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### **State Regulators Issue Examination Guidelines for Reverse Mortgages**

The American Association of Residential Mortgage Regulators (AARMR) and the Conference of State Bank Supervisors (CSBS) are announcing the release of a comprehensive set of examination guidelines designed specifically for reviewing the business practices and operations of lenders and brokers selling reverse mortgage loans to seniors. CSBS and AARMR expect that the Reverse Mortgage Examination Guidelines or RMEGs will begin to be used by state mortgage regulators in early 2009.

A reverse mortgage loan is a loan secured by a lien on residential real estate in which the homeowner is not required to make payments on the loan until the homeowner ceases to reside in the property. Typically, a reverse mortgage loan is eligible for homeowners at least 62 years of age.

State regulators have expressed concern that the complexity of reverse mortgage loan transactions coupled with aggressive marketing campaigns put homeowners and the financial institutions making the loans at risk. Further, state regulators believe that the substantial real estate equity held by senior homeowners makes these consumers more vulnerable to “equity stripping” scams or other fraud and abuse, such as the simultaneous sale of unsuitable investments or deceptive sales practices.

“When sold to the right person for the right reason, these products can be very beneficial,” said Tim Karsky, Commissioner of the North Dakota Department of Financial Institutions and CSBS Chairman. “However, reverse mortgage loans are not suitable for every senior homeowner or every situation. And even when made correctly, reverse mortgages present future risk to the financial institution. That risk must be understood by management and planned for appropriately.”

“This project demonstrates yet again that the States take the lead when it comes to consumer protection in regulating the mortgage industry,” said David Bleicken, Deputy Secretary of Banking in Pennsylvania and AARMR President. “Reverse mortgages are an area of emerging risk for consumers and the States are aggressively getting ahead of the curve, just as the States were ahead of the curve on consumer protection when we began building the Nationwide Mortgage Licensing System five years ago,” he added.

The RMEGs are a comprehensive set of guidelines covering all aspects of operations from policies and procedures to marketing, underwriting, quality control and servicing of a reverse mortgage portfolio. The RMEGs take a two-pronged approach of regulatory compliance and sound management practices to achieve the dual goal of consumer protection and institutional stability.

“Our aging population has resulted in an increased interest in reverse mortgages. These loans are complex and marketed to a potentially vulnerable target audience increasing the need for strong consumer protections,” noted John Prendergast, Chief Risk Officer for the Commonwealth of Massachusetts Division of Banks and Chair of the CSBS/AARMR Taskforce on Reverse Mortgages. “These 48 pages of examination guidelines are comprehensive and will ensure that reverse mortgage loans are reviewed in a consistent fashion by state regulators across the country.”

Susan E. Hancock, President of the National Association of Consumer Credit Administrators (NACCA), also expressed her organization’s support of the RMEGs.

The RMEGs are available at [www.csbs.org](http://www.csbs.org).

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