

A recent New York Times article titled [“Pitfalls of Reverse Mortgages May Pass to Borrower’s Heirs”](#) highlights difficulties some homeowners’ heirs are experiencing because lenders are not adhering to applicable regulations on reverse mortgages. Although the reverse mortgage market has been in decline since the financial crisis, the rate of default on reverse mortgages is rising. At the peak of the reverse mortgage market in 2007, there were some 115,000 of such loans made. There were just 51,000 reverse mortgages entered into in 2012. At the same time, however, the rate of default on reverse mortgages had increased to 9.4 percent of the loans in 2012, up from just 2 percent some 10 years earlier. As the market for reverse mortgages has dwindled, large banks have exited the arena, replaced by smaller lenders and brokers. Data suggests a number of these are not complying with applicable federal regulations.

Federal regulations require that lenders must offer the heirs of homeowners who had reverse mortgages up to 30 days from when the loan becomes due to determine what they want to do with the property, and up to six months to arrange financing. The heirs have the option of paying 95 percent of the current fair market value of the property, a price determined by an appraiser hired by the lender. With home prices in many parts of the country having tumbled since the financial crisis, many heirs would be far better off taking the 95 percent option as opposed to the outstanding loan balance. Many lenders, however, are not informing heirs of that option. Heirs dealing with a hefty balance on a reverse mortgage should carefully review all loan documents and educate themselves about their legal rights and options. Homeowners should ask questions of a knowledgeable consumer attorney or seek resources from state or federal regulatory authorities if they have any question about whether a lender is acting appropriately or complying with regulations applicable to reverse mortgages.