



Highlights of [GAO-09-812T](#), a testimony to the Senate Special Committee on Aging

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. These mortgages allow seniors to convert their home equity into flexible cash advances while living in their homes. 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) misleading HECM marketing, (2) the sale of potentially unsuitable products in conjunction with HECMs, and (3) the oversight of HECM counseling providers. This testimony is based on a GAO report being released today (GAO-09-606).

What GAO Recommends

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

View [GAO-09-812T](#) or key components. For more information, contact Mathew J. 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

While HECMs have the potential to play a key role in meeting the needs of seniors facing financial hardship or seeking to improve their quality of life, the product is relatively complex and costly and the population it serves is vulnerable. GAO’s work identified areas of consumer protection that require further attention, including the area of HECM marketing. Various federal agencies have responsibility 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. Consumers who have not been cautioned about such claims could pursue HECMs with misunderstandings about the product.

To date, federal agencies have had a limited role in addressing concerns about the sale of potentially unsuitable insurance and other financial products in conjunction with HECMs (known as “inappropriate cross-selling”). States generally regulate insurance products, and 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 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 in the preliminary stages of developing regulations.

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 required information to prospective HECM borrowers, but 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.