



# FEDERAL TRADE COMMISSION

WORKING FOR CONSUMER PROTECTION  
AND A COMPETITIVE MARKETPLACE

## **REVERSE MORTGAGE MARKETING AND DECEPTIVE PRACTICES – PART 2 2010 NRMLA POLICY CONFERENCE**

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# About this Presentation

- These remarks are those of the author and do not necessarily reflect the views of the Commission or any individual Commissioner



# Overview of FTC Activities

- Consumer Complaint Monitoring
- Law Enforcement Working Group
- Consumer and Housing Counselor Education
- Staff Comments on FFIEC Proposed Guidance



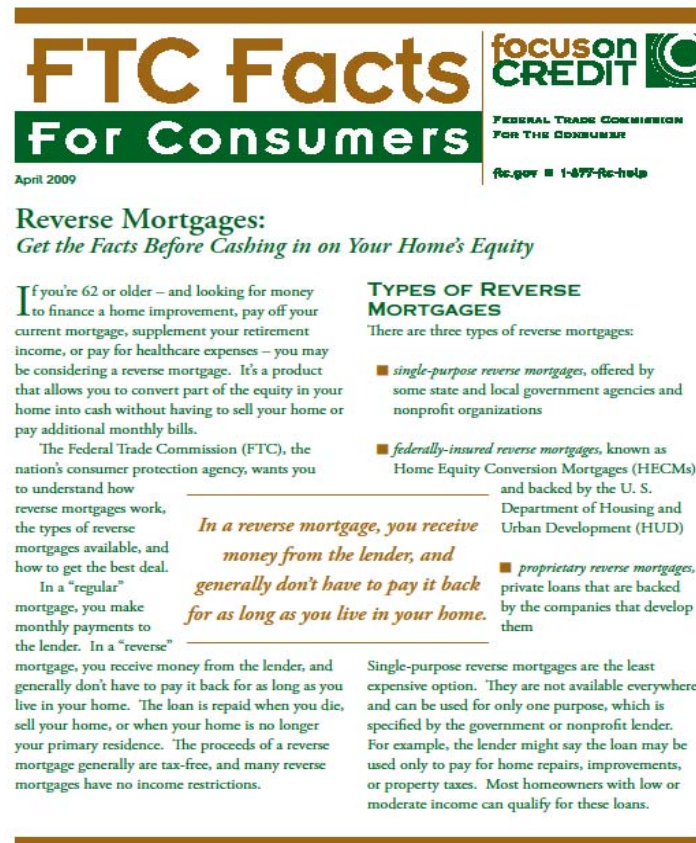
# Law Enforcement Working Group on Reverse Mortgages

- The FTC established a working group of federal and state law enforcement authorities to discuss issues related to reverse mortgages
- Goal: Enhance coordination among enforcement officials to respond effectively to unlawful activity

# FTC Brochure for Consumers

“Get the Facts Before Cashing in on Your Home’s Equity”

- Types of Reverse Mortgages
- Loan Features
- Consumer Tips
- Where to Report Fraud



**FTC Facts**  
**For Consumers**

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**Reverse Mortgages:**  
*Get the Facts Before Cashing in on Your Home's Equity*

If you're 62 or older – and looking for money to finance a home improvement, pay off your current mortgage, supplement your retirement income, or pay for healthcare expenses – you may be considering a reverse mortgage. It's a product that allows you to convert part of the equity in your home into cash without having to sell your home or pay additional monthly bills.

The Federal Trade Commission (FTC), the nation's consumer protection agency, wants you to understand how reverse mortgages work, the types of reverse mortgages available, and how to get the best deal.

In a "regular" mortgage, you make monthly payments to the lender. In a "reverse" mortgage, you receive money from the lender, and generally don't have to pay it back for as long as you live in your home. The loan is repaid when you die, sell your home, or when your home is no longer your primary residence. The proceeds of a reverse mortgage generally are tax-free, and many reverse mortgages have no income restrictions.

**TYPES OF REVERSE MORTGAGES**

There are three types of reverse mortgages:

- *single-purpose reverse mortgages*, offered by some state and local government agencies and nonprofit organizations
- *federally-insured reverse mortgages*, known as Home Equity Conversion Mortgages (HECMs) and backed by the U. S. Department of Housing and Urban Development (HUD)
- *proprietary reverse mortgages*, private loans that are backed by the companies that develop them

*In a reverse mortgage, you receive money from the lender, and generally don't have to pay it back for as long as you live in your home.*

Single-purpose reverse mortgages are the least expensive option. They are not available everywhere and can be used for only one purpose, which is specified by the government or nonprofit lender. For example, the lender might say the loan may be used only to pay for home repairs, improvements, or property taxes. Most homeowners with low or moderate income can qualify for these loans.



# FTC Alert for Counselors

- How to Spot Deceptive Claims and Practices
  - Broad and unqualified claims
  - Government look-a-like logos
  - Cross-selling
- Where to Report Possible Violations

## FTC Business Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Division of Consumer & Business Education

### Housing Counselors:

#### How to Help People Avoid Reverse Mortgage Missteps

As a housing counselor, you may be seeing an increasing number of older clients considering a reverse mortgage as a way to stay in their homes and remain financially independent.

The counseling sessions you must conduct with clients who are interested in federally-insured Home Equity Conversion Mortgages (HECMs) and some proprietary mortgages from private lenders offer a great opportunity to help spot fraud. While you're explaining reverse mortgage costs and benefits, as well as the financial implications and alternatives, the Federal Trade Commission (FTC), the nation's consumer protection agency, asks that you look and listen for false and misleading claims related to reverse mortgage offers, and report them to the appropriate authorities.

Some unscrupulous lenders may try to mislead people about the key features of a reverse mortgage. Others may claim they're part of the federal government when they're not, or give the false impression that the reverse mortgage is an entitlement rather than a loan the client must repay. Some companies may pressure homeowners to use the proceeds from a reverse mortgage to buy financial products, like annuities, that may be unnecessary or unsuitable for them. Still other companies may try to persuade homeowners that a reverse mortgage would be an easy way to pay for home repairs or a vacation when a different type of loan may be a better option.

#### How to Spot Deceptive Claims and Practices

Here's how to recognize questionable claims and practices related to reverse mortgages. When you're with your clients — especially when you are reviewing any reverse mortgage estimates they've gotten from a lender:

1. Focus on the key features of the loan, like the interest rate, fees, loan payments, and total cost. If you see a sizable discrepancy between the terms the lender or broker offers and the terms typically offered, consider it a sign of possible deception.
2. Look at whether the claims being made are broad and unqualified. Some claims may be false or misleading if a marketer does not clearly and prominently indicate that the claims apply only to certain people or to certain products in limited circumstances. For example, it might be deceptive if a marketer makes claims like "reverse mortgages provide income for life," "consumers can never lose their homes," or "borrowers can never outlive their reverse mortgage," but doesn't disclose that payments may stop and consumers may lose their homes if they move out of the house or violate another condition of the mortgage, like failing to pay property taxes or insurance.
3. Consider the names, seals, logos, and other representations of the lenders and brokers. Some may look and sound like those of government agencies. The m.o. here is to create the

# FFIEC Proposed Guidance on Reverse Mortgages

- Lenders should review advertising and marketing materials for claims about:
  - product features, loan terms, and product risks
  - borrower obligations for property taxes, insurance, and maintenance
- Examples of potentially deceptive claims:
  - “Income for life”
  - “No payments ever”
  - “No risk”
- Additional guidance relates to counseling, cross-selling, and third-party risk management



# FTC Staff Comment on FFIEC Proposed Guidance

“Although reverse mortgages may be useful for some consumers, it is important that consumers understand the costs and benefits of such products, which will result in a reduction in the equity in the most important asset many consumers have—their homes.”





# FTC Staff Comment on FFIEC Proposed Guidance

“FTC staff encourages reverse mortgage lenders and brokers under the FTC’s jurisdiction to review and consider the Proposed Guidance’s advice and examples relating to deceptive claims.”



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