Consumer Financial Protection Bureau

SPOTLIGHTING RISK IN THE REVERSE MORTGAGE MARKET

The Consumer Financial Protection Bureau (CFPB) is releasing a report that illustrates increased risk for American consumers as they struggle to understand reverse mortgages. The Bureau also announced a Request for Information to gather consumer input on follow-up questions about reverse mortgages.

Reverse Mortgages by the Numbers

- **70,000:** The number of new Federal Housing Administration insured reverse mortgages in FY 2011.
- **47%:** Percentage of new reverse mortgage borrowers under the age of 70.
- **62:** Minimum age of a reverse mortgage borrower.
- **1 in 10:** The proportion of reverse mortgages in default.

Overview

A reverse mortgage is a special type of home loan that allows older homeowners to access the equity they have built up in their homes now, and defer payment of the loan until they pass away, sell, or move out of the home. Reverse mortgages require no monthly mortgage payments, but borrowers are still responsible for property taxes and homeowner's insurance and maintaining the home in good repair.

The first reverse mortgage was issued in 1961, but the market remained very small until the early 2000s. Reverse mortgages were developed to enable older homeowners to convert home equity into an income stream or line of credit that borrowers could use in retirement. It was anticipated that most, though not all, borrowers would use their loans to age in place, living in their current homes for the rest of their lives or at least until they needed skilled care.

Per Dodd-Frank, the CFPB is required to conduct a study on reverse mortgages. The Bureau is releasing that study today and is also launching a Request for Information to solicit public feedback on follow-up questions to the study. The Bureau is posting new questions and answers about reverse mortgages to the Ask CFPB database available here. The Bureau has also developed a consumer guide for older Americans with key facts on reverse mortgages available here.

Areas of Focus

- **Reverse mortgages are complex products and difficult for consumers to understand.** Lessons learned from the traditional mortgage market do not always serve consumers well in the reverse mortgage market. Recent innovation and policy changes have increased the complexity of the choices and tradeoffs consumers have to make. The tools—including federally-required disclosures—available to help consumers understand prices and risks are insufficient to ensure that consumers are making good tradeoffs and decisions. The Bureau's inquiry seeks feedback on what factors are most important to consumers in deciding whether or not to take out a reverse mortgage.

- **Borrowers are taking out reverse mortgages at younger ages.** The most common age for a new borrower is 62—the first year in which a consumer becomes eligible for a reverse mortgage. These borrowers will have fewer resources to pay for everyday and major expenses later in life and may find themselves without the financial resources to finance a future move—whether due to health or other reasons. The Bureau is looking for feedback as to why borrowers typically pay off their loans before they pass away and how those borrowers finance a later move with less equity.

- **More borrowers take their funds as a lump sum.** Seventy percent of borrowers are taking out the full amount of proceeds as a lump sum rather than as an income stream. This raises concerns that consumers who take out all of their accessible home equity upfront will have fewer resources available later in life. They may not have the money to continue to pay taxes and insurance on their homes, which can put them at risk of losing their home. Borrowers who save or invest the proceeds may be earning less on the savings than they are paying in interest on the loan. The CFPB's inquiry asks for feedback on what borrowers do with their large lump sum payments.

- **Deceptive marketing increases consumer risk.** Misleading advertising remains a problem in the industry and contributes to consumer misperceptions about reverse mortgages, increasing the likelihood of poor consumer decision-making. Reverse mortgages may be deceptively marketed as government benefits rather than financial products. The CFPB is requesting information on what factors are most important to consumers in choosing among products and lenders for a reverse mortgage.

- **Housing counseling needs improvement in order to be able to meet these challenges.** Reverse mortgages are inherently complicated, and the new array of product choices makes the counselor's job much more difficult. Counselors need improved methods for helping consumers better understand the complex tradeoffs they need to make in deciding whether to get a reverse mortgage. Counseling may be insufficient to counter the effects of misleading advertising, aggressive sales tactics, or questionable business practices. Stronger regulation, supervision of reverse mortgage companies, and enforcement of existing laws may also be necessary. The Bureau is seeking feedback on consumer experiences during the reverse mortgage shopping process.