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Title: Authorizing a full and comprehensive investigatory public hearing by Council's Committee on Finance on the impact reverse mortgage lending products are having on residents in the City of Philadelphia. Specifically, the public hearings will seek to determine the extent and impact such lending products have on the City's senior citizen homeowners, and the potential intergovernmental remedies that can be developed to protect consumers from any unintentional harms that may result from acquiring this type of lending product.

Sponsors: Councilmember Parker, Councilmember Blackwell, Councilmember Green, Council President Clarke, Councilmember Gym, Councilmember Bass, Councilmember Jones, Councilmember Quiñones Sánchez, Councilmember Greenlee, Councilmember Domb, Councilmember Reynolds Brown, Councilmember Taubenberger, Councilmember Johnson, Councilmember Oh

Indexes: REVERSE MORTGAGES

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Date	Ver.	Action By	Action	Result	Tally
3/16/2016	0	Committee on Finance	HEARING NOTICES SENT		
3/16/2016	0	Committee on Finance	HEARING HELD		
3/16/2016	0	Committee on Finance	RECESSED		
3/3/2016	0	Committee on Finance	HEARING NOTICES SENT		
3/3/2016	0	Committee on Finance	Cancellation of Scheduled Public Hearing		
1/21/2016	0	CITY COUNCIL	Introduced and Ordered Placed on This Week's Final Passage Calendar	Pass	
1/21/2016	0	CITY COUNCIL	ADOPTED & REFERRED		

Authorizing a full and comprehensive investigatory public hearing by Council's Committee on Finance on the impact reverse mortgage lending products are having on residents in the City of Philadelphia. Specifically, the public hearings will seek to determine the extent and impact such lending products have on the City's senior citizen homeowners, and the potential intergovernmental remedies that can be developed to protect consumers from any unintentional harms that may result from acquiring this type of lending product.

WHEREAS, According to the Consumer Financial Protection Bureau (CFPB): "A reverse mortgage is a special type of home equity loan for older homeowners that requires no monthly mortgage payments. Borrowers are still responsible for property taxes and homeowner's insurance. Reverse mortgages allow seniors to access the equity they have built up in their homes *now*, and defer payment of the loan until they die, sell, or move out of the home. These loans are called 'reverse' mortgages because in many ways they function 'in reverse' as compared to the traditional 'forward' mortgages most homeowners use to purchase their homes"; and

WHEREAS, As a condition of a reverse mortgage loan, borrowers are required to live in the home as their principal residence, pay property taxes and insurance, and maintain the property in good repair; and

WHEREAS, If the borrower either moves out for more than 12 months, fails to pay property taxes or maintain current homeowner's insurance, or fails to maintain the home in good repair, the lender can then demand that the borrower immediately cure the default and, after proper notice, can proceed to foreclose on the home; and

WHEREAS, In June 2009, U.S. Comptroller of the Currency John C. Dugan went before a gathering of bankers and warned of a danger growing in a market designed to serve the nation's seniors: "While reverse mortgages can provide real benefit, they also have some of the same characteristics as the riskiest types of subprime mortgages - and that should set off alarm bells" ; and

WHEREAS, Reinvestment Fund issued a report in 2014 on mortgage foreclosures in Philadelphia and found:

- Reverse mortgages or Home Equity Conversion Mortgages represent a relatively small part of the mortgage market but they are becoming increasingly popular.
- Philadelphia has an active market for reverse mortgages. In 2015, there were 1,526 reverse mortgage originations in Philadelphia, compared to 815 in Baltimore, 481 in Pittsburgh, 1,133 in Chicago and 882 in Boston. (source: Reverse Market Insight, Inc.)
- From 2010-2012 an average of 37 reverse mortgage foreclosures were filed per year by lenders for which reverse mortgages represent their predominant activity. In 2013, 102 foreclosures were filed. There were an estimated 156 reverse mortgage foreclosures in 2014 and 113 in 2015 (partial year). These reverse mortgage foreclosures in Philadelphia are concentrated in minority and lower income areas.

WHEREAS, In its 2012 comprehensive report to Congress on reverse mortgages, CFPB made five key findings:

- Reverse mortgages are complex products and difficult for consumers to understand.
- Reverse mortgage borrowers are using the loans in different ways than in the past, which increases risks to consumers.
- Product features, market dynamics, and industry practices also create risks for consumers, including:
    - A surprisingly large proportion of reverse mortgage borrowers (9.4 percent as of February 2012) are at risk of foreclosure due to nonpayment of taxes and insurance and this proportion is continuing to increase.
    - Misleading advertising remains a problem in the industry and increases risks to consumers.
    - Spouses of reverse mortgage borrowers who are not themselves named as co-borrowers are often unaware that they are at risk of losing their homes. If the borrowing spouse dies or needs to move, the non-borrowing spouse may need to sell the home or otherwise pay off the reverse mortgage unless the non-borrowing spouse qualifies for certain limited protections and the time frames for doing so are short.
- Counseling, while designed to help consumers understand the risks associated with reverse mortgages, needs improvement in order to be able to meet these challenges.
    - Some counseling agencies only receive payment if and when the reverse mortgage is closed (the

counseling fee is paid with loan proceeds), which could undermine counselors' impartiality.

- Counseling may be insufficient to counter the effects of misleading advertising, aggressive sales tactics, or questionable business practices. Non-borrowing spouses and other family members are often excluded from counseling although their interests are at stake.

- Some risks to consumers appear to have been adequately addressed by regulation, but remain a matter for supervision and enforcement, while other risks still require regulatory attention.
  - The risk of fraud and other scams is heightened for this population.
  - When the borrower dies the mortgage servicers need to reach out to the non-borrowing spouse and educate them on their options.
  - Special disclosures are required for reverse mortgages, but existing disclosures are quite difficult for consumers to understand.

WHEREAS, Certain features of reverse mortgages that are beneficial to some consumers can be harmful to other consumers who enter into them without full knowledge and understanding of their risks; and

WHEREAS, In February 2015 CFPB issued a "Snapshot of reverse mortgage complaints: December 2011 - December 2014", finding that:

- Consumers' complaints indicate confusion and frustration over the terms and requirements of reverse mortgages.
  - Consumers complain that they cannot refinance
  - Consumers complain that they are unable to change the terms of their loans
  - Surviving spouses lose their home upon death of the borrowing spouse
- Consumers complain about problems with loan services
  - Consumers complain that loan servicers make repaying the loan difficult
  - Consumers complain that they are facing foreclosure due to non-payment of property taxes or homeowners insurance
  - Consumers complain that loan servicers fail to keep accurate records
  - Consumers complain that they face obstacles when attempting to prevent foreclosure

WHEREAS, In June 2015 CFPB issued another report entitled "A closer look at reverse mortgage advertisements and consumer risks" which examined reverse mortgage industry advertisements that appeared in five large urban U.S. markets. The federal agency found once again that many of these ads "contained confusing, incomplete, and inaccurate statements regarding borrower requirements, government insurance, and borrower risks." The study also found:

- After consumers viewed reverse mortgage advertisements, they often misunderstood one or more

important features of the loans and the loans' potential risks

- Many consumers 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.

- This confusion is understandable where ads tout that reverse mortgages provide "tax free" money and are a federal government program.

WHEREAS, Congress has sought to remedy some of these harmful consequences through passage of the Reverse Mortgage Stabilization Act of 2013, which took effect in April 2015. However, RMSA does not address all of the harmful impacts of reverse mortgages, only applies to future mortgages and cannot provide increased consumer protections for existing reverse mortgages; and

WHEREAS, Further investigation must take place to determine the extent and nature of reverse lending practices throughout the City and the causes of the dramatic rise in reverse mortgage foreclosure rates; and

WHEREAS, If it is determined that reverse mortgage lending is having a widespread and unintended negative impact on the fiscal security of residents throughout Philadelphia, this Council must devise remedies to protect our senior citizens against the complete loss of the equity in their homes; now, therefore, be it

RESOLVED, BY THE COUNCIL OF THE CITY OF PHILADELPHIA, That Council authorizes Council's Committee on Finance to conduct a full and comprehensive investigatory public hearing on the impact reverse mortgage lending products are having on residents in the City of Philadelphia. Specifically, the public hearings will seek to determine the extent and impact such lending products have on the City's senior citizen homeowners, and the potential intergovernmental remedies that can be developed to protect consumers from any unintentional harms that may result from acquiring this type of lending product.

RESOLVED FURTHER, That in furtherance of its investigation the Committee is empowered to compel the attendance of witnesses and the production of documents and other evidence at any meeting of the committee to the full extent, and in the manner, authorized by Section 2-401 of the Home Rule Charter.

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