

## [Banking and Finance Law Daily Wrap Up, CONSUMER FINANCIAL PROTECTION BUREAU—CFPB study finds many reverse mortgage ads confusing, misleading, \(Jun. 4, 2015\)](#)

Banking and Finance Law Daily Wrap Up

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By Thomas G. Wolfe, J.D.

The Consumer Financial Protection Bureau has released the results of its study on reverse mortgage advertisements, determining that many consumer participants were confused or were “left with misimpressions” about the financial product. Consequently, the CFPB also issued a Consumer Advisory that warns older Americans to “watch out for misleading or confusing reverse mortgage advertisements.”

In a June 4, 2015, [release](#), CFPB Director Richard Cordray stated, “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.”

**Backdrop.** In his [prepared remarks](#), Cordray noted the ongoing work that the CFPB has conducted in connection with reverse mortgages. In particular, he pointed to a comprehensive report about the reverse mortgage industry that the CFPB published three years ago. In contrast to that comprehensive report, Cordray stressed that the CFPB’s June 2015 study focuses on “the TV, print, radio, online, and mailing advertisements” for the reverse mortgage product.

Depicting the reverse mortgage as a “special type of loan for older Americans,” Cordray related that “instead of paying down the loan over time, the loan balance actually gets larger, with repayment deferred until the borrower dies, sells, moves out of the house, or defaults on other obligations such as insurance or taxes.”

Cordray observed that the average American “is now spending about 20 years in retirement,” and, for many Americans, “much of their net worth is tied up in their home.” He said that the “the reverse mortgage market is about 1 percent of the size of the traditional mortgage market, according to industry reports, with about 628,000 outstanding loans.”

**Study’s methodology.** In conducting its [June 2015 study](#), entitled *A closer look at reverse mortgage advertisements and consumer risks*, the CFPB “reviewed advertisements from a variety of lenders that appeared in five large urban U.S. markets between March 2013 and March 2014.” In addition, the CFPB “convened focus groups and conducted one-on-one interviews with homeowners, age 62 and older, in three cities to explore their impressions of the advertisements.”

**Study highlights.** Among other things, the CFPB’s study on reverse mortgage advertisements notes:

- Many consumer participants did not understand that reverse mortgages are loans with fees, compounding interest, and repayment terms—unless they saw an interest rate explicitly stated in the ad.
- A significant number of consumer participants were confused by incomplete and/or inaccurate information implying or stating that, among other things, borrowers: could not lose their homes or could remain in their homes “as long as they want”; would not have to make monthly payments; and/or would not have to pay property taxes.
- Some advertisements led consumer participants to incorrectly believe that reverse mortgages are “a risk-free government program or benefit.”
- About half of the ads collected by the CFPB included some type of “fine print.” Most of the consumer participants “could not read the fine print in printed ads, and none of the consumers we talked to

could read the fine print that was used in television ads,” despite the fact that the fine print “generally addressed tax and insurance requirements, property maintenance and residency requirements, repayment terms, and other important details about the loans.”

- Consumer participants described “lifestyle enhancement” as the primary use for reverse mortgage proceeds, based on the pertinent advertisements.

The study emphasizes that “while reverse mortgages can help some older homeowners meet financial needs, they can jeopardize retirement security if not used carefully.” Accordingly, “it is extremely important that advertisements do not confuse or mislead prospective reverse mortgage borrowers about the terms and potential risks of the loans,” the CFPB study conveys.

**Consumer advisory.** In referencing the CFPB’s issuance of a [Consumer Advisory](#) in tandem with the June 2015 study, Cordray stated, “We want older Americans to be aware of certain factors when they see these 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.”

RegulatoryActivity: CFPB ConsumerCredit Loans Mortgages UDAAP