

Reverse Mortgage Lenders Fined for Ads That ‘Tricked’ Older Borrowers

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By Ann Carrns

REVERSE [mortgages](#), a type of home loan available to older Americans, are sometimes marketed in advertisements featuring reassuring celebrity spokesmen. But federal regulators this week reminded lenders that their pitches must also clearly disclose the loans' risks.

The [Consumer Financial Protection Bureau](#) fined three companies for using deceptive advertisements to sell reverse mortgages. The bureau [ordered the companies to stop](#) the misleading ads, which dated to early 2012, and to pay combined penalties totaling nearly \$800,000.

Reverse mortgages, formally known as home equity conversion mortgages, are loans that let borrowers ages 62 or older draw on the equity in their homes. Homeowners can receive funds in a lump sum, in monthly payments or as lines of credit; repayment of the loan is deferred until the borrower dies, moves out or sells the home.

According to administrative consent orders issued by the bureau, the companies promoted the loans as essentially risk-free. But borrowers of reverse mortgages can, in fact, default on their loans and lose their homes through [foreclosure](#), if they fail to make necessary payments for property taxes, [insurance](#) or home maintenance, or do not meet other requirements.

"Foreclosures do happen with reverse mortgages," Stacy Canan, assistant director with the bureau's Office for Older Americans, said.

The bureau, Ms. Canan said, has received complaints from borrowers faced with foreclosure because they failed to submit proof of occupancy of the home to their reverse mortgage servicer, or because the servicer claimed — often incorrectly — that they had not paid their taxes or had failed to keep the home in good repair.

In a statement, Richard Cordray, the director of the bureau, said the companies being punished had "tricked" consumers into believing that they could not lose their homes with a reverse mortgage. The companies consented to the orders without admitting or denying the findings, the bureau said.

The largest penalty, \$400,000, went to [American Advisors Group](#), the largest reverse-mortgage lender in the United States.

American Advisors promotes reverse mortgages nationally in television and online commercials. It had also distributed about a million information kits with DVDs featuring spokesmen like Fred Thompson, the actor and former United States senator.

Two versions of the DVD feature dialogue such as, “Can I lose my home?” and continues, “No you cannot lose your home,” according to the consumer agency’s order.

(Mr. Thompson died late last year. The actor Tom Selleck is now the company’s paid spokesman.)

American Advisors Group said in a statement, “We take our regulatory responsibilities seriously and have made a significant investment in our compliance and legal infrastructure to ensure we fully conform to all marketing laws and rules — and better understand how they are interpreted.”

A second company, [Reverse Mortgage Solutions](#), agreed to pay a \$325,000 penalty. The bureau said the company used high-pressure sales tactics, and its ads misrepresented that the borrower’s heirs would inherit the home, without disclosing important caveats.

Officials at Reverse Mortgage Solutions could not be reached for comment.

A third company, Aegean Financial, will pay a penalty of \$65,000. The bureau said [the company ran ads in Spanish](#) that falsely implied it was affiliated with the federal government, among other violations.

Aegean Financial did not return a call seeking comment.

The use of reverse mortgages has fallen since a peak in 2009 and remains limited. About 49,000 reverse mortgages were made in the 12 months ending on Sept. 30, [according to federal data](#) summarized by the National Reverse Mortgage Lenders Association, a trade group.

Some [financial advisers](#) do see reverse mortgages as a potentially useful tool for older Americans, many of whom lack adequate [retirement](#) savings but have significant home equity. Reforms in recent years have added more consumer protections, and “responsible” borrowers may find the loans helpful as part of an overall retirement plan, [Wade Pfau](#) writes in his book on reverse mortgages. Mr. Pfau is a professor of retirement income at the American College of Financial Services in Bryn Mawr, Pa..

Still, reverse mortgages are complex products, and consumers do not always understand from advertisements that they are actually loans with fees and compounding interest, according to research the consumer bureau published last year. Some homeowners mistakenly believed the money did not have to be repaid: “Many consumers didn’t understand that a reverse mortgage is, in fact, a loan,” Ms. Canan said.

Here are some questions and answers about reverse mortgages:

Who is a good candidate for a reverse mortgage?

Homeowners who want and expect to remain in their home for many years, and who are able to afford the associated property taxes, [homeowner insurance](#) and upkeep, may potentially benefit from a reverse mortgage, Ms. Canan said. “It may be a great product for the right person at the right time,” she said. But many homeowners, she said, may be better off selling their home and downsizing to a smaller or less expensive property with more affordable upkeep.

Where can I find information about reverse mortgages?

The federal Department of Housing and Urban Development requires that borrowers speak with a loan counselor before taking out a reverse mortgage; you can find one near you by [searching online](#).

The Consumer Financial Protection Bureau also [offers consumer guides](#) to reverse mortgages on its website.

Sandy Markwood, chief executive of the [National Association of Area Agencies on Aging](#), says consumers can contact a local agency office for help assessing their overall financial situation, and for referrals to other professionals; it may be that money concerns can be addressed in ways other than borrowing. “This is a loan,” she said about a reverse mortgage. “It needs to be taken very seriously.”

Where can I make a complaint about a reverse mortgage lender?

You can complain to the Consumer Financial Protection Bureau [online](#) or by calling [855-411-2372](#).