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CFPB Analysis of Consumer Complaints on Reverse Mortgages

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Reverse mortgages are complex and not always well understood by borrowers. The older age of the target population (62 years and older) itself attracts regulatory scrutiny as part of a focus on protecting the elderly. The CFPB's February 2015 report entitled "Snapshot of Reverse Mortgage Complaints" highlights the key trends in the 1,200 complaints made to the CFPB about reverse mortgages from December 2011 through December 2014. The report provides useful data to reverse mortgage lenders and servicers about the major areas of consumer confusion and frustration, thereby providing insights into potential areas of regulatory scrutiny in the future.

The report's findings fall into three main areas:

First, borrowers and their families are often confused about the basic terms and requirements of reverse mortgages. Some claim that they were not made aware at origination about the interest rate on the loan or that they could not add a spouse or another borrower to an existing loan. These complaints often surface after the death of a sole borrower, when a spouse or other family members live in the home, which must be sold if not purchased at the lesser of 95% of the appraised value or the loan balance.[1]

Second, borrowers and their families are frustrated by the slow responses and unclear processes of servicers when trying to pay off their debt or cure a default. When a loan becomes due and payable, usually upon the death of the borrower, consumers complain that servicers are unresponsive, do not clarify the process, or fail to locate documents. They also complain that the appraisal process is lengthy and may result in inflated appraisals, resulting in higher payoff amounts for heirs.

Third, borrowers complain that they face foreclosure due to failure to pay property taxes or insurance. Although the terms of a reverse mortgage clearly require that the borrower pay taxes and insurance, borrowers may not always have enough funds to meet these obligations. To alleviate this impact, the Federal Housing Administration will soon require lenders to conduct financial assessments of borrowers before making a reverse mortgage loan.[2]

Based on the report, reverse mortgage lenders and servicers can reduce consumer confusion and complaints, whether warranted or not, by taking the following steps:

1. Review disclosures to consumers for emphasis and clarity on key loan terms and requirements.

   Lenders should make sure that their disclosures and advertisements clearly describe the terms of the reverse mortgage and that their loan officers do not mislead consumers. For example, the report cites complaints about loan officers who falsely promised borrowers that they could add a spouse as a borrower on the loan at a later date.

   The fact that borrowers must receive independent counseling before receiving a reverse mortgage if it is insured under the HUD Home Equity Conversion Mortgage program, which covers most reverse mortgages, does not relieve lenders of their disclosure obligations. According to the CFPB, "[i]t 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."
2. Monitor and test the effectiveness of customer service and document retention and retrieval.
   By continually assessing the effectiveness of customer service through call listening, training, testing or other means, a servicer can reduce communication problems during servicing, such as lack of clarity and responsiveness, that were identified by the CFPB. Also, effective processes for handling and retrieving loan documents are critical components of a reverse mortgage program.
3. Emphasize the need to pay taxes and insurance before loan origination.

   Lenders should emphasize the borrower's obligation to pay property taxes and insurance in advertisements, written materials and presentations to potential borrowers. The new financial assessment requirements will be an added benefit in ensuring that borrowers understand their obligations before acquiring a reverse mortgage.

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In conclusion, the report acknowledges the inherent complexities of the reverse mortgage product, which at least some consumers may not appreciate. Indeed, shortly after the report was published, the CFPB announced its first enforcement action against a reverse mortgage lender, All Financial Services, alleging deceptive marketing practices, some of which relate to areas of consumer confusion described in the report. At the same time, the CFPB offers lenders and servicers useful insights that can lead to process improvements and enhancements to compliance programs that target these areas of risk.

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[1] 24 C.F.R. 206.125(c)

[2] *See* HUD Mortgagee Letters (ML) 2013-27 (Sep. 3, 2013) and 2014-22 (Nov. 10, 2014).

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