



Reverse mortgage advertising prompts warning

By: Lance Traweek, Reporter June 9, 2015 0

When it comes to reverse mortgages, two very different sides are often presented: the dangers and benefits of the product.

A reverse mortgage is a loan accessible to homeowners who are 62 years or older that lets them convert part of the equity in their home into cash.

The Consumer Financial Protection Bureau warned consumers June 4 to not be misled by reverse mortgage advertising, which often depicts images of elderly retirees on vacations and include pamphlets with very minimal information.

When asked what could go wrong when getting a reverse mortgage, New Orleans real estate attorney John C. Menszer replied, "A lot."

Menszer said those with a reverse mortgage cannot always stay in their home as long as they live.

"If you live with another person who is not listed on the reverse mortgage, when you die they will not be allowed to remain in the home," according to Menszer, who recently blogged about the issue. "This is true even if they are on the deed."

Menszer said consumers often do not list both on the loan because the amount of equity that can be taken out of a home depends on the age and credit worthiness of the borrowers.

"It may have made financial sense to leave the younger, less creditworthy person off of the reverse mortgage," he said.

Menszer said it's important to note that not all upfront costs are minimal.

"Actually, the fees, commissions and costs of a reverse mortgage are high. But because they are deducted from the

loan proceeds at closing and financed by the mortgage, you may not be aware of them," he said. "And note, the interest rates on most reverse mortgages are variable."

In addition, Menszer notes that some reverse mortgages provide for the payment of taxes and insurance, while others do not.

"If not, this will be your responsibility," he wrote. "If you don't pay them, you will be in default of your contract. Also, (your) home has to be maintained properly. You will be responsible for repairs and upkeep. You can be placed in default if you fail to maintain your property."

But Kyle Waters, owner and manager of Metairie-based Loan Evaluation Services, said reverse mortgages are a "good, legitimate product."

"It has its place in helping people get needed funds without having to sell their house or taking out a loan," Waters said. "And like any industry, there are companies who will take advantage of anything."

However, Waters urged that regulators need to ensure the consumers, especially those who are most at risk, are protected. "This is a loan, so there is indeed a debt," Waters said. "But it's the repayment method that is different and what makes it beneficial to elderly people who are in need of funds."

Like any other financial product, Waters said the consumer has responsibilities as well.

"It's not for everyone. Some say it's a last-resort product and there may be some truth to that," Waters said. "People need to understand the product, to maintain insurance (property and flood if warranted), property (taxes), etc. like any other loan."

He urged the importance of reading and understanding the requirements like in any other contract.

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