



Highlights of [GAO-09-606](#), a report to congressional requesters

Why GAO Did This Study

Reverse mortgages—a type of loan against the borrower’s home that is available to seniors—are growing in popularity. However, concerns have emerged about the adequacy of consumer protections for this product. Most reverse mortgages are made under the Department of Housing and Urban Development’s (HUD) Home Equity Conversion Mortgage (HECM) program. HUD insures the mortgages, which are made by private lenders, and oversees the agencies that provide mandatory counseling to prospective HECM borrowers.

GAO was asked to examine issues and federal activities related to (1) the potential benefits and costs of HECMs to borrowers, (2) misleading HECM marketing, (3) the sale of potentially unsuitable products in conjunction with HECMs, and (4) oversight of HECM counseling providers. To address these objectives, GAO reviewed program rules; examined HECM advertisements; analyzed consumer complaint data; performed limited tests of HUD’s internal controls; and interviewed HECM borrowers and agency, industry, and nonprofit officials.

What GAO Recommends

GAO makes recommendations designed to address potentially misleading marketing of HECMs and improve HUD’s oversight of HECM counseling providers. The federal banking regulators agreed with our recommendations. HUD and FTC did not comment on them.

View [GAO-09-606](#) or [key components](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov.

REVERSE MORTGAGES

Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers

What GAO Found

HECMs can provide borrowers with multiple benefits, but they also have substantial costs and are relatively complex. HECMs allow seniors to convert their home equity into flexible cash advances while living in their homes. Additionally, the borrowers or their heirs can fully pay off the HECM by selling the home, even if the amount owed exceeds the current home value. However, HECMs also have large insurance and origination costs. Furthermore, the long-term financial implications of a HECM can be difficult to assess because the borrower’s remaining home equity depends on the amount of cash advances and interest rate and house price trends.

Various federal agencies have responsibilities for protecting consumers from the misleading marketing of mortgages. Although these agencies have reported few HECM marketing complaints, GAO’s limited review of selected marketing materials for reverse mortgages found some examples of claims that were potentially misleading because they were inaccurate, incomplete, or employed questionable sales tactics. Federal agency officials indicated that some of these claims raised concerns. For example, the claim of “lifetime income” is potentially misleading because there are a number of circumstances in which the borrower would no longer receive cash advances.

Federal agencies have had a limited role in addressing concerns about the sale of potentially unsuitable financial products in conjunction with HECMs (“inappropriate cross-selling”). For example, an annuity that defers payments for a number of years may be unsuitable for an elderly person. HUD is responsible for implementing a provision in the Housing and Economic Recovery Act of 2008 that is intended to restrict inappropriate cross-selling, but the agency is still in the preliminary stages of developing regulations. Some of the states GAO contacted reported cases of inappropriate cross-selling involving violations of state laws governing the sale of insurance and annuities.

HUD’s internal controls do not provide reasonable assurance that counseling providers are complying with HECM counseling requirements. GAO’s undercover participation in 15 HECM counseling sessions found that while the counselors generally conveyed accurate and useful information, none of the counselors covered all of the topics required by HUD, and some overstated the length of the sessions in HUD records. For example, 7 of the 15 counselors did not discuss required information about alternatives to HECMs. HUD has several internal controls designed to ensure that counselors convey the required information to prospective HECM borrowers, but the department has not tested the effectiveness of these controls and lacks procedures to ensure that records of counseling sessions are accurate. Because of these weaknesses, some prospective borrowers may not be receiving the information necessary to make informed decisions about obtaining a HECM.