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Common Consumer Mistakes When Applying for a Reverse Mortgage

Reverse mortgages are for homeowners 62 and older. The benefits of reverse mortgages are high, but so are the risks.

Underestimating reverse mortgage fee

Reverse mortgages can be expensive loans. Closing costs for reverse mortgages are high; originations fees can be double that of conventional mortgages. Plus, you have to pay HUD mortgage insurance upfront.

If you can't afford the insurance, taxes and maintenance of your property, even with the payout you're getting, a reverse mortgage is not for you.

Assuming condos qualifies for reverse mortgage

Many seniors own condo units - these seniors don't necessarily qualify for reverse mortgages. Condos must meet tighter FHA restrictions than single-family homes.

Losing program eligibility due to reverse mortgages

While reverse mortgages won't affect your Social Security or Medicare benefits, it could affect Medicaid benefits and Supplemental Security income. If you take all your money upfront and deposit the proceeds into your bank account at once, you could make yourself ineligible.

In fact, if you don't spend the reverse mortgage payouts within the same month, you could be over your Medicaid or SSI asset limit, which is $3,000 for couples and $2,000 for singles, and your eligibility for these programs could be terminated.

Falling for reverse mortgage scams

As reverse mortgages have exploded in popularity, reverse mortgage scams have inevitably risen, too. Some red flags for reverse mortgage scams are if someone assists you in getting a reverse mortgage, but charges an exorbitant fee, maybe even as high as the amount of the actual loan. Other common reverse mortgage scam artists provide fraudulent loans or steal your identity.