The Consumer Financial Protection Bureau (CFPB) is considering issuing rules aimed at preventing abuses in the reverse mortgage market. The agency is responding to an increasing number of claims by consumers who report losing their homes or facing substantial expense as a result of reverse mortgage scams. Complaints have escalated as mainstream lenders such as MetLife, Bank of America, and Wells Fargo have exited the reverse mortgage market. That has allowed smaller mortgage brokers and lenders, many of which have been involved in the problem-plagued subprime lending market, to enter the void left by the departure of the big banks.

Reverse mortgages allow homeowners 62 and older to borrow money against the value of their homes and not pay it back until they move out or die. When used correctly, reverse mortgages can be a valuable tool for seniors who want to stay in their homes and also gain access to money needed for retirement. Seniors who have built up equity in their homes can borrow a percentage of that and take out a lump sum or a line of credit. The loan need not be repaid until the homeowner moves out or dies, but borrowers still must pay property taxes, maintenance, and insurance. Currently, there are more than 775,000 reverse mortgage loans outstanding in the United States.

Reports of abusive practices have greatly increased in recent years, and calls for regulation and protection of seniors have been made by consumer advocates. Complaints include reports of lenders aggressively pitching reverse mortgages to seniors who cannot afford the fees associated with them or about hidden costs. CFPB has received numerous reports from surviving spouses who were told they could be added later, but were not. Those seniors are at the greatest risk of losing their homes. CFPB reported that the default rate for reverse mortgages is now at a record high - approximately 9.4% of loans, up from just 2 percent ten years ago.

A number of consumers have reported that lenders encouraged them to make their older spouses the sole borrower on the loan. Brokers earn more money when they make larger loans with the older spouse as the only borrower. Reverse mortgages also have incentive structures which encourage brokers to steer consumers toward lump sum loans, which carry a fixed interest rate, rather than a line of credit with a variable interest rate. With a lump sum arrangement, the interest charges are added each month, and over time the total debt owed can exceed the amount of the original loan. Brokers earn higher fees on those loans and can reap additional profits when they sell the loans into the secondary market, where they can get rates nearly double those for variable loans. About 70 percent of reverse mortgages are taken in lump sums, up from just 3 percent in 2008, according to CFPB analysis. CFPB is investigating reverse mortgages and contemplating rules designed to increase transparency and uniformity of disclosures.

CFPB is also looking at rules to help assess suitability so as to ensure reverse mortgages are only provided to those seniors for whom there are good reasons for obtaining a reverse mortgage.
