California Assembly Bill No. 1700, Reverse Mortgage Notifications

California Assembly Bill No. 1700, as officially summarized below, amended the state’s disclosure program for reverse mortgages to better protect seniors. Approved by the Governor and filed with the Secretary of State on September 30, 2014, the amendments were supported by Professor Natalie Denburg’s empirical research on decision-making.

LEGISLATIVE COUNSEL’S DIGEST

AB 1700, Medina. Reverse mortgages: notifications.

Existing state and federal law regulate the activities of financial institutions. Existing state law regulates reverse mortgage loans and requires a lender to refer a prospective borrower to a housing counseling agency, as specified, and prohibits a lender from accepting a final and complete application for a reverse mortgage loan or assessing any fees without receiving certification, as specified, that the borrower has received loan counseling. Existing law prohibits a lender from taking a reverse mortgage application before having provided an applicant a specified disclosure notice and written checklist.

This bill would prohibit a lender from taking a reverse mortgage application or assessing any fees until 7 days from the date of loan counseling, as specified. The bill would make specified changes to the disclosure notice. The bill would delete the requirement that the lender provide a written checklist and would, instead, prohibit a lender from taking a reverse mortgage application unless the applicant has received from the lender a specified reverse mortgage worksheet guide. The bill would require that the reverse mortgage worksheet guide contain certain issues that the borrower is advised to consider and discuss with the counselor. The bill would require the counselor and the prospective borrower to sign the reverse mortgage worksheet guide, as specified.

Today’s Law as Amended

[The following section was added to the existing statute:]

SECTION 1. (a) A reverse mortgage is a loan that allows a homeowner to convert home equity into tax-free cash payments. More than 90 percent of all reverse mortgages are obtained through the Home Equity Conversion Mortgage (HECM) program sponsored by the United States Department of Housing and Urban Development. Many senior citizens use reverse mortgage payments to supplement retirement income or pay medical expenses. Although the HECM program has been in existence since 1989, the program has seen rapid growth only in the past few years. As the population ages, this growth rate is expected to accelerate. The growth rate is also expected to increase as sales agents and lenders turn from the declining subprime and conventional mortgage market to the rapidly growing market for reverse mortgages.

(b) Because reverse mortgage decisionmaking involves a number of complex issues, before committing to a loan every senior should contemplate possible negative consequences. Every
prospective purchaser of a reverse mortgage should study and discuss with an HUD-approved reverse mortgage counselor the items in the reverse mortgage worksheet guide specified in subdivision (b) of Section 1923.5 of the Civil Code.

(c) In specifying these requirements, it is not the intent of the Legislature to discourage the use of reverse mortgages, which can provide substantial benefits to senior citizens. Rather, these requirements seek to ensure that senior citizens will make informed decisions and that persons who offer, sell, or arrange the sale of reverse mortgages to senior citizens will act in the best interest of reverse mortgage loan borrowers.

Source: California Legislative Information, available at: https://leginfo.legislature.ca.gov/faces/billCompareClient.xhtml?bill_id=201320140AB1700