

Snapshot of reverse mortgage complaints

December 2011 - December 2014

Office for Older Americans



Consumer Financial
Protection Bureau

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1. Introduction

Many older consumers and their families are confused and frustrated by the terms and conditions of reverse mortgages according to complaints submitted to the Consumer Financial Protection Bureau (CFPB). Reverse mortgages are a special type of loan that allows homeowners, 62 and older, to borrow against the accrued equity in their homes.

Reverse mortgages differ from other types of home loans in a few important ways. First, unlike traditional “forward” mortgages, reverse mortgages do not require borrower(s) to make monthly mortgage payments (though they must continue paying property taxes and homeowners’ insurance). Prospective reverse mortgage borrowers are required to undergo mandatory housing counseling before they sign for the loan.¹ The loan proceeds are generally provided to the borrowers as lump-sum payouts, annuity-like monthly payments, or as lines of credit.² The interest and fees on the mortgage are added to the loan balance each month. The total loan balance becomes due upon the death of the borrower(s), the sale of the home, or if the borrower(s) permanently move from the home. In addition, a payment deferral period may be available to some non-borrowing spouses following the borrowing spouse’s death.³

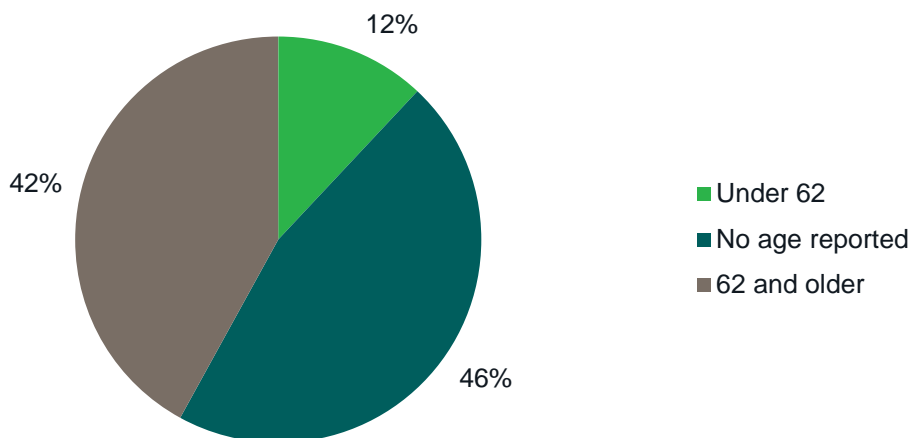
¹ HUD, *Reverse Mortgages (HECMS) for Seniors, How the Program Works*, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou.

² The line of credit and monthly payment options may be combined. *Id.*

³ See HUD Mortgagee Letter 2014-07 (April 25, 2014), <http://portal.hud.gov/hudportal/documents/huddoc?id=14-07ml.pdf> (“ML 2014-07”); HUD Mortgagee Letter 2015-03 (Jan. 29, 2015), <http://portal.hud.gov/hudportal/documents/huddoc?id=15-03ml.pdf> (ML2015-03); see also, section 3.3 *infra*.

The CFPB began accepting consumer complaints on reverse mortgages in December 2011. This Snapshot provides an overview of consumer complaints submitted to the CFPB involving reverse mortgages from December 2011 through December 2014.⁴ From December 1, 2011 through December 31, 2014, CFPB handled approximately 1,200 reverse mortgage complaints. Reverse mortgage complaints comprise about 1 percent of all mortgage complaints, regardless of age, submitted to the CFPB. Consumers' most frequent complaints involve their inability to make certain changes to the loans, as well as loan servicing difficulties.

FIGURE 1. REVERSE MORTGAGE COMPLAINTS, BY AGE, SUBMITTED TO THE CFPB FROM DECEMBER 2011 TO DECEMBER 2014⁵



⁴ The analysis is based upon a manual review of a random representative sample consisting of 500 of the 1200 reverse mortgage complaints submitted to the CFPB. Multiple staff reviewed the complaints to ensure consistency in the analysis.

⁵ Regardless of the age of the complainant, all reverse mortgages are linked to older consumers due to the age requirement of the product.

Complaints are submissions that express dissatisfaction with, or communicate suspicion of wrongful conduct by an identifiable entity related to a consumer's personal experience with a financial product or service. The CFPB accepts, responds to, and analyzes consumer complaints. 12 U.S.C. § 5493(b)(3). See also <http://www.consumerfinance.gov/complaint/process/>.

2. Background

Most reverse mortgages today are federally insured through the Federal Housing Authority's (FHA) Home Equity Conversion Mortgage (HECM) program.⁶ Rather than credit and income-based underwriting used in traditional mortgages, a borrower's age and the amount of equity in the home are the primary factors used to qualify for a HECM. As of March 2, 2015, the underwriting for HECMs will consider credit history and financial assessments of prospective borrowers, though loan qualification remains primarily equity-driven.⁷

The reverse mortgage market is approximately one percent of the size of the traditional mortgage market.⁸ The number of reverse mortgage originations, however, is likely to increase in upcoming years as the "baby boom" generation, those born from 1946 to 1964, retires.⁹ There are several factors contributing to the likely increase. Among other things, 41 percent of

⁶ In this report, "HECM" and "reverse mortgage" are used interchangeably. The market for proprietary (non-HECM) reverse mortgages has been relatively inactive since 2008. The underwriting criteria for proprietary reverse mortgages vary by state. CFPB, *2012 CFPB Report To Congress on Reverse Mortgages*, p.100, http://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf.

⁷ HUD Mortgage Letter 2014-22 (Nov. 10, 2014), <http://portal.hud.gov/hudportal/documents/huddoc?id=14-22ml.pdf>.

⁸ As of September 30, 2014, there were 628,000 HECM loans outstanding. FHA presentation to NRMLA Annual Meeting, November 11, 2014. Presentation and recordings available with membership at <http://nrmlaonline.org/events/default.aspx>. As of September 30th, 2014, there were 50 million traditional mortgages outstanding. See Moody's Analytic data, available with subscription at <http://www.economy.com>, and Experian, Oliver Wyman Market Intelligence Reports, available with subscription at <http://www.experian.com/decision-analytics/market-intelligence/reports.html>.

⁹ Nora Caley, *Aging In Place, With A Loan: The State Of The Reverse Mortgage Industry*, Mortgage Orb, Volume 2, Issue 17. (May 8, 2013), available at http://www.mortgageorb.com/e107_plugins/content/content.php?content.13765

Americans aged 55-64 have no retirement savings account.¹⁰ For those in this age group who do have a retirement account, the median account balance is only \$103,200.¹¹ In addition, an increasing number of Americans are retiring without pensions.¹² 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.¹³ Women, in particular, have an increased likelihood of outliving assets due to, among other things, lower savings and lower private pension coverage.¹⁴

The homeownership rate for those aged 55-64, however, is 74 percent.¹⁵ Homeowners aged 62 and older hold a combined \$3.84 trillion in equity in their homes according to the National Reverse Mortgage Lenders Association (NRMLA).¹⁶ Accrued home equity, therefore, will likely play an increasing role in supplementing retirement income in the future for many older homeowners facing a shortfall in income.

The most common ways for consumers to access home equity is by refinancing an original mortgage, borrowing a home equity line of credit or loan, obtaining a reverse mortgage, or selling the home and downsizing to a less expensive home.

¹⁰ 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>.

¹¹ Fed. Reserve Bd, *2010 Survey of Consumer Finances: Median value of retirement accounts for families with holdings*, p.442, <http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf>.

¹² See EBRI, Fast Facts, #225, Pension Plan Participation (March 28, 2013), <http://www.ebri.org/pdf/FF.225.DB-DC.28Mar13.pdf>.

¹³ See EBRI, Notes, Vol. 33, No.5 (May 2012), at http://www.ebri.org/pdf/notespdf/EBRI_Notes_05_May-12.RSPM-ER.Cvg1.pdf.

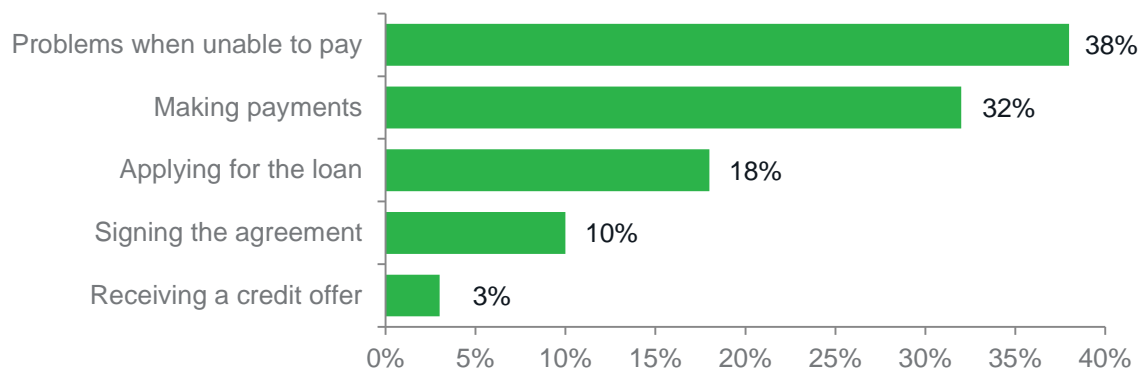
¹⁴ See WISER & Society of Actuaries, *Impact of Retirement Risk on Women, 2013 Risks and Process of Retirement Survey Report (2013)*, available at <https://www.wiserwomen.org/images/imagefiles/2014-risks-process.pdf>.

¹⁵ Fed. Reserve Bd, *2010 Survey of Consumer Finances: Percent of families with primary residence*, p.585, <http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf>.

¹⁶ NRMLA, Press Release (January 7, 2015), http://nrmlaonline.org/rms/press.aspx?article_id=1553.

3. Consumers' complaints indicate confusion and frustration over the terms and requirements of reverse mortgages

FIGURE 2. REVERSE MORTGAGE COMPLAINTS, BY ISSUE, SUBMITTED TO THE CFPB DECEMBER 2011 TO DECEMBER 2014¹⁷



¹⁷ Complaint issue categories in Figure 2 comprise the following complaint subcategories: Problems when unable to pay (loan modification, collection, foreclosure); Making payments (loan servicing, payments, escrow accounts); Applying for the loan (application, originator, mortgage broker); Signing the agreement (settlement process and costs); and, Receiving a credit offer (credit decisions, underwriting). Percentages may not sum to 100 percent due to rounding.

3.1 Consumers complain that they cannot refinance

Many older consumers and their family members who submit complaints demonstrate confusion about the terms and requirements of reverse mortgage loans. For example, many of these consumers are frustrated when they are unable to refinance their loans because there is insufficient remaining equity in their homes. These complaints suggest that some homeowners may not understand that the loan proceeds as well as the accrued interest on the loan overtime will substantially decrease the amount of available equity.

3.2 Consumers complain that they are unable to change the terms of their loans

As of December 2014, one of the most common reverse mortgage complaints concerns denials for changing terms of the loan. Some consumers complain that lenders refuse to lower their loan's interest rates and thus they feel they are being overcharged. Other consumers complain that the variable interest rate on their reverse mortgage increased too quickly.

The most frequent complaint concerning requested loan changes, however, involves consumers wishing to add additional borrowers to the loan in order to extend the term of the loan. Adult children of reverse mortgage borrowers also submit complaints describing frustration that lenders refuse to add them to the loan as an additional borrower or allow them to "assume" the reverse mortgage loan for an aging or deceased parent. These complaints often stem from confusion about loan terms and requirements. Reverse mortgages prohibit loan assumptions since actuarial tables are used when a reverse mortgage is issued to determine how much to lend to the borrower(s); as a result loan repayment is triggered when the last borrower moves out or

dies. Adult children may retain the home only by paying off the loan or by paying 95 percent of the value of the home.¹⁸

These complaints reflect the difficulties some families encounter when a reverse mortgage borrower dies while non-borrowing family members are living in the home at the time of the borrower's death. Some family members in multigenerational households tell the CFPB they did not realize until the lender contacted them after their parents' death that the home would be sold.

3.3 Surviving spouses lose their home upon death of the borrowing spouse

Reverse mortgage loan amounts are, in part, calculated using a borrower's age, with older homeowners eligible to borrow against a greater percentage of their equity than younger borrowers may borrow.

Some married couples report to the CFPB that they borrowed a reverse mortgage in the name of only the older of the two spouses.¹⁹ Non-borrowing spouses (NBS) submit complaints distraught that they are facing foreclosure and about to lose their home after their husband or wife dies. Other non-borrowing spouses submit complaints worried about their ability to remain in their home should the older spouse die first. Consumers submit complaints saying that they were unaware that the younger non-borrowing spouse could lose the home if the older spouse dies first. Some consumers report that their loan originator falsely assured them they would be able to add the other spouse to the loan at a later date.²⁰

¹⁸ 24 CFR 206.125 (C)

¹⁹ Joint borrowers on a reverse mortgage are not required to be married although joint borrowers are often married couples.

²⁰ HUD has taken steps to address false claims associated with these types of complaints. On June 18, 2014, HUD released Mortgagee Letter 2014-10 (ML 2014-10), which reminded 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 the HECM program. See ML2014-10 (June 18, 2014),

On April 25, 2014, the U.S. Department of Housing and Urban Development (HUD) issued a mortgagee letter, effective August 4, 2014, providing, among other things, that non-borrowing spouses, meeting certain conditions, may remain in the home after the death of the borrowing spouse for HECM loans originated after August 4th, 2014.²¹ The HUD change alters the calculation for loan amounts to be based on the age of the youngest spouse, regardless of borrowing status. The surviving non-borrowing spouse, however, will not have access to any remaining reverse mortgage loan proceeds (in the form of future monthly disbursements or unused credit line) after the death of the borrowing spouse.²² Since these program changes introduce an incentive for married couples to borrow jointly, it is likely that most HECMS originated after August 4, 2014 will be made in both spouses' names.

In addition, on January 29, 2015, HUD introduced a change affecting loans with non-borrowing spouses made before August 4, 2014. Under the latest change, servicers have the option either to (1) call the loan due and payable, or (2) assign "eligible" loans to HUD granting non-borrowing spouses a repayment deferral upon the death of a borrowing spouse.²³ Because of the complex limitations on eligibility and the amount of servicer discretion, it is unlikely that many non-borrowing spouses with pre-August 4, 2014 HECMs will receive a deferral.²⁴

<http://portal.hud.gov/hudportal/documents/huddoc?id=14-10ml.pdf>.

²¹ See ML 2014-07. If a borrower is married at the time of the reverse mortgage loan closing and the NBS was identified at the time of closing, then the loan may enter a deferral period upon the borrower's death, under certain conditions. The deferral period allows the NBS to remain living in the home indefinitely as long as loan requirements continue to be met (e.g., property tax and homeowner's insurance, primary residency, home maintenance).

²² *Id.*

²³ See Mortgagee Letter 2015-03 (January 29, 2015) (ML 2015-03), <http://portal.hud.gov/hudportal/documents/huddoc?id=15-03ml.pdf>.

²⁴ Among other things, eligibility requires that the non-borrowing spouse must have been age 62 or older at the time the loan was originated, and the current loan balance cannot exceed the home value. Additionally, at the time the loan was originated, the non-borrowing spouse would have qualified for either (1) a loan amount equal to or greater than their borrowing spouse, or (2) a loan amount equal to or greater than the current principal balance of the HECM.

4. Consumers complain about problems with loan servicing

4.1 Consumers complain that loan servicers make repaying the loan difficult

When a HECM loan becomes due and payable, borrowers and heirs have a number of options for repaying the loan. If the borrower or heirs wish to keep the home, they must pay the loan balance in full, or 95 percent of the property's current appraised value, whichever is lower.²⁵ The debt can also be settled by selling the home or transferring a deed in lieu of foreclosure. If the borrower or heirs take no action, the lender can foreclose on the home.

Many consumers express frustration with their loan servicer when attempting to repay the loan. Loan servicers are required to notify the borrower or (if deceased) the borrower's heirs within 30 days of a reverse mortgage entering "due and payable status."²⁶ The notification informs those with interest in the home that loan repayment has been triggered. The repayment notice must describe the options for paying the loan balance and how to satisfy the debt,²⁷ such as for example, by selling the home.

²⁵ 24 CFR 206.125(c).

²⁶ *Id.*

²⁷ *Id.*

Consumers complain that loan servicers and lenders do not provide a clear process for paying off reverse mortgage debt. Some consumers describe problems with the appraisal process such as lengthy delays, improperly performed appraisals, and inflated appraised home values. Appraisals are required to establish property values for the reverse mortgage repayment process.²⁸ Consumers report that problems with appraisals complicate and delay the repayment process for borrowers and their heirs. Delays increase the repayment amount by extending the time in which interest accrues. Similarly, an over-valued home unfairly increases the amount required to repay the reverse mortgage debt.

Other consumers complain of unresponsive loan servicing departments. Family members of deceased borrowers describe frustrating attempts to satisfy reverse mortgage debt obligations with loan servicing departments that do not respond to written requests or return phone calls.

One consumer described her frustrating experience of trying to settle her mother's reverse mortgage debt by submitting a deed-in-lieu of foreclosure to the loan servicer.

“The keys were turned over to the bank in August, 2012. It is now December and they say they have been engaged in a title search, but they have been saying this since September. In the meanwhile, the estate is being drained of its resources, we are paying for maintenance and utilities required by the bank, while waiting for this to be finalized.”

²⁸ *Id.*

4.2 Consumers complain that they are facing foreclosure due to non-payment of property taxes or homeowners insurance

Reverse mortgage borrowers are responsible for paying their own property taxes and homeowners insurance. Several consumers describe their struggles to remedy loan defaults triggered by non-payment of property taxes and/or homeowners' insurance. Some consumers describe unsuccessful attempts to halt foreclosure proceedings by paying overdue taxes in full or through payment plans. Other consumers insist that their loan servicers have determined incorrectly that their taxes are past due.

In an effort to decrease HECM defaults caused by borrowers' inability to pay real estate taxes and insurance, effective March 2, 2015, FHA will require lenders to conduct financial assessments of prospective HECM borrowers prior to approving the loan.²⁹ Meanwhile, consumers with existing reverse mortgages are likely to continue submitting complaints regarding defaults due to non-payment of taxes and insurance.

4.3 Consumers complain that loan servicers fail to keep accurate records

Consumers complain that loan servicers fail to keep accurate records of critical documents. Several consumers tell the CFPB they received warning letters of a pending foreclosure due to non-payment of property taxes when their tax payments were not past due.

One consumer described an arduous effort to purchase his father's home. This consumer was asked to provide legal documents to support his status as the heir to his father's estate in order to purchase the home for 95% of its appraised value. The consumer followed up for several weeks, but the servicer could not locate the documents.

²⁹ 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.

“She said she couldn’t give me any information because there was nothing in the file indicating I was the personal representative of the estate, even though I faxed that weeks ago. She wanted me to refax the papers. Somehow the death certificate I faxed came through fine, but the rest did not and apparently no one thought it important enough to let me know.”

4.4 Consumers complain that they face obstacles when attempting to prevent foreclosure

Heirs and borrowers complain that servicers delay and impede attempts to cure HECM defaults and avoid foreclosure.³⁰ Some consumers describe multiple requests from servicers for the same documents when attempting to remedy defaults. In some cases, consumers try to prevent foreclosure by paying the reverse mortgage loan balance in full, but do not receive timely responses from servicers. One consumer describes unsuccessful attempts to verify her home occupancy with her servicer upon returning home from a stay in the hospital. After submitting requested documents, her servicer was unresponsive, yet continued to send notices that foreclosure proceedings were imminent.

³⁰ The HECM default rate was nearly 10 percent in 2012. See Stephanie Moulton, Donald R. Haurin & Wei Shi, *An Analysis of Default Risk in the Home Equity Conversion Mortgage (HECM) Program* (July 18, 2014), <https://www.fdic.gov/news/conferences/2014ResearchConf/panel6/shi.pdf>.

5. Conclusion

The reverse mortgage complaints submitted to the CFPB demonstrate the wide range of problems some consumers encounter with these loans.

The largest volume of complaints concern requests for changes to the terms of the loans. Most of these requests are to add additional borrowers to extend the life of a loan or for reduced interest rates in order to increase the proceeds of a loan. While most of these complaints stem from consumer confusion over loan terms and requirements, some consumers report that they were given false information at loan origination.

Many consumers complain that reverse mortgage loan servicers often are slow to respond to their inquiries and requests. Some consumers complain that servicers are completely unresponsive, or provide inconsistent instructions. Many consumers express extreme frustration, while others express fear that they may lose their homes, due to servicers' unresponsiveness and/or poor record keeping. The servicing problems consumers describe are exacerbating many of the other problems that borrowers and their families are experiencing with reverse mortgages.

Since the CFPB began accepting reverse mortgage complaints in December, 2011, HUD has issued more than 10 policy changes to the HECM program.³¹ For example, after March 2, 2015, financial assessments of prospective HECM borrowers will change. This change is anticipated to

³¹ See HUD, HECM Mortgagee Letters, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmml.

decrease instances of defaults due to non-payment of real estate taxes and insurance for loans originated after March 2, 2015.³²

In addition, several of these changes affect surviving non-borrowing spouses. These program changes are expected prospectively to result in fewer loan originations in the name of only one spouse.

Notwithstanding the program changes, borrowers and their non-borrowing spouses who obtained reverse mortgages prior to August 4, 2014 may likely encounter difficulties in upcoming years similar to those described in this Snapshot, i.e., non-borrowing spouses seeking to retain ownership of their homes after the borrowing spouse dies. As a result, many of these consumers may need notification of and assistance in averting impending possible displacement should the non-borrowing spouse outlive his or her borrowing spouse.

For millions of older Americans, especially those without sufficient retirement reserves, tapping into accrued home equity could help them achieve economic security in later life. As the likelihood increases that older Americans will use their home equity to supplement their retirement income, it is essential that the terms, conditions and servicing of reverse mortgages be fair and transparent so that consumers can make informed decisions regarding their options.

³² Financial assessments may trigger funding requirements (such as set-asides) for the payment of property taxes and insurance. See ML 2014-07; ML 2013-27, *supra*.