



SENATE SPECIAL COMMITTEE ON AGING

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Reverse Mortgages: Leaving Seniors and Taxpayers on the Hook?

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**OCHS Senior Center
975 Pennsylvania
University City, Missouri**

SENATOR McCASKILL'S OPENING STATEMENT

Good morning and thank you to our witnesses and guests for presenting at today's field hearing of the Senate Special Committee on Aging, where we will take a hard look at Home Equity Conversion Mortgages, which are more commonly known as "Reverse Mortgages."

A reverse mortgage is a type of loan that allows elderly homeowners to convert the equity in their homes into cash. It is different than a home equity loan or a second mortgage because the borrowers do not need to repay the loans as long as they meet certain conditions.

For many elderly homeowners, the equity in their homes represents their largest asset—created through a lifetime's hard work and savings. Unfortunately, this makes seniors a target for predatory lenders and fraud perpetrators who seek to take advantage of them.

We convene today to discuss serious concerns about lax oversight in this program that is leaving our nation's seniors vulnerable to predatory practices leading to fraud and victimization. Further, not only are seniors the victims of reverse mortgage fraud, but taxpayers are also, because taxpayers insure the mortgages. I am deeply concerned about these issues.

Ten thousand baby boomers become eligible for a reverse mortgage every day. 81% of them own their homes. These seniors are sitting on \$4 trillion in equity. That equity is of great interest to some mortgage entities – unfortunately, not all of them have the best interests of the seniors involved in mind, but rather just profit at any cost. When it comes to our nation's seniors, this is a particularly troubling position.

As we all know, many seniors are more vulnerable than the average population; they may be lonely or afraid or have diminished capacity. They are trusting and believe in the integrity and honesty of others

who may not have their best interests at heart. We have a responsibility to make sure vulnerable seniors are not preyed upon and we should not create mechanisms that allow this to happen.

Among the predatory practices we are learning about are misleading advertising directed out our seniors using mailing lists whose titles tell us all we need to know about who their targets are: I'm talking about names like - "*suffering seniors*" and "*elderly opportunity seekers*".

I am pleased to have with us today, Daniel Claggett from the National Consumers Law Center, who is shortly will release a report that documents many Reverse Mortgage abuses and warns seniors of scams to avoid. I applaud the center for its important work on behalf of our seniors and look forward to the report.

We are also now seeing predators of a different nature. These persons target the very program itself, trying to game the system in the same fashion that has caused the turmoil in our housing markets.

Let me explain: like the subprime market, lenders and originators in the reverse mortgage market reap large commissions but face very little risk while writing these mortgages. This is because nearly all reverse mortgages are insured by the Department of Housing and Urban Development (or HUD). Once the value of the loan reaches the value of the home, lenders assign the loan to HUD who then becomes responsible for the difference in the loan amount and the fair market value of the home. This leaves the program vulnerable to fraud schemes, like flipping and the recruitment of sham buyers, which HUD's Inspector General has been fighting. I look forward to hearing from Mr. Medici, from the HUD Inspector General's office, about these issues and thank him for the superb work the HUD IG is doing in this field.

Further, the patchwork of regulation that is supposed to protect seniors and taxpayers appears to have left both uncovered, resulting in a recent request by HUD for an additional \$800 billion of federal funds to cover losses that I had warned about in earlier hearings.

What is also deeply concerning is that Congress continues to add to the patchwork rules governing the reverse mortgage program. Under the Housing Economic Recovery Act of 2007, reverse mortgage loan limits were raised from \$362,790 to \$625,000, making senior's even more lucrative targets for scammers. Further, the "Mortgage Reform and Anti-Predatory Lending Act," recently passed in the House of Representatives, could exacerbate the problem because it shockingly excludes Reverse Mortgages nearly 10 times from tighter duty-of-care standards for originators, Truth in Lending requirements, consumer fraud protections and prohibitions on predatory practices.

We have also been made aware of problems with the manner in which loan balances and servicing fees are calculated – in effect, servicers pile on fees that are complicated for seniors to understand and that they may not have seen coming when they decided to obtain a reverse mortgage. There are also concerns that what are known as "Yield Spread Premiums" are padding the pockets of lenders while reducing the equity available to seniors and driving up the tab for which HUD could ultimately be responsible.

We will also hear from Mathew Scire from the Government Accountability Office, or GAO, about the GAO's newly released that documents egregious marketing materials aimed at seniors that claim to offer a "government benefit" in reverse mortgages, even though this is not a government program at all. Mr. Scire will also tell us about the failure of the responsible government agencies—such as the Federal Trade Commission, HUD, the Federal Reserve, and the Office of the Comptroller of the Currency—to

seriously engage in the regulation of false or deceptive reverse mortgage marketing. The GAO also found that counselors face serious barriers in meeting their important consumer protection obligations.

In conclusion, we are pleased that the collective agencies here today, as well as others in government, are beginning to realize the enormous financial issues involved with Reverse Mortgages and the deceptive practices that continue to proliferate in the market with some of our nation's most vulnerable citizens, our seniors, as the victims. I commend them and thank them for their work, as well as the work of the private organizations and citizens who join us today.

And, as we continue this discussion, we must not lose sight about what – and really *who* – we are here to talk about: America's seniors. These are people: our parents, grandparents, neighbors, friends... It is the individual reports about how these seniors are targeted that give me the greatest drive to investigate this issues.

And so, it is people like Martha Cunningham, a 79-year-old widow who—after a sales agent persuaded her to take out a reverse mortgage and allow him to “invest” the proceeds—was left essentially broke and inundated with debt that I will be thinking about throughout today's hearing and as we all continue to work on the issue of reverse mortgages.

We look forward to the testimony of our witnesses today.