



ASSEMBLYMEMBER TIM GRAYSON

AB 2408

Senior Abuse and Reverse Mortgages

Summary:

AB 2408 is an important step in protecting seniors in California, one of the state's most vulnerable populations, from becoming involved with unsuitable reverse mortgage loans that may have devastating financial consequences for them.

Background:

A reverse mortgage is a financial product that allows an owner of a home who is 62 years of age and older to utilize the equity in their home while still living in their home. Unlike a regular mortgage, in a reverse mortgage the homeowner does not make monthly mortgage payments but receives a loan in which the lender makes payments to the homeowner (also referred to as the borrower.) Interest and fees are added to the loan balance each month which means that the amount that the borrower owes to the lender goes up overtime¹. Repayment of the loan is due upon the death of the borrower or when the borrower moves, or is absent from the home for 12 consecutive months.

AB 1700 was passed in 2014 which created a consumer's Reverse Mortgage Suitability worksheet featuring five potential problem areas that seniors should contemplate before taking out a reverse mortgage loan. Since AB 1700's enactment, it has become apparent that additional considerations need to be added to the worksheet.

Problem:

Reverse mortgages can have devastating consequences, particularly for seniors. Borrowers have an ongoing responsibility to keep paying the insurance, property taxes and home maintenance for the loan to remain in good standing. Failure to keep up with these payments will lead to default and foreclosure. Nationally, the percentage of terminations due to borrower defaults increased from 2 percent in 2014 to 18 percent in 2018.

The Consumer Financial Protection Bureau (CFPB) collects, analyzes, and reports on consumer complaints related to reverse mortgages. CFPB found that consumer complaints indicated frustration and confusion over the terms and requirements of reverse

mortgages and California was one of four states with the most complaints².

Solution:

This bill offers a reasonable approach to further protect seniors by ensuring that they have complete information before entering into a reverse mortgage.

Specifically, AB 2408 will add provisions to the reverse mortgage disclosures notice and checklist that asks the following:

1. If there is a spouse that is named on the property title.
2. If the prospective borrower knows what will happen to the property when they die or permanently relocate away from the home.
3. If there is an understanding of what will happen to the property if there is a reverse mortgage and the prospective borrower later gets involved with a Property Assessed Clean Energy (PACE) program home improvement loan.

Overall, this bill aims to ensure that while reverse mortgages can be a useful safety net for many Californians who have no other financial resources, California's seniors should be able to make informed decisions about their financial situations without being pressured into obtaining mortgages that they do not need, and which deplete the equity in their greatest single asset.

Support:

California Advocates for Nursing Home Reform
(Sponsor)

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¹ <https://www.consumerfinance.gov/ask-cfpb/what-is-a-reverse-mortgage-en-224/>

² <https://www.gao.gov/assets/710/701676.pdf>