

Statement of

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before the

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Good morning Senator McCaskill, my name is Ann Jaedicke, and I am the Deputy Comptroller for Compliance Policy at the Office of the Comptroller of the Currency (OCC). Since 2003, I have been responsible for the examination policies and procedures for the country's national banks relating to consumer issues.

It is a pleasure to be in St. Louis this morning to discuss reverse mortgages. As you know, reverse mortgages can provide a financial benefit to older consumers who have equity in their homes. As the baby boom population ages, the economy stabilizes, and home prices begin to recover, we are expecting this product to grow in popularity.

Reverse mortgages are unique and complex financial products. Unlike a traditional mortgage, a reverse mortgage does not require the borrower to make payments on an ongoing basis. Instead, the home itself is the source of repayment, and no repayment is required until the homeowner dies, moves out of the home, or fails to maintain the property or pay property taxes or insurance. Used correctly, these products can provide funding for home improvement projects or medical needs, or provide long-term financial security to consumers. However, like many mortgage products, without

proper underwriting and strong consumer protections in place, there is also the potential for their misuse.

The OCC is concerned that the reverse mortgage product, if not managed properly, can raise consumer compliance concerns. For instance, reverse mortgages allow elderly consumers to access their home equity through immediate and large lump sum payments. Although some consumers may use a lump sum payment to pay off their existing mortgage, others may choose this option for medical expenses or home improvements. Accessing a large amount of cash may leave some consumers vulnerable to unscrupulous lenders, other bad actors, or fraud. In addition, if consumers who receive a lump sum payment do not adequately plan for future home maintenance costs, or property tax or insurance payments, they may eventually find themselves in foreclosure. Other consumer risks include misleading marketing claims or difficulty understanding the complexities and costs associated with reverse mortgages.

There are two basic types of reverse mortgage products in the market: “Home Equity Conversion Mortgages” called “HECMs” that are insured by the Federal Housing Administration, and proprietary products offered by individual lenders. And while national banks may originate HECMs, the OCC does not have a role in the administration of the HECM program. The OCC does, however, have a role in ensuring that national banks comply with the laws and regulations applicable to HECMs.

Federal standards and regulations are currently in place to address potential consumer compliance concerns for HECMs, which currently account for about 90% of the entire reverse mortgage market. If a HECM borrower receives their proceeds in a lump sum, these regulations restrict the use of the funds to pay for certain third party services, such as loan arrangers or so-called “estate planning services.” Procedures also

are in place to improve consumer understanding of the costs and structure of HECMs, and borrowers are required to receive independent financial counseling about alternatives to reverse mortgages, and about the financial, tax, and estate consequences of the transaction, before they take out a HECM.

Because the proprietary products are not subject to these same federal regulations, OCC is working to expand the regulatory protections built into the HECM program to the proprietary mortgage market. To accomplish this, OCC has been leading an interagency working group to develop supervisory guidance for managing the risks presented by reverse mortgages. We expect the guidance to apply to proprietary reverse mortgage lenders and to address our concerns that consumers may not understand the costs, risks, and consequences of reverse mortgage products; that counseling may not be provided or may not be adequate; and that potential conflicts of interest and abusive practices may arise in connection with these transactions. The guidance should be issued for public comment later this summer.

We also will rely on regulations currently in place to address consumer protection risks relating to misleading marketing or conditioning the mortgage on the purchase of other nonbank products. If necessary, we will use our authority to require immediate correction of any potentially misleading marketing claims about this product and to prevent inappropriate and illegal cross-selling activities.

Finally, the OCC is developing Public Service Announcements on reverse mortgages, including print and radio spots that will run in both English and Spanish, to advise consumers about the potential risks of this product. These PSAs should be issued in the coming weeks.

Thank you, Senator McCaskill, for convening this hearing and for your leadership on this important issue. I would be happy to answer any questions you might have.