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Wells Fargo Sued Over Reverse Mortgage Policies by Borrowers

By Margaret Cronin Fisk - Aug 5, 2011

[Wells Fargo & Co. \(WFC\)](#) was accused in a group lawsuit of ignoring federal rules on reverse mortgages and forcing homes into foreclosure instead of giving heirs a chance to buy them.

Estates and surviving spouses have the right to purchase properties at 95 percent of appraised value after the death of a borrower who took out a federally insured reverse mortgage, lawyers for a California man said in the complaint filed Aug. 3 in federal court in [San Francisco](#).

Wells Fargo hasn't been notifying heirs of this right and has been starting foreclosures if demands aren't met for repayment of the full mortgage balance, according to the complaint filed by the son of a [California](#) homeowner. The plaintiff, Robert Chandler, also sued the Federal National Mortgage Association, or Fannie Mae.

"Wells Fargo's actions are not just wrong, they are economically irrational," Michael Ng, Chandler's attorney, said yesterday in a statement. "Even though elderly borrowers paid for insurance that protects the bank against the downturn in the housing market, Wells Fargo insists on evicting family members from homes that will go unsold and unoccupied."

The lawsuit, brought as a class action by Chandler on behalf of himself and other heirs, seeks a court order stopping foreclosures and evictions in affected homes and damages for breach of contract.

HUD Guidelines

Wells Fargo complied with guidelines required by the U.S. Department of Housing and Urban Development, or HUD, said Teri Schrettenbrunner, a spokeswoman for the San Francisco-based bank.

"In April 2011, HUD changed the rules to allow the heirs of a reverse mortgage property to purchase the home at 95 percent of the appraised value," Schrettenbrunner said today in an e-mail. "When the HUD rules changed, we adopted them including providing notice to the heirs. We intend to defend our company in this case."

Reverse mortgages are available only to homeowners aged 62 or older. In some cases, when one spouse is younger than 62, only the older spouse's name will appear on the reverse-mortgage documents.

Reverse-mortgage loans pay out a home's equity to the homeowner, often in installments, and are usually repaid when the borrower dies or moves out of the house. Borrowers are considered in arrears if they don't keep current on property taxes and insurance.

2005 Loan

Chandler's mother, Rosemary, obtained a home-equity conversion mortgage, in 2005 on a house the family owned since the 1940s, according to the complaint. Wells Fargo started foreclosure proceedings shortly after she died in January 2010, Chandler's lawyers said.

"Wells Fargo maintained that Mr. Chandler would have to pay off the full mortgage balance, not the appraised value, if he wished to keep the house," according to the complaint. The bank foreclosed and tried to sell the property. [Fannie Mae](#) took possession of the home and began the eviction process in May, Chandler's lawyers said.

The case is Chandler v. Wells Fargo & Co., 11-cv-03831, U.S. District Court, Northern District of California (San Francisco).

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