

Beware those Celebrity Studded Reverse Mortgage Ads - CFPB

By: Jann Swanson | Thu, Jun 4 2015, 5:08 PM

Older Americans are being warned that ads touting reverse mortgages "that seem too good to be true" might be just that. Rather slyly using a tag line from one popular reverse mortgage advertisement, the Consumer Financial Protection Bureau (CFPB) has released results of a focus group study that found many participants were left with **misimpressions** about the product after viewing ads; perhaps that they are not a loan, are a government benefit, or would ensure they could stay in their homes the rest of their lives.

CFPB Director Richard Cordray, in a conference call with reporters regarding the study said, "As older consumers consider reverse mortgage loans to tap into their home equity, they need to be careful of those late night TV ads that seem too good to be true. It is **important** that advertisements do not downplay the terms and **risks** of reverse mortgages or confuse prospective borrowers."

The Director talked about the aging population with more than 10 thousand Americans joining the 45 million who are already over age 65 every day. The average American is now spending about 20 years in retirement and for many **much of their net worth** is tied up in their homes. It is difficult for them to access that wealth without selling a home they may wish to remain in. While some turn to a home-equity loan, "for others, an option that can seem enticing is a reverse mortgage."

These loans allow seniors to borrow against the equity in their homes, but without making the monthly payments required for a home equity loan. Instead of paying down the loan, over time the loan balance grows as repayment is deferred until the borrower dies, sells, moves out of the house, or defaults on other obligations such as insurance or taxes. Cordray said that the reverse mortgage market today is about 1 percent of the size of the traditional mortgage market. There are about **628,000 outstanding** loans.

Cordray said that the Bureau had done a lot of work on reverse mortgages including publishing a comprehensive report on the industry three years ago. This new report is about the TV, print, radio, online, and mailing advertisements that are selling this product and the misimpressions they create about how a reverse mortgage loan works.

CFPB looked at 97 different advertisements and then asked dozens of older homeowners in three different cities what they thought when they saw some of them. They found they left consumers generally confused.

First, consumers found it **difficult to understand** that reverse mortgages are loans with fees and compounding interest. Most ads either omitted mention of interest-rate information or included it in the fine print. Other consumers assumed that the money they received through the mortgages was their equity accrued over time and they did not have to pay it back.

They were also left with the **false impression** that this was a risk-free government benefit, not a loan and that the federal government was providing consumer protections it does not. "Indeed, even before we conducted our focus group study, we had heard stories about consumers being deceived and misled in this regard," Cordray said and described a CFPB's enforcement action a few months ago against a lender which had created advertisements, complete with an eagle and a header reading "Government Lending Division" to promote its product.

One focus group was shown the many reverse mortgage ads featuring celebrity spokespeople; well-known actors, even a former senator, who add a false air of credibility to the products. One focus group participant said, "When it's a former Congressman endorsing it, it makes it **sound like a good idea.**"

Cordray said what was **most concerning** was ads that left the consumers believing they could "rest assured that they can live in their homes and enjoy financial security for the rest of their lives" by taking the loans while there really are no such guarantees. The amount of equity may not last and consumers must still pay property taxes, insurance, and maintenance fees, costs which can be significant and if not paid can result in a foreclosure.

Advertisements again either failed to mention these risks or buried them in the **fine print**. Indeed, many reverse mortgage ads did not even mention interest rates, repayment terms, or other crucial requirements of the loan. Cordray said that advertisements for many different kinds of products often omit the fine details but such incompleteness could lead to a determination of being unfair or deceptive when coupled with claims of guarantees or strong statements about the absence of risk.

Incomplete information on key points of reverse mortgages raises additional concerns because they are complicated products and are being marketed to a population, older homeowners, known to be vulnerable in some instances and in a position where making a wrong choice based on incomplete or inaccurate information could jeopardize their financial security.

CFPB has previously produced a guide to assist consumers with the pros and cons of reverse mortgages and has offered tips to those who already have them on how to plan ahead for potential financial hardships. It will also continue to exercise oversight of the program and pursue enforcement actions where justified.

In response to the new study's findings Cordray said the Bureau is issuing a consumer advisory specific to making older Americans more aware when they view the ads. "First, they need to know that a reverse mortgage is a home loan, **not a government benefit**. Second, they need to know that these ads may fail to tell the whole story. Third, they need to have a good plan in place in case they outlive the loan money."

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