

Reverse Mortgage Floor Speech

Unofficial Transcript
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Senator McCaskill: Madam President, Once upon a time, someone had a good idea about trying to open up the mortgage market to as many people as possible. Between that moment and now, we have seen a giant economic crisis that has mushroomed out of control, and we've sat around here for months now trying to figure out: how did it happen and why did it happen?

One of the reasons it happened is just using common sense. We said to people, "You can go make money by talking people into borrowing money, and you don't have to worry about whether they pay it back." Let me go through that one more time. We said to a market, the mortgage market, we said, "If you go talk people into borrowing more money than they can afford, it doesn't matter if they can pay it back. You don't need to worry about that because you're going to make your money anyway."

In other words, the people who were closing these loans had no skin in the game. They were not a partner to the risk. So, that's how you got people qualifying for loans, by wearing a special costume and a photograph. It was how you had liar's loans. They were called liar's loans. Everybody knew people were lying to get these loans, but no one was doing anything about it because the people who were making the loans were making the money and had no risk.

Now, you would think with this occurring, that we would now be on hyper-alert for the exact same set of circumstances. But we're not, because it's going on today as we speak. You turn on any cable channel, almost, in America and before midnight you're going to see an ad that says to seniors, "You need to take advantage of a great government program, a government benefit. You can be paid cash for the value of your house without any risk. They're called reverse mortgages. It is a type of home loan that converts the value in your home that you have acquired over a lifetime and converts it to cash."

Now, in and of itself, this is not a bad concept. People ought to be able to borrow against the value of their homes. We do it with home equity loans. Here's the problem: we've got the people closing these loans that have no skin in the game. Guess who's insuring all these loans? We are. The taxpayers. There is no risk to those people paying for those ads on cable TV -- no risk. Reward. No risk. We're taking the risk. So, if in fact the housing markets go down and the value of someone's property goes down and it's time for that loan, the value of that loan to be recovered when that house is sold, if it doesn't sell for enough money, guess who's left holding the bag? Hello? Subprime mortgage, chapter 2 -- we're back.

We've got the same issue that we have with the subprimes. Since we began this program in 1990, H.U.D. has endorsed and insured 500,000 loans. But wait...We took the cap off recently. We anticipate that H.U.D. will in fact insure 200,000 of these loans this year alone. So we've done 500,000 loans since 1990 and we're going to do 200,000 loans this year. We're talking about a huge growth in the potential liability to the American taxpayer.

These are complex and expensive loans and for many elderly, the equity they have in their home is it. With the economic circumstances we have right now, there's going to be a lot of pressure on the elderly to enter into one of these reverse mortgages, maybe to help other family members that have lost a job. So, it is really important that we fix this program. It is embarrassing that we let the subprime mess go for as long as we did without anybody saying, "Whoa! Hold on." It will be doubly embarrassing if we allow this reverse mortgage situation to go down the exact same path.

With these loans we're also seeing, as they increase dramatically in number and value, we're also seeing an increase in fraud. The H.U.D. Inspector General has been working in the reverse mortgage field and, as all the other inspectors general in our country, has done a great job

beginning to find problems of specific nature as it relates to fraud. Some of it is where we've got inflated appraisals. I mean, some of it is where you've got shoddy repairs being done, which decreases the value of the home, which increases the risk to the taxpayer. Some of it is people continuing to collect the proceeds on the home, past the time they should, past perhaps the death or the moving out of the senior that did the loan in the first place.

Why is the fraud increasing? Well, I've got a theory why the fraud is increasing. All the bad actors that were over there in subprime, are looking for a new stream of money. So they're all sliding over and saying, "Hey, let's start marketing these reverse mortgages to seniors."

We have got to do something about this now. I have filed an amendment to the legislation that is in front of the Senate that will do some important things in terms of fraud prevention and detection and enforcement provisions.

We are going to require the borrower to certify they reside in the property and to report the termination of the residence to H.U.D.

Require that in the case of a property that is purchased with the proceeds of a reverse mortgage, that the property is owned and occupied for at least 180 days so we do not have the flipping that we've seen in the subprime market.

Require these properties being appraised by certified appraisers – H.U.D.-certified appraisers. We've got verify the purchase price to insure the appraised value is not inflated and make sure it is not too high in relation to comparable properties. You can imagine how important this is right now since our housing market values are in such flux.

To require the counselors to report suspected fraud or abuse to the H.U.D.'s Inspector General and to inform perspective borrowers how they can report suspected fraud and consumer abuse.

Require that the lenders and counselors maintain a system to ensure compliance. Explicitly state that the H.U.D.'s Inspector General has the authority to conduct independent audits and inspections of the lenders. (Wouldn't it have been nice if we had done this back when we started having these problems with subprimes?)

Conduct independent audits and inspections of reverse mortgage lenders to ensure they're in compliance with the requirements and to compare the reverse borrower's records against the social security's death master file for early indications of when payouts should end because of course the payouts under these reverse mortgages stop at the death of the recipient of the reverse mortgage.

Provide that any limitation on when criminal charges can be brought against fraud perpetrators in this area be calculated on when we find out about the criminal activity, not when it occurred. Because many instances we may not find out about the fraud until the elderly person dies and then they find out that maybe they thought that they still had value in their home, but they were lied to.

This is an important one: provide that advertising for reverse mortgages cannot be false or misleading and must present a fair and balanced portrayal of the risks and the benefits of the products.

You know, the fraud is the first step. Going after fraud is the first step, but we have to do more. It is very, very important that we protect our seniors from predatory lenders. You know, when you see these ads on TV, it sounds too good to be true. Government benefit, no risk. But, there is a huge risk. There is a risk of a senior paying more than they should for a product that doesn't work for them and a very big risk for the taxpayers of this country.

I look forward to working with the Senate Judiciary and Banking Committees as well as H.U.D. and the H.U.D. Inspector General and G.A.O. to get the things done we must do to clean up this problem. If we do not learn from our mistakes, we are doomed to repeat them, so I urge all my colleagues to become knowledgeable about this reverse mortgage area, get word to their constituents to be careful about these reverse mortgages. They are very dangerous. And at the end of the day, if somebody is making money off of you and they don't care whether you can pay it back, it is a dangerous, dangerous combination.

Thank you, Mr. President. -- Thank you, madam president. I yield the floor.