

Testimony of
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before the
Senate Special Committee on Aging

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OCHS Senior Center, University City, MO

Madam Chairman and Members of the Committee:

Thank you for the opportunity to appear at this hearing to discuss reverse mortgages.

National Reverse Mortgage Lenders Association represents approximately 600 companies that are either engaged in the business of making reverse mortgages or provide capital or services to companies that do. We do not represent the entire industry. We represent those companies who take their involvement in this sector very seriously and are committed to core values of treating customers fairly and ethically and, as a result, want to support the policy work, consumer education, ethics, self-enforcement, and professional development programs that NRMLA undertakes to assure an environment where any senior homeowner is able to obtain a reverse mortgage conveniently and fearlessly.

Our members understand that demographics present a vast opportunity. Our product serves many different types of homeowners facing a wide variety of needs. Those needs will surely continue as the population of age-eligible homeowners grows – and as our society comes to grips with the challenges of financing longevity.

While demographics might point to growth, our members recognize that will only occur if consumers believe that reverse mortgage products are safe and fair, and that those who deliver them are trustworthy. That is the underpinning of our association. We are dedicated to maintaining an environment where homeowners can easily access information and assistance on reverse mortgages, meet with counselors and other trusted advisors, make a thoughtful decision if they want to obtain a reverse mortgage and work with a reputable company, if they decide to do so.

Some of our signature undertakings include:

- As a foundation, our Code of Ethics & Professional Responsibility by which all members agree to abide. The Code focuses on core values of fairness, confidentiality, integrity, competence, diligence and professionalism. It covers detailed items such as advertising, compliance and communications with consumers. (Request that a copy of the NRMLA Code of Ethics & Professional Responsibility be entered into the Record.)
- An Ethics committee that continually reviews our Code and refines it whenever necessary, promulgates Ethics Advisory Opinions to help the industry better understand our position on matters of importance, and acts decisively on complaints filed by consumers, regulators, counselors and industry participants. Recent Ethic Advisory Opinions have been issued on advertising and lead generation, and several others are in the works.
- Educational seminars that routinely focus on issues like understanding seniors' finances; recognizing cognitive impairment; reporting suspicions of elder abuse; understanding Medicaid, Medicare and SSI; and other topics that help our members understand the client base with whom they work and how best to serve their needs.
- An unyielding commitment to counseling, an important core principle for our organization. While counseling by an independent third party is required by statute under the FHA HECM program, we require it of our members in all cases, with all products, even where it is not required by law.
- A professional designation program, under which candidates must meet licensing and professional education requirements, participate in a symposium on ethics issues, undergo a background check, and pass a rigorous exam.
- We are in the process of developing a straightforward, uniform disclosure that will summarize in a succinct, comprehensible format all of the salient facts about a reverse mortgage that a prospective client might be considering, allowing the consumer to easily compare various offers side-by-side. We realize that we already give our customers plenty of papers to review – on some loans asking elderly homeowners with arthritic hands to sign their name more than 40 times – but the lawmakers, regulators and in-house compliance experts won't let us address that, so the best we can do is try to summarize what's contained in that thick sheath of papers in a user-friendly document.

While the invitation to this hearing simply stated that it is on the broad subject of reverse mortgages, your staff, in an email asked me to focus on counseling. That is an aspect of the reverse mortgage system for which I have always been a strong proponent, so I am

glad to focus on this topic. (If there is time left, I would also like to address a few of the points in your 6/18/09 press release because several items you mention are already in the works, but I am not sure that all members of the committee are necessarily familiar with all that is going on.).

Counseling for prospective reverse mortgage borrowers is a vital consumer safeguard. What separates reverse mortgages from all other products is counseling. In fact, I don't think you could come up with any business in America in which every potential customer is referred to an independent third-party specialist, a counselor at a HUD-approved agency, to review the transaction under consideration and its implications before a decision is made to proceed. If this had been the case throughout the mortgage sector, we would be in a very different economy today.

That being said, counseling does have its challenges. To be entirely successful, there must be knowledgeable counselors. Achieving this requires effective training to keep their knowledge up to date, technological systems for managing the work flow and providing information to clients, and funding to pay for personnel and overhead. Providing all that has been a challenge.

Nevertheless, a network of HUD-approved nonprofit organizations has stepped up to the plate to try to fulfill the demand despite the limited resources. For the most part, they have done a decent job – although there have been occasional instances where the quality of counseling has been sub-par.

Many comment about counseling, but few – other than borrowers and counselors themselves -- actually know what goes on during a counseling session. To shed some light, we arranged, with consent from both the client and counselor, to listen in on and transcribe an entire counseling session. That transcript is published in the May-June issue of Reverse Mortgage Magazine and I would ask that it be accepted and included in the record.

One of the biggest obstacles to supporting counseling properly is funding. This year the cost of HECM counseling is estimated to be \$16-18 million. The appropriation that Congress has provided is \$8 million. Some of the shortfall is being covered by payments from consumers. This is a new cost to consumers that had to be added into the HECM program once lenders were precluded by law from providing financial support for counseling organizations. (Lender contributions continue to be a major source of funding for most pre-purchase and default counseling programs.)

Despite the appropriated funds and borrower payments, there is still a significant shortfall in funding for counseling. This has led some agencies to discontinue offering HECM counseling, resulting in longer lead times for consumers seeking counseling, or agencies having to cram more appointments into less time to make the counseling work from an economic standpoint.

Training for counselors could be enhanced. Currently, there are two- and four-day workshops presented a few times a year by NeighborWorks, with instructors from AARP and other counseling organizations. I've taken the course. Unfortunately, not every counselor takes the formal course. Some are trained within their own organizations. Some learn by reading the counseling protocols and other pertinent literature on their own in the interest of helping their agencies fulfill the growing demand for reverse mortgage counseling in their communities.

More training opportunities for counselors would be helpful. Lenders, I am sure, would be willing to provide support for having better trained, more knowledgeable counselors, but last year's legislation precludes their ability to do so.

HUD does have plans underway to improve counseling and will soon be implementing three important changes: 1.) a new counseling protocol; 2.) a roster of approved HECM counselors, all of whom will have had to pass an exam to be included on the roster; and 3.) enhanced oversight and monitoring of counseling, including the use of mystery shoppers.

Until now, it has been the counseling agency, not the individual counselor, that has been approved by HUD. The roster is a major step forward in that individual counselors will now be tested and approved by HUD, as well as the agency.

One of the key aspects of the new counseling protocol will be a review of the clients recurring financial obligations, including taxes and insurance, as well as their income sources. This is designed to help them decide if they can afford to stay in the home, even with the reverse mortgage.

The Department is to be commended for the sharp eye it keeps on issues in the HECM program and the thoughtfulness its staff has been putting into developing solutions. An example is the concern about reverse mortgage borrowers' ability to pay their taxes and insurance. On the surface, this might seem easy to address. Collect an escrow.

It's not that simple. That's forward mortgage thinking being applied to a reverse mortgage, which is a very different type of instrument.

In many cases, homeowners are overburdened with payments for a mortgage and other debt. Much of their income is consumed by loan payments. If the mortgage and debts are paid-off with a reverse mortgage, funds that had been used for loan payments are available for other purposes, including paying taxes, insurance and maintaining the property.

A reverse mortgage must occupy the primary lien position on a property. All other liens must be satisfied with reverse mortgage proceeds. If some of the proceeds available from

the reverse mortgage are diverted to a tax and insurance escrow, in some cases, there would not be enough money left to satisfy the liens. In such cases, the homeowner would not be able to obtain the reverse mortgage – and probably be forced to give up the home.

Instead of simply imposing an escrow, HUD (in partnership with a NRMLA Task Force on tax and insurance issues) is looking at utilizing the financial assessment tool to determine if the lender and counselor should work with the borrower to establish an escrow, amend the draw-down schedule, limit payment options, disallow a lump sum payment or take other steps appropriate to help protect borrowers from tax and insurance defaults. One obstacle here is that the HECM statute requires all five payment options available under the program to be offered to all borrowers, restricting HUD and lenders' ability to take appropriate action.

Recognizing the differing circumstances of reverse mortgage borrowers and allowing the appropriate solution for each case is a hallmark of the approach that HUD and our task force is taking to address concerns about tax and insurance defaults. That's just part of a comprehensive approach that is being developed and implemented. Several other measures are included in this integrated effort.

There is a very smart, talented team at HUD who believes deeply in the value of this program. They hear from seniors every day and know how HECMs help. They are dedicated to making this program better. With encouragement from the new Administration's leadership at the Department, they are now able to implement ideas that have been in development at HUD for some time, but were frozen in place when the prior administration imposed a moratorium on the development of any new regulations last June.

Comptroller Dugan, Inspector General Donohue and others have all pointed out that seniors are vulnerable, that scams and fraud are frequently perpetrated against older folks and that reverse mortgages can potentially be a source of problems. However, no one has identified any incidence of widespread malfeasance specifically in reverse mortgage cases. In fact, there's been virtually very little.

We have been polling state attorneys general offices, bank regulators and FTC and found the incidence of complaints about reverse mortgage lenders to be minimal or non-existent. We received a similar response to an inquiry to the Conference of State Banking Supervisors. Several weeks back, I had the opportunity to address a conference of the chief consumer complaint officers from all of the federal bank regulatory agencies, including the FRB, OCC, OTS and FDIC, as well as several state regulators, hosted by the Federal Reserve Bank of Kansas City. When asked during a panel discussion, the representative of each agency reported that they had few, if any, complaints about reverse mortgages.

The most active disciplinary force in the reverse mortgage business has not been any regulatory body. It is our Ethics Committee, where complaints are filed, investigated and action taken, if necessary. We have sanctions of our own that we are able to impose, plus we are able to report cases to the proper governmental authorities for their action.

I am not denying that there are entrants to the reverse mortgage business who'd we all be better off without. Every business has its share. But, by and large, there is a community of properly-motivated, responsible companies making reverse mortgages available across the country. Servicing seniors is their priority. Those are the companies that consumers should be drawn to.

At the same time, we must recognize that once a senior has gotten a reverse mortgage, no matter how protected she or he might have been during the loan origination process, there is now access to what could be a substantial amount of money – potentially attracting others looking to swindle the homeowner. These are societal problems; they're not reverse mortgage problems. Laws are in place to protect seniors from elder financial abuse. We must all work together to enforce the laws, catch and convict any culprits who take advantage of seniors.

In conclusion, I would like to reiterate that there is a highly consumer-centric industry here looking to help seniors monetize the equity in their homes so they can live more comfortable, secure and fulfilling lives. We are committed to only making loans after a homeowner makes an informed decision that the reverse mortgage is a tool appropriate for their needs.

Thank you for the opportunity to testify here today. I would be pleased to answer any questions.