

RESCINDED

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Office of Thrift Supervision
Department of the Treasury

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MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS

FROM: Montrice Godard Yakimov, Managing Director

Montrice Godard Yakimov

Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

SUBJECT: Proposed Reverse Mortgage Guidance

Background

Reverse mortgages are loans that convert home equity into payments from a lender. Available to homeowners age 62 and older, reverse mortgages typically do not require any payments from borrowers as long as they continue to live in their homes. A substantial number of these loans are made under the Home Equity Conversion Mortgages program administered by the Department of Housing and Urban Development, but institutions also offer reverse mortgages through their own proprietary programs.

Reverse mortgages present safety and soundness challenges since they rely primarily on the sale of the collateral property for repayment, and they have not been tested through the credit life cycle.¹ Although reverse mortgages are growing in popularity, they are complicated products for consumers. This, combined with the fact that they are offered to seniors who may be vulnerable to misleading marketing techniques, prompted the Federal Financial Institutions Examination Council to propose the attached guidance for lenders. Comments should be submitted by February 16, 2010.

Key Issues Discussed in the Guidance

The guidance focuses on the following compliance and reputation risks:

(1) consumers may enter into reverse mortgage loans without understanding the costs, terms, risks, and other consequences of these products, or may be misled by marketing and advertisements promoting reverse mortgage products;

(2) counseling may not be provided to borrowers or may not be adequate to remedy misunderstandings;

¹ Risk management issues presented by reverse mortgages are discussed in the OTS Examination Handbook. See Appendix B to One-to-Four Family Residential Real Estate Lending section, available at: <http://files.ots.treas.gov/422041.pdf>.

(3) appropriate steps may not be taken to determine and assure that consumers will be able to pay required taxes and insurance; and

(4) potential conflicts of interest and abusive practices may arise in connection with reverse mortgage transactions, including with the use of loan proceeds and the sale of ancillary investment and insurance products.

To address these issues, the guidance provides advice on communicating with consumers; obtaining qualified independent counseling; avoiding conflicts of interest; making use of appropriate internal controls, and managing third parties.

For additional information, please contact David Adkins, Fair Lending Specialist at (202) 906-6716 or April Breslaw, Director, Consumer Regulations, (202) 906-6989.

The guidance is available on the internet at:

<http://www.regulations.gov/search/Regs/home.html#documentDetail?R=0900006480a6b893>

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