pay a $140,000 civil penalty for sending deceptive advertisements to hundreds of thousands of older borrowers, having misled them about how much money they could receive, the fees and costs involved, and the consequences of nonpayment. The Bureau's findings in that order were specific: hidden costs, hidden risks, concealing that borrowers must keep paying taxes and insurance or risk losing the home, letters implying a relationship with the consumer that didn't exist, and telling people they were pre-approved for loan amounts when they were not.[4]

We include this not to trash competitors, but because you deserve to know, your skepticism has documented support. When people say, "Reverse mortgages are a scam," what they are often really remembering is an advertising campaign that a federal regulator formally ruled deceptive.

So What Actually Changed?

Here's the other half of the honest answer.
Each of those failures produced a specific, documented fix.

On Borrowers Defaulting

The Congressional Research Service reports that after approximately 10% of HECM borrowers, about 54,000 loans, failed to pay property taxes or homeowner's insurance, Congress gave HUD authority to set financial requirements, and effective April 27, 2015, lenders must conduct a financial assessment of new HECM borrowers, reviewing credit history and record of paying property charges.[5]

On Advertising

The enforcement actions above weren't just fines. As the CFPB's order against Nationwide Equities required, companies must implement compliance plans that affirmatively review every advertisement for compliance with federal law before it runs.

That's a product being materially rebuilt after getting caught.[6]

So Is It a Scam Now?

No, and we'll be precise about why. A scam is a product designed to take from you. A HECM is a federally insured loan with mandatory independent counseling, a legal cap on lender fees, non-recourse protection so you can

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never owe more than the home is worth, and, in California, a seven-day waiting period before anyone can even accept your application.

Those are not the features of a scam.

But here's the part we won't soften: the product isn't a scam, and yet you can still be scammed by someone selling it. Those are different statements. The CFPB enforcement actions above are proof that bad actors have operated inside a legitimate federal program. The regulations reduced that risk considerably. They did not eliminate the possibility of someone rushing you, obscuring costs, or steering you into a lump sum you don't need.

The right takeaway isn't "reverse mortgages are safe now, relax." It's "the product is sound; evaluate the person selling it."

How to Tell the Difference

Every warning sign below is drawn directly from a documented CFPB finding or HUD rule change linked above. If someone tells you any of the following, stop:

- That you can't lose your home; the specific claim the CFPB fined three companies for

- That it's a government benefit rather than a loan; a false impression the CFPB documented in its focus groups
- That there are no fees, or they won't show you an itemized cost sheet
- That you're "pre-approved" before any appraisal or assessment; one of the exact findings against Nationwide Equities
- That you need to decide quickly
- That your spouse doesn't need to be on the loan or in the conversation
- That the interest doesn't really matter since you're not making monthly payments

Our Take

We'd rather you read this history than have it whispered to you as a rumor. The reverse mortgage industry has a bad name because parts of it behaved badly, and pretending otherwise would make us exactly the kind of company that created the problem.

What we'd ask is that you judge the product by what it is today, and judge the lender by how they behave with you. If anyone, including us, ever makes you feel rushed, confused, or embarrassed to ask a question, that's your answer.

Our educational library is at www.greenmonarch.com where we cover the costs, the rates, and the honest downsides without the spin.

SOURCES

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