

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

DATE: August 2010 **LETTER NO.:** 10-CU-16

TO: Federally Insured Credit Unions

SUBJ: Reverse Mortgages

ENCL: Interagency Guidance Entitled *“Reverse Mortgage Products: Guidance for Managing Compliance and Reputation Risks”*

Dear Board of Directors:

As the U.S. population ages, more homeowners are becoming eligible for highly complex loan products known as “reverse mortgages.” The enclosed guidance describes potential benefits and risks to credit unions and consumers.

What Are Reverse Mortgages?

Reverse mortgages generally allow elderly homeowners to receive regular cash payments from lenders in exchange for pieces of their home equity. This can enable elderly residents to remain in their homes while tapping their home equity to pay for their health care and other living expenses.

Unlike home equity loans, consumers are not obligated to repay lenders during the life of their loans. Instead, consumers typically agree to give up a portion of their home equity to their lenders.

If underwritten prudently and used appropriately, reverse mortgages have the potential to become an increasingly important product for meeting certain needs of elderly consumers.

However, reverse mortgages can be highly complex – so it is particularly important to provide clear information, counseling, and other consumer protections.

What Are the Risks?

For lenders, reverse mortgage products may present compliance risks, credit risks, interest rate risks, liquidity risks, and reputation risks.

The enclosed guidance focuses on consumer protection concerns that raise compliance and reputation risks. The complex nature of reverse mortgages presents risks that consumers will not understand the costs, terms, and consequences of the products.

Where is the Guidance?

Guidance entitled “*Reverse Mortgage Products: Guidance for Managing Compliance and Reputation Risks*” was recently released by the Federal Financial Institutions Examination Council.¹ We are enclosing this guidance so you are aware of the consumer protection issues reverse mortgages could raise depending on how the products are structured and administered.

The guidance addresses the general features of reverse mortgage products and provides an overview of relevant legal requirements. The guidance also focuses on the need for financial institutions to provide clear and balanced information to consumers about the risks and benefits of reverse mortgage products. In addition, the guidance addresses related policies, procedures, internal controls, and third-party risk management issues you should consider when offering reverse mortgages.

If your credit union offers reverse mortgages, your members should receive relevant information while they are making decisions about whether to engage in a reverse mortgage transaction. Your policies should address the specific matters listed in the guidance, including informing members of available alternatives to reverse mortgages. Furthermore, management should take steps to avoid any appearance of a conflict of interest and require members to receive qualified independent counseling.

If you have questions, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure

¹ The FFIEC consists of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the State Liaison Committee.