Written Testimony
of

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Chairman Kohl, Ranking Member Martinez, and members of the Special Committee, thank you for inviting me to testify today on the important topic of reverse mortgages. I am a staff attorney with Legal Services of Eastern Missouri, which provides legal aid to low-income clients, including many low-income seniors. I testify here today on behalf of Legal Services of Eastern Missouri, Inc., the National Consumer Law Center[1] and the low-income clients that these organizations serve.

Mr. Chairman and members of the committee, as you are aware this country is in the midst of the worst foreclosure crisis since the Great Depression. This crisis has been driven in significant part by improvident subprime lending and has resulted in a credit crunch of historic proportion. Despite the grim economic outlook, the mortgage industry has found a bright spot—the reverse mortgage market.

More than 100,000 seniors used reverse mortgages in 2008 to tap more than 17 billion in home equity. Loan volume has more than doubled since 2005, and since 2001 the number of reverse mortgages originated has increased an incredible 1500%. The continued availability of reverse mortgages in these tough economic times is good news for seniors who need to cash out some of their home equity to supplement social security, to meet unexpected medical costs or to make needed home repairs.

But the relative strength of the reverse mortgage market is unleashing other less scrupulous forces. The same players that fueled the subprime mortgage boom—ultimately with disastrous consequences—are turning to the reverse market. Lenders, brokers and even Wall Street know that there are currently 15 million potential reverse mortgage

[1] The National Consumer Law Center, Inc. (NCLC) is a non-profit Massachusetts Corporation, founded in 1969, specializing in low-income consumer issues, with an emphasis on consumer credit. On a daily basis, NCLC provides legal and technical consulting and assistance on consumer law issues to legal services, government, and private attorneys representing low-income consumers across the country. NCLC publishes a series of sixteen practice treatises and annual supplements on consumer credit laws, including *Truth In Lending*, (5th ed. 2003) and *Cost of Credit: Regulation, Preemption, and Industry Abuses* (3d ed. 2005) and *Foreclosures* (1st ed. 2005), as well as bimonthly newsletters on a range of topics related to consumer credit issues and low-income consumers. NCLC attorneys have written and advocated extensively on all aspects of consumer law affecting low-income people, conducted training for thousands of legal services and private attorneys on the law and litigation strategies to deal predatory lending and other consumer law problems, and provided extensive oral and written testimony to numerous Congressional committees on these topics. NCLC's attorneys have been closely involved with the enactment of the all federal laws affecting consumer credit since the 1970s, and regularly provide extensive comments to the federal agencies on the regulations under these laws.

borrowers sitting on trillions of dollars of equity—a gold mine waiting to be excavated. And, the graying of the baby boomer generation will make that gold mine deeper and richer.

As a result, there is now an urgent need for more resources at the federal and state level to protect consumers from reverse mortgage abuse, to help seniors preserve their home equity and to ensure that reasonably priced and fairly structured reverse mortgages are available for those who truly need them.

The National Consumer Law Center will be releasing a report in the coming weeks that will detail needed protections and improvements in the reverse mortgage market. These recommendations will include:

• Strengthening borrower counseling, which to date remains inconsistent and underfunded.

• Banning yield spread premiums, which incent brokers to make loans more profitable for lenders and investors at the expense of borrowers.

• Regulating proprietary reverse mortgages, which are developed and sold by private financial institutions. While the use of these products has slowed to a trickle, economic recovery over the next few years is likely to reinvigorate proprietary reverse mortgage products. To date, they remain almost entirely unregulated at the federal level and subject to widely varying state regulation.

• Improving data collection on reverse mortgages and other equity conversion products that are not currently reportable under the Home Mortgage Disclosure Act.

Lastly, and most importantly, a suitability standard for reverse mortgage products must be created. Seniors frequently depend on lenders, brokers and other third party intermediaries for guidance through a market that offers multiple distribution channels, a welter of "educational" resources and many complex products and financial choices. Brokers and lenders often use impressive sounding credentials to imply special knowledge and expertise. But because mortgage loans are considered business transactions where each party ostensibly protects its own economic interests, in most states brokers and lenders owe no fiduciary duty to borrowers, and when problems arise brokers and lenders disavow any relationship of trust and confidence with borrowers.

The same market forces that rewarded volume business with huge profits in the subprime market are growing in the reverse market. Some of the nation's largest banks are expanding their reach in the reverse mortgage market. Mortgage brokers, who once reaped profits from subprime and exotic loans, are now turning to reverse mortgages. And, securitization, which allowed subprime loan originators to disassociate themselves from the downside risks of abusive lending, is becoming more commonplace in the reverse mortgage industry.

The subprime mortgage crisis was driven by profiteering among all players in the industry and without regard to its impact on the lives of millions of Americans saddled with inappropriate mortgages. It is important to act now to save our seniors from the same scourge. We cannot wait until millions of elderly homeowners have been victimized to address the problems we know already exists.

Thank you for the opportunity to testify here today. We look forward to working with the Special Committee to address these issues.