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A closer look at reverse mortgage advertisements and consumer risks

Office for Older Americans

Consumer Financial Protection Bureau

Table of contents

1. Introduction

Reverse mortgage advertisements, which are marketed to older homeowners, are found across many of the major media channels in the United States, including television, radio, print, and internet. These advertisements frequently feature celebrity spokespeople. The Consumer Financial Protection Bureau (CFPB) reviewed advertisements from a variety of lenders that appeared in five large urban U.S. markets between March 2013 and March 2014. We also convened focus groups and conducted one-on-one interviews with homeowners, age 62 and older, in three cities to explore their impressions of the advertisements.[1]

Among the advertisements we collected, on their face, many contained confusing, incomplete, and inaccurate statements regarding borrower requirements, government insurance, and borrower risks. Furthermore, after viewing ads in our focus groups, many consumers were confused or had misconceptions about important features and terms of reverse mortgage loans. For example, some consumers struggled to understand that reverse mortgages are loans that must be repaid with interest. Consumers also often misinterpreted the role of the federal government in the reverse mortgage market as providing consumer protections that are not actually offered.

Incomplete or inaccurate statements made in advertisements about reverse mortgages can pose serious risks to older Americans.[2] While advertisements frequently do not describe all the

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[1] The 59 participating homeowners were age-eligible for a reverse mortgage, i.e., age 62 and older, and reported that they had 50 percent or greater equity in their respective homes. See Appendix A: Methodology, *infra*, for additional information.

[2] The U.S. Department of Housing and Urban Development (HUD) has taken steps to address misleading claims associated with reverse mortgage marketing and sales. HUD's Mortgagee Letter 2014-10 (ML 2014-10) "reminds mortgagees of the Federal Housing Administration's (FHA) requirements prohibiting misleading or deceptive advertising." ML 2014-10 further clarifies that the prohibition extends to misleading or deceptive descriptions of Home Equity Conversion Mortgages (HECM) (commonly referred to as reverse mortgages).

details of the particular product or service being advertised, the incompleteness of reverse mortgage ads raises heightened concerns because reverse mortgages are complex loans used by older, often financially vulnerable homeowners.[3]

While reverse mortgages can help some older homeowners meet financial needs, they can jeopardize retirement security if not used carefully. Reverse mortgage ads promote the use of home equity to supplement retirement income. With 20 percent of the U.S. population reaching age 65 and older by 2030,[4] and increasingly likely to consider tapping their home equity to supplement their retirement income,[5] it is extremely important that advertisements do not confuse or mislead prospective reverse mortgage borrowers about the terms and potential risks of the loans.

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1.1 Background on reverse mortgages

Reverse mortgages are a type of home loan that allows homeowners, 62 and older, to borrow against the accrued equity in their homes, and defer repayment of the loan and interest until the borrower dies, moves from, or sells the home. They are very complex financial products with costs and risks that can be difficult for even sophisticated consumers to estimate and understand.[6] While reverse mortgages may be an appropriate option for some older

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[3] Thomas Davidoff, *Reverse Mortgage Demographics and Collateral Performance* (February 25, 2014), *available at* SSRN: http://ssrn.com/abstract=2399942 or http://dx.doi.org/10.2139/ssrn.2399942.

[4] US Census Bureau, *The Next Four Decades, The Older Population in the United States: 2010 to 2050* (May 2010), https://www.census.gov/prod/2010pubs/p25-1138.pdf.

[5] *See, Snapshot of reverse mortgage complaints Dec. 2011 – 2014* at 5-6 (Feb. 2015), *available at* http://files.consumerfinance.gov/f/201502_cfpb_report_snapshot-reverse-mortgage-complaints-december-2011-2014.pdf.

[6] *See*, CFPB, *Reverse Mortgages, Report to Congress*, p.8, 112-114 (June 28, 2012), *available at* http://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf; *See also*,

homeowners who are seeking to supplement their retirement income, it is important that those who obtain these loans understand the loan's costs, terms, and features. For example, homeowners who obtain a reverse mortgage at age 62 may deplete their home equity and run out of loan proceeds later in life when they are apt to need supplemental income due to the increased likelihood of incurring health and long-term care or moving expenses.

1.2 About the focus group approach

Focus groups are a valuable way to understand the common opinions, beliefs, and values that participants hold, as well as how wide their experiences may range. Focus groups are not intended to give us statistically significant data that can be generalized to all consumers. However, this method can give us rich qualitative information about what many consumers think and feel.

In November and December of 2014, we interviewed 59 homeowners age 62 and older in focus groups and one-on-one in Chicago, Los Angeles, and Washington, DC. The consumers we spoke with were selected from diverse educational, economic, racial, and ethnic backgrounds. Consumers were shown selections of reverse mortgage advertisements and asked about their impressions and opinions after viewing or reading each ad. The ads were selected from 97 unique ads collected and analyzed by the CFPB.[7]

1.3 What we heard from consumers

Before discussing specific advertisements, we asked consumers if they had ever seen a reverse mortgage advertisement. All but one consumer remembered seeing a reverse mortgage ad recently. Most of the consumers reported seeing television advertisements frequently, even several each day. Many consumers told us they recently saw ads that appeared to be "informational" in nature. Some consumers noted that television ads they saw presented

GAO, *Reverse Mortgages, Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers* (June 2009), *available at* http://www.gao.gov/new.items/d09606.pdf.

[7] *See*, Appendix A: Methodology, *infra*, for additional details.

"neutral" information. One consumer described television ads as "more informative than trying to sell you something... it seems like he's just trying to give you information." Most consumers we spoke with remembered television ads that featured spokespeople portrayed as reliable and trustworthy. According to a consumer in one focus group, "When it's a former Congressman endorsing it, it makes it sound like a good idea."

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1.4 Some consumers did not understand reverse mortgages are loans

We then showed consumers several television and print advertisements for reverse mortgages and asked for their impressions. After viewing ads, some consumers did not understand that reverse mortgage proceeds would have to be repaid in the future. Several of these consumers believed that reverse mortgages were provided by the government and that therefore repayment would not be required. Others thought that because the money they received through a reverse mortgage represented home equity they had accrued over time, there was no reason they would have to pay it back.

Some consumers found it difficult to understand that reverse mortgages are loans with fees and compounding interest like other loans since most ads either did not include interest rates or included them in fine print. After viewing television advertisements that do not highlight repayment terms, many consumers expressed surprise when shown a printed ad stating interest rates. Some commented that the presence of interest rates made reverse mortgages seem more familiar, "like credit cards or mortgages." Others noted that the interest rate made clear that a reverse mortgage would be repaid in the future.

1.5 Consumers were confused by incomplete and inaccurate information

Some reverse mortgage advertisements viewed by consumers used incomplete or inaccurate language implying or stating that borrowers cannot lose their homes, or that borrowers make no monthly payments. Some consumers said advertisements claiming that reverse mortgage proceeds were "tax free" made them believe they would not have to pay property taxes.

After viewing ads, many of the participants told the CFPB that they came away with the impression that a main benefit of a reverse mortgage was the ability to remain in their homes "as long as they want" based on ads that said, "the title and deed remain in their name." Other consumers said they valued the idea that having a reverse mortgage meant they could never lose their home. This idea, however, is a misperception.

While reverse mortgage borrowers retain the title and deed, the loans are secured by a lien, and borrowers can, in fact, lose their homes. Reverse mortgage borrowers are responsible for several requirements, including paying property taxes, homeowner's insurance, and property maintenance. Failing to meet these requirements can trigger a loan default that results in foreclosure.[8] Advertisements that create the impression that there is no risk can thus be misleading.

1.6 Consumers could not read the "fine print"

About half of the advertisements collected by the CFPB included some type of "fine print." Most consumers we spoke with, however, could not read the fine print in printed ads, and none of the consumers we talked to could read the fine print that was used in television ads. Ads that included information about borrower requirements typically did so in fine print. Fine print generally addressed tax and insurance requirements, property maintenance and residency requirements, repayment terms, and other important details about the loans.

[8] We have heard many complaints from consumers facing reverse mortgage defaults and foreclosure. *See*, *Snapshot of reverse mortgage complaints December 2011-2014, supra*.

1.7 Consumers misunderstood the role of government

Ads frequently stated that the loans were "government insured" or a "government-backed program." Several advertisements used text and graphics, such as eagles, government seals, etc., that implies that reverse mortgages are affiliated with or offered by the federal government.

After reviewing reverse mortgage ads, most consumers in our focus groups said the ads implied government involvement in reverse mortgages, but opinions varied on the role government plays in the loans. Some consumers thought that reverse mortgages are a direct government program. Consumers holding this belief pointed out that several of the advertisements specifically referred to reverse mortgages as a "program."

Consumers pointed to claims in the advertisements about "tax free" money as a sign that reverse mortgages are a government-run program or benefit. Others said the "tax free" money claims meant the government encouraged seniors to take a reverse mortgage. The marketing of reverse mortgage proceeds as "tax free" unquestionably contributed to some consumers' confusion that reverse mortgages are not loans. Reverse mortgage proceeds, like all loan advances, are not income and therefore not taxable.[9]

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Some consumers also pointed to language or images in the advertisements referencing the Department of Housing and Urban Development (HUD) or the Federal Housing Authority (FHA), which they recognized as federal agencies. To these consumers, the use of federal agencies' names in the advertisements signaled that the government was funding and operating a reverse mortgage program for senior citizens. Some consumers said they believed this program was directly administered by the federal government (similar to Medicare), while others said they thought the government funded reverse mortgages, but used certain approved

[9] *See*, e.g., IRS, http://www.irs.gov/publications/p936/ar02.html.

or preferred private companies to distribute the benefits. Other consumers believed the purpose of government insurance is to encourage the use of reverse mortgages and almost all said the government's involvement made them feel better or safer about the products.

For example, one consumer said the advertisements made her more “confident” that “people are not going to get taken advantage of” because of the government's involvement. Another consumer said government involvement meant that reverse mortgage companies were more likely to look after consumer interests. According to this person, “I feel more comfortable if the government is behind it. Otherwise it is just business.”

Most reverse mortgages are federally insured through Federal Housing Administration (FHA) insurance. FHA insurance generally guarantees that borrowers will continue to receive their authorized loan funds if their lender experiences financial difficulty or if their loan balance exceeds the value of their home. If the loan balance exceeds the value of the home, FHA may cover this difference for the lender when the loan is repaid. [10]

1.8 Consumers described “lifestyle enhancement” as the primary use for reverse mortgage proceeds

We asked consumers what they thought the advertisements suggested they do with reverse mortgage funds. Consumers said reverse mortgage advertisements promoted living a good lifestyle while being young enough to enjoy it, or to travel while they still have their health. Several said the advertisements suggested that consumers should get a reverse mortgage while they are young and healthy enough to enjoy the money. Images of active, youthful retirees were a common feature among ads shown to consumers. Ads typically depicted seniors riding bicycles, playing golf, or enjoying similar leisure activities.

[10] FHA Reverse Mortgages (HECMs) for Seniors, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou.

While advertising is designed to portray products in an attractive light, getting a reverse mortgage at age 62 can be very risky since there is an increased likelihood that younger borrowers, compared to older borrowers, will outlive their loan funds. Americans live longer every year,[11] and millions of Americans approaching retirement have little or no retirement savings.[12] For those with a retirement account, the median balance is only $103,200.[13] The Employee Benefit Research Institute (EBRI) finds that 44 percent of baby boomers will fall short of adequate retirement income for basic expenses and uninsured health care costs.[14] While older Americans are likely to have less income available to cover day-to-day expenses, health and long-term care expenses often increase dramatically.[15] Thus, waiting to access home equity can help preserve retirement resources.[16] Yet the CFPB found in its report to Congress that reverse mortgage borrowers are increasingly younger, i.e., borrowers age 62-69 more than doubled between 1990 and 2011.[17] Tapping home equity early in retirement can jeopardize financial security later in life if borrowers outlive their resources or face unexpected expenses.

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[11] Jiaquan Xu, et. al, NCHC Data Brief, No. 168, *Mortality in the United States, 2012* (Oct 2014) at http://www.cdc.gov/nchs/data/databriefs/db168.pdf.

[12] Fed. Reserve Bd, *2010 Survey of Consumer Finances: Percent of families with retirement accounts,* p.441, http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf.

[13] *Id.* at p.442. In addition, an increasing number of Americans are retiring without pensions. *See* EBRI, Fast Facts, #225, Pension Plan Participation (March 28, 2013), http://www.ebri.org/pdf/FF.225.DB-DC.28Mar13.pdf. *See also*, WISER & Society of Actuaries, *Impact of Retirement Risk on Women*, 2013 Risks and Process ofRetirement Survey Report (2013) (finding that women have an increased likelihood of outliving assets), https://www.wiserwomen.org/images/imagefiles/2014-risks-process.pdf.

[14] See EBRI, Notes, Vol. 33, No.5 (May 2012), http://www.ebri.org/pdf/notespdf/EBRI_Notes_05_May-12.RSPM-ER.Cvg1.pdf.

[15] Health Serv Res. 2004 Jun; 39(3): 627–642, *The Lifetime Distribution of Health Care Costs*, http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1361028/.

[16] In an effort to decrease HECM defaults caused by borrowers' inability to pay real estate taxes and insurance, effective March 2, 2015, FHA requires lenders to conduct financial assessments of prospective HECM borrowers prior to approving the loan. HUD Mortgagee Letters 2013-27 (September 3, 2013) and 2014-22 (Nov. 10, 2014), http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmml.

[17] CFPB, *Reverse Mortgages, Report to Congress* (June 28, 2012) *supra at* 48-49. *available at* http://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf.

1.9 Conclusion

The results of our focus groups suggest that some reverse mortgage advertisements tend to confuse the consumers they seek to reach. After consumers viewed reverse mortgage advertisements, they often misunderstood one or more important features of the loans and the loans' potential risks.

Our conversations with consumers leave us concerned about several issues. After viewing ads, many consumers we spoke with did not understand that reverse mortgages are loans with fees, compounding interest, and repayment terms unless they saw an interest rate explicitly stated in the ad. This confusion is understandable where ads tout that reverse mortgages provide "tax free" money and are a federal government program.

The CFPB is concerned that advertisements may lead some older homeowners to believe that reverse mortgages are a risk-free government program or benefit. While the federal insurance for reverse mortgages provides some important protections for borrowers, they are secured loans and homeowners can lose their home if they fail to meet the loan terms.

Similarly, consumers were also confused about ad messages stating that borrowers cannot lose their homes. It is important for all potential borrowers to understand the real risk of losing their home if they do not fulfill all of the loan's requirements. We are concerned that these important loan requirements are often buried in fine print or not mentioned at all. The consumers we spoke with struggled to read fine print in printed ads, and could not read any of the fine print used in television ads.

Finally, lender advertisements undoubtedly contribute to consumers not understanding that taking out a reverse mortgage in their early eligibility years has risks. It's important for those considering a reverse mortgage to understand how long their loan proceeds will last them given the loan's interest rate, their living expenses, home equity balance, and age.

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APPENDIX A:

Methodology

Methodology for environmental scan of reverse mortgage advertising

A total of 97 advertisements were included in the final analysis, including:

- 15 direct mail materials
- 30 online advertisements
  - 23 paid search advertisements
  - 7 contextual advertisements
- 3 radio advertisements
- 6 print advertisements
- 43 television advertisements

Each advertisement was analyzed and coded according to:

- Advertisement type (radio, television, etc.)
- Type of product marketed (e.g., fixed rate HECM, HECM for purchase)
- Whether advertisement directs users for more information, and to where it directed the consumer
- Whether the advertisement mentioned veterans
- Type of graphics or images used

- Use of fine print / fast speaking
- Use of quotes from spokespeople
- Factual / objective statements about reverse mortgages
- Claims about the benefits of reverse mortgages
- Claims about the costs of reverse mortgages
- Claims about risks of reverse mortgages
- Claims about borrower qualifications
- Claims about borrower responsibilities
- Key messages / subjective statements

Methodology for consumer testing on reverse mortgage advertising

Recruitment of research participants

Focus group and interview participants were recruited by telephone using a structured screening instrument developed by the CFPB. All participants met the following criteria:

- Age 62 or older;
- Currently owned a home and had more than 50% equity in their primary residence;
- Had heard of but never had a reverse mortgage, and said they knew “nothing” or “a little” about reverse mortgages;[18]

[18] Prospective participants were asked, “How much do you know about reverse mortgages?” the three answer choices were “nothing,” “a little,” and “a lot.”

- Had never worked for a financial institution or a non-profit consumer rights group related to the banking or financial industries.

A total of 59 consumers participated in the consumer testing: 48 consumers participated in the focus groups, and 11 consumers participated in 1-1 interviews.

Table 1 below, participants in each round and at all locations varied in terms of gender, age, race/ethnicity, and education level.

TABLE 1: CHARACTERISTICS OF FOCUS GROUP AND INTERVIEW PARTICIPANTS[19]

	Washington (n=19)	Los Angeles (n=20)	Chicago (n=20)	All participants combined (n=59)
Gender				
Male	9 (47%)	7 (35%)	7 (35%)	**23 (39%)**
Female	10 (53%)	13 (65%)	13 (65%)	**36 (61%)**
Age*				
62-70	9 (47%)	15 (75%)	14 (70%)	**38 (64%)**
71-75	7 (37%)	3 (15%)	4 (20%)	**14(24%)**
76+	3 (16%)	2 (10%)	2 (10%)	**7 (12%)**
Race/Ethnicity				
African-American	11 (58%)	7 (35%)	10 (50%)	**28 (48%)**
Caucasian	6 (32%)	10 (50%)	9 (45%)	**25 (42%)**
Hispanic	-	3 (15%)	1 (5%)	**4 (7%)**
Asian-American	2 (10%)	-	-	**2 (3%)**

[19] Some percentages may not equal 100% due to rounding.

Education Level				
High School or Less	4 (21%)	6 (30%)	4 (20%)	**14 (24%)**
Some College	12 (63%)	7 (35%)	13 (65%)	**32 (54%)**
College Graduate	3 (16%)	7 (35%)	3 (15%)	**13 (22%)**

Structure of Focus Groups and Interviews

Focus groups lasted approximately 90 minutes. Interviews lasted approximately 60 minutes. Researchers conducted 6 focus groups and 11 interviews at research facilities in three locations:

- Rockville, MD on November 12 and 13, 2014 (2 focus groups and 3 interviews);
- Los Angeles, CA on November 19 and 20, 2014 (2 focus groups and 4 interviews); and
- Chicago, IL on December 10 and 11, 2014 (2 focus groups and 4 interviews).