

## **BEWARE OF PREDATORY REVERSE MORTGAGES**

Any time a senior is contemplating a reverse mortgage, they should obtain independent counseling. There are many issues that can crop up and practices to look out for.

- Terms of reverse mortgage?
  - High fees
  - High pressure sales tactics
  - Bait and switch
- Is a reverse mortgage suitable for the person's situation?
  - Reverse mortgage could turn unsecured debt that could be discharged in bankruptcy into secured debt that could result in the loss of one's home.
  - Is there a need for a reverse mortgage, or is some greedy relative/caregiver/friend trying to strip the home of all of its equity.

### **Frequently Asked Questions:**

#### **What is a reverse mortgage?**

A reverse mortgage is a type of loan that allows elderly homeowners to convert the equity in their homes into cash. It is different than a home equity loan or a second mortgage because the borrowers do not need to repay the loans as long as they meet certain conditions (for example, they must continue to live in the home, maintain the property, pay property taxes and insurance, etc.). Nearly all reverse mortgages are insured by the federal government through the Federal Housing Administration's Home Equity Conversion Mortgage (HECM) program.

#### **Why are they problematic?**

Reverse Mortgages aren't bad in every situation. If a senior is left with no remaining resources and can't pay their basic living expenses, a reverse mortgage may be an appropriate option to consider. However, they have the potential to financially devastate a low-wealth senior, and should be used judiciously.

- The costs associated with reverse mortgages—including fees and interest charges—can be substantial.
- Aggressive marketing has targeted seniors, encouraging them to take out reverse mortgages—against their best interests—to take vacations, remodel their homes, purchase deferred annuities or life insurance or make other investments.
- Some reverse mortgage lenders/brokers advertise the fact that the HECM loan is insured and regulated by the Federal Housing Administration to mislead seniors into thinking that the program is a safe financial choice, sometimes even misrepresenting the loans as a “government benefit.”
- The Federal Housing Administration estimates it may lose \$800 million from insuring these loans in the next fiscal year.

## **What has been done to improve the situation?**

In late July 2008, the president signed into law several reforms to the Home Equity Conversion Mortgage (HECM) program as part of the Housing and Economic Recovery Act of 2008. HUD is still in the process of implementing these protections. The legislation:

- Prohibits financial product sales agents from serving as HECM loan counselors.
- Repeals a provision in existing law that offers incentives to purchase long-term care insurance with a reverse mortgage.
- Prohibits any requirement to purchase insurance or investment products as a condition of taking out a federally-insured HECM.
- Requires HECM loan counselors to be certified by the Federal Housing Administration (i.e., counselors must meet qualification standards and follow established protocols).
- Requires a study in consultation with consumer advocates to determine further appropriate consumer protections and the suitability of reverse mortgages for consumers.

## **What is next?**

The Government Accounting Office is expected to release a report which will examine the reverse mortgage industry. New legislation is being pursued that would further strengthen consumer protections and help detect and prevent fraud. The new legislation would:

- Require lenders to make reasonable inquiries and have reasonable grounds for believing that the reverse mortgage is suitable for the borrower before making the loan;
- Require lenders, brokers and counselors to report suspected fraud or abuse to the appropriate agencies for investigation;
- Provide specific criminal penalties and enhanced sentencing guidelines for fraud involving HECM loans or perpetrated against borrowers;
- Require that advertising for reverse mortgages cannot be false or misleading;
- Prohibit lenders and counselors from selling or disclosing borrowers' personal information to others for marketing purposes;
- Prohibit lenders from requiring a borrower to withdraw all of the equity in the home as a condition of the reverse mortgage; and
- Extend existing protections for borrowers of HECM loans to borrowers of proprietary reverse mortgages that are not federally insured.