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Departments of Banking, Aging Announce New Policy on Reverse Mortgages to Help Protect Older Homeowners

Harrisburg – Secretary of Banking Steve Kaplan and Secretary of Aging John Michael Hall today announced that a new policy for the reverse mortgage industry defines proper conduct of mortgage lenders and helps to protect Pennsylvania’s older homeowners.

Under the policy, homeowners age 62 and older who choose to acquire a reverse mortgage will deal with lenders who understand the complexity of reverse mortgages, adhere to a code of conduct and have the ability to support the loan.

“Because reverse mortgage products are specifically designed for -- and marketed to -- older residents, we feel a particular responsibility to safeguard their interests by making sure that they are not unfairly taken advantage of,” said Kaplan. “Our policy is designed to make these products, which can be useful to some, available under the right circumstances.”

A reverse mortgage is a way to borrow money by using a home as collateral. It differs from a traditional mortgage in that the home owner need not fear the possibility that their home will be lost in foreclosure during their lifetime. However, the price one must pay to achieve this security is often very steep compared to other, more traditional kinds of financing.

Unlike a traditional home equity loan in which the homeowner makes monthly payments to a lender, a reverse mortgage provides the homeowner with monthly payments, a lump sum, a line of credit or a combination of these payments. A reverse mortgage allows older homeowners to withdraw equity from their homes; the money does not have to be paid back until the borrower dies, sells the home or moves out.

The most popular reverse mortgage type is the Federal Housing Administration Home Equity Conversion Mortgage, or HECM. The HECM loan limits some of the fees that can be charged and requires borrowers to receive counseling from an independent, certified agency. Homeowners may also choose a private, proprietary reverse mortgage which does not carry the same eligibility guidelines, fee limits and counseling requirements.

"While not appropriate in every situation, reverse mortgages can be an option for some older homeowners who want to keep their homes, age in place and protect their hard-earned resources," said Hall. "However, some types of loans carry increased risk to the borrower. I applaud the Department of Banking for developing safeguards to protect borrowers against bad advice and outright fraud by some lenders."

Reverse mortgage counseling is available in-person or by telephone. Homeowners can seek counseling from an agency approved by the U.S. Department of Housing and Urban Renewal, online at www.hud.gov, or the Pennsylvania Housing Finance Agency, online at www.phfa.org.

The new reverse mortgage statement of policy was published in the Pennsylvania Bulletin on July 10 and can be viewed at: www.pabulletin.com/secure/data/vol40/40-28/1252.html.

The Department of Banking has issued a consumer information brochure available online at www.banking.state.pa.us, located in the "Pamphlets" tab under consumer information.

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