

MDDCCUA SB 457- Commercial Law – Credit Regulation

Uploaded by: Bratsakis, John

Position: FAV



MD|DC
Credit Union Association

Chairwoman Delores Kelley
3 East
Miller Senate Office Building
Annapolis, MD 21401

SB 457: Commercial Law – Credit Regulation – Reverse Mortgage Loans Act – Revisions
Testimony on Behalf of: MD|DC Credit Union Association
Position: Support

Chairwoman Kelley, Vice-Chair Feldman, and members of the committee,

The MD|DC Credit Union Association, on behalf of the 77 Credit Unions and their 2.2 million members that we represent in the State of Maryland, appreciates the opportunity to testify on this legislation. Credit Unions are member-owned, not-for-profit financial cooperatives whose mission is to educate and help members achieve financial well-being. **We support this bill.**

Credit unions protect consumers, especially seniors, as much as possible in every transaction, and we appreciate the sponsor introducing this legislation. MD|DC CUA has taken an active role by being part of Maryland's Project SAFE (Stop Adult Financial Exploitation). Project SAFE is an informal public/private coalition of 16 different organizations that share a common goal of preventing and remedying financial exploitation of vulnerable adults. MD|DC CUA has conducted several Project SAFE presentations to senior centers around the state to inform seniors about fraudulent schemes and other bad financial actors. We've also trained and certified 1,000+ credit union employees on identifying and preventing senior financial exploitation.

With this in mind, we support the spirit and intent of this bill. This bill clarifies and tightens existing guidelines and also closes loopholes that unscrupulous lenders use to take advantage of senior citizens. We also find the provision clarifying disclosure requirements to be beneficial for lenders and consumers alike.

As always, we appreciate the ability to have our voices heard and look forward to a continued partnership. Please reach out to me at jbratsakis@mddccua.org or our VP of Advocacy, Rory Murray, at rmurray@mddccua.org with comments or questions.

Thank you!

Sincerely,

John Bratsakis
President/CEO
MD|DC Credit Union Association

SB0457-713122-01.pdf

Uploaded by: Struse, Frederica

Position: FAV



SB0457/713122/1

AMENDMENTS
PREPARED
BY THE
DEPT. OF LEGISLATIVE
SERVICES

04 FEB 21
15:07:09

BY: Senator Feldman
(To be offered in the Finance Committee)

AMENDMENTS TO SENATE BILL 457
(First Reading File Bill)

AMENDMENT NO. 1

On page 1, strike beginning with the first “a” in line 26 down through “initiating” in line 27 and substitute “that”; and in line 27, after “loan” insert “follow certain provisions of law and certain regulations”.

AMENDMENT NO. 2

On page 3, in lines 23 and 24, in each instance, strike the bracket.

On pages 3 and 4, strike beginning with “MEANS” in line 24 on page 3 down through “**1976**” in line 4 on page 4.

On page 12, in line 7, strike “DO” and substitute “ARE”; in the same line, strike “SHARE ANY PECUNIARY INTEREST” and substitute “AFFILIATED”; and in line 28, strike “LENDER OR INVESTOR”.

On page 13, in line 23, strike “**BEFORE A PERSON INITIATES FORECLOSURE**” and substitute “FORECLOSURE”; in line 24, strike “, THE PERSON”; and strike beginning with the colon in line 24 down through “DEFAULT” in line 30 and substitute “FOLLOW §§ 7-101 THROUGH 7-105.18 OF THE REAL PROPERTY ARTICLE, AND THE REGULATIONS OF THE COMMISSIONER OF FINANCIAL REGULATION”.

CPD Opposition SB 457 (Reverse Mortgages).pdf

Uploaded by: Sakamoto-Wengel, Steven

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February 16, 2021

TO: The Honorable Delores G. Kelley, Chair
Finance Committee

FROM: W. Thomas Lawrie, Assistant Attorney General

RE: Senate Bill 457 – Commercial Law – Credit Regulation – Reverse Mortgage
Loans Act – Revisions – OPPOSITION

The Consumer Protection Division of the Office of the Attorney General (the “Division”) opposes Senate Bill 457, sponsored by Senator Feldman, which would significantly amend the Reverse Mortgage Loans Act (RMLA) to allow lenders to offer a broader range of reverse mortgage products in Maryland, but without some important consumer protections. SB 457 would revise Title 12, Subtitle 12 of the Commercial Law Article, the RMLA, in various ways, primarily by removing the requirement that reverse mortgages made in Maryland comply with the Federal Housing Administration’s (FHA’s) Home Equity Conversion Mortgage (HECM) program requirements. By eliminating the requirement that reverse mortgages comply with the HECM program, SB 457 would effectively eliminate various protections for Maryland seniors that were developed by the FHA and incorporated into the HECM program over the years to reduce foreclosures, and which are currently incorporated by reference into Maryland’s RMLA. As a result, Senate Bill 457 would harm Maryland seniors.

The term “reverse mortgage” is commonly understood to apply to a loan product whereby a lender disburses money over a long period to provide regular income to older borrowers, and for which the loan is repaid in a lump sum when the borrower dies or when the property is sold. *Black’s Law Dictionary*, 7th Ed. (Abbr.), 2000. The original purpose envisioned for reverse mortgages was to convert home equity into cash that borrowers could use to help meet expenses in retirement. Borrowers could choose between an income stream for everyday expenses, a line of credit for major expenses (such as home repairs and medical expenses), or a combination of the two. It was anticipated that most, though not all, borrowers would use their loans to age in place, living in their current homes for the rest of their lives or at least until they needed skilled care. Upon the borrower’s death, or upon leaving the home, the borrower or the estate would sell the home to repay the loan and then receive any remaining home equity. See Consumer Financial Protection Bureau (CFPB), *Report to Congress on Reverse Mortgages*, June 2012, at 6, online at

https://files.consumerfinance.gov/a/assets/documents/201206_cfpb_Reverse_Mortgage_Report.pdf (last visited February 11, 2021).

Yet most of today's reverse mortgage borrowers do not use their loans to convert home equity into an income stream or a line of credit. *Id.* at 6. Borrowers also do not typically live in their current homes until the end of their lives. *Id.* at 7. In its *Report to Congress on Reverse Mortgages*, the CFPB found that reverse mortgages are complex products and difficult for consumers to understand. *Id.* at 8. The CFPB found that lessons learned from the traditional mortgage market do not always serve consumers well in the reverse mortgage market, noting that the rising balance, falling equity nature of reverse mortgages is particularly difficult for consumers to grasp. *Id.* Further, although innovations in reverse mortgage products has created more choices for consumers, they have also increased the complexity of the choices and tradeoffs consumers have to make. *Id.* The CFPB also found that reverse mortgage borrowers are taking out loans at younger ages than in the past, and nearly half of borrowers are under age 70. *Id.* Taking out a reverse mortgage early in retirement, or even before reaching retirement, increases future financial risks to consumers. *Id.* Reverse mortgage borrowers are also withdrawing more of their money upfront than in the past, with the majority taking all or almost all of their available funds upfront at closing. *Id.* Borrowers who withdraw all of their available home equity upfront will have fewer resources to draw upon to pay for everyday and major expenses later in life. Finally, borrowers who take all of their money upfront are also at greater risk of becoming delinquent on paying their property taxes and hazard or flood insurance premiums (collectively, "property charge defaults") and ultimately losing their homes to foreclosure. *Id.* For all of these reasons, reverse mortgages are often considered a loan of last resort.

The Maryland General Assembly created a comprehensive regulatory structure for reverse mortgages, including the adoption of significant consumer protections, when it passed the RMLA, effective October 1, 2010. *See* 2010 Md. Laws, chs. 622 and 623, Section 2. Since the RMLA went into effect, all reverse mortgages originated in Maryland have had to comply with, among other things, the HECM program requirements. Specifically, all lenders originating reverse mortgages in Maryland after October 1, 2010, including lenders offering non-HECM reverse mortgage loans, have had to comply with FHA's regulations and guidance for the HECM program. Md. Code Ann., Com. Law § 12-1204(a).

As a result of the enactment of the RMLA, HECM mortgages have become the only type of reverse mortgages offered in Maryland. And there are sound policy reasons for this requirement. The regulations and guidance promulgated by the FHA, and incorporated by reference into the RMLA at Com. Law § 12-1204(a), have included a number of protections designed to make the HECM program sustainable and to protect consumers, including, among other things, efforts to reduce foreclosure on HECM loans due to property charge defaults. To that end, over the last decade, various rules and guidance issued by the FHA have included:

- requiring that lenders conduct a financial assessment of all prospective reverse mortgage borrowers prior to loan approval and closing;
- obligating lenders to require borrowers to set aside HECM proceeds to pay property charges if that initial financial assessment demonstrates that the borrower may not have the capacity or willingness to make the payments (particularly important to

ensure that the most vulnerable borrowers, those who take the HECM proceeds as a single, up front lump sum, are subject to the most stringent set-aside requirements);

- requiring that lenders attempt to cure a borrower’s property charge default by engaging in loss mitigation strategies, including sending a “Property Charge Delinquency Letter” to consumers that gives the borrower an opportunity to cure the delinquency and which encourages them to seek housing counseling, and which provides a list of loss mitigation options;
- if loss mitigation is unsuccessful, requiring that the lender send a “due and payable request” to the FHA, with the application having to demonstrate all of the lender’s “multiple and earnest attempts” to contact the borrower to cure the default, which in turn must be approved by the FHA before the lender can foreclose on the property; and
- incentivizing lenders to engage the consumers early on to cure any property charge defaults prior to ever sending a “due and payable” letter to the FHA.

These measures were carefully developed and implemented by the FHA over time for the express purpose of reducing foreclosures from property charge defaults in the HECM program. They are part of Maryland law only to the extent that they are incorporated by reference through Com. Law § 12-1204(a) of the RMLA; none of these provisions is codified elsewhere in Maryland’s mortgage lending laws. At present, both HECM and non-HECM loans are subject to these requirements through the RMLA.

However, Senate Bill 457 would allow private lenders to offer non-HECM reverse mortgage loans that would no longer be subject to these HECM program requirements. Further, SB 457 only incorporates the first provision above – requiring a lender to conduct a financial assessment of the prospective borrower – but without implementing the set-aside requirements flowing from that financial assessment. The other measures are completely absent from SB 457. Thus, SB 457 would allow private lenders to offer reverse mortgage loans that contain none of the consumer protections that the FHA has deemed necessary to reduce foreclosures from property charge defaults.

Although it is impossible to quantify how many new reverse mortgages might be offered in Maryland if SB 457 was passed, it seems highly likely that reverse mortgage foreclosures rates overall would increase, given that any new non-HECM loans would not be subject to the loss mitigation or other consumer protections of the HECM program – measures that were expressly implemented to reduce foreclosures from property charge defaults. That potential harm alone far outweighs any marginal benefit that might arise from making non-HECM reverse mortgage loans available to Maryland homeowners. As such, the Division asks that the Finance Committee give SB 457 an unfavorable report.

cc: The Honorable Brian Feldman
Members, Finance Committee