

New AARP Reverse Mortgage Lawsuit Targets Wells Fargo, Fannie Mae

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AARP filed a class action lawsuit Wednesday in the U.S. District Court for the Northern District of California in San Francisco, against Wells Fargo Bank and Fannie Mae on behalf of reverse mortgage borrowers and their survivors who have faced foreclosure and eviction.

The lawsuit is the second suit filed by AARP this year concerning reverse mortgage borrowers and their heirs. The [original suit](#) ^[1] was dismissed by the court in July.

The new suit alleges that Wells Fargo has illegally foreclosed upon reverse mortgage borrowers who were not notified and were not given the opportunity to purchase the property for 95% of its appraised value after the loan becomes due and payable.

The plaintiff in the case, Robert Chandler of Elk Grove, Calif., inherited the home of his mother, who had a reverse mortgage and passed away in 2010. The suit alleges that Chandler was never given notice of his right to purchase the property for its current value.

According to the allegations and AARP, Wells Fargo told him that he would have to pay off the full mortgage balance, then acting on Fannie Mae, the owner of the mortgage, proceeded to foreclose on the home. Finding no one willing to buy it for the same market price that Mr. Chandler was Fannie Mae began efforts to evict him from the property.

The Department of Housing and Urban Development [rescinded](#) ^[2] its non-recourse guidance on April 6, during the initial lawsuit, which was filed in March.

HUD then issued new servicer FAQs on July 21 to clarify its guidance. "When a HECM loan becomes due and payable as a result of the mortgagor's death and the property is conveyed by will or operation of law to the mortgagor's estate or heirs, that party may satisfy the HECM debt by paying the lesser of the mortgage balance or 95% of the current appraised value of the property," as stated in the FAQ.

"The new suit alleges that, despite HUD's correction of its rules, the defendants are still failing to give notice to surviving spouses and heirs of their rights to purchase the property for the lower value, and are foreclosing and seeking to evict an heir who is attempting to pay off the current fair market price on an underwater home," AARP said in a statement.

The AARP complaint claims there are thousands of potential defendants in a similar situation.

"In the wake of HUD's reversal of its rule on the rights of surviving spouses and heirs earlier this year, we have been contacted by many, many others facing the same problem. It is difficult to understand why reverse mortgage lenders continue to deny them their contractual and legal rights," said Jean Constantine-Davis, a senior attorney with AARP Foundation Litigation.

Written by [Elizabeth Ecker](#) ^[3]