

Written Testimony of
Peter H. Bell, President
National Reverse Mortgage Lenders Association

Before the
Committee on the Judiciary
California State Senate

May 2, 2006

National Reverse Mortgage Lenders Association (NRMLA) is pleased to submit testimony on Senate Bill 1609 introduced by Sen. Joseph Simitian.

Currently, I serve as President of the National Reverse Mortgage Lenders Association, headquartered in Washington, D.C. NRMLA is the principal nationwide trade association for banks and financial services companies that originate, service and invest in reverse mortgages. The association fulfills several roles, which include educating consumers about the opportunity to utilize reverse mortgages, training lenders to be sensitive to the needs of older Americans, and enforcing Best Practices and a Code of Conduct to make sure lenders offering reverse mortgages treat seniors respectfully.

As you know, reverse mortgages enable senior homeowners 62 or older to convert part of the equity in their homes into tax-free cash without having to sell, move, give up title, or take on new monthly mortgage payments. Borrowers are never, under any circumstances resulting from the reverse mortgage, forced to leave their home providing they make their real estate property tax and insurance payments.

Borrowers can choose to receive reverse mortgage funds as a lump sum, fixed monthly payments (for up to life), line of credit, or as a combination of monthly income and line of credit. No mortgage payments are due during the life of the loan. Borrowers can use the funds anyway they wish. The loan becomes repayable when the borrower sells the home or permanently moves out.

There are currently three reverse mortgage products available to consumers at the present time. The most popular is the federally-insured reverse mortgage, called the Home Equity Conversion Mortgage (HECM). The HECM is insured through the Federal Housing Administration (FHA), which is part of the U.S. Department of Housing and Urban Development (HUD).

Seniors can also choose the Home Keeper® reverse mortgage, developed in the mid-1990s by Fannie Mae. Financial Freedom Senior Funding Corporation, of Irvine, CA, has developed a proprietary “jumbo” reverse mortgage—called the Cash Account Plan—that is available for higher-priced homes.

Nationwide, in 2005, some 43,000 seniors used reverse mortgages to pay off existing debts, fund health care expenses, pay for modifications to make their homes safer and more comfortable, or simply to create an income stream that provided additional cash and peace of mind. In California, 13,125 reverse mortgage loans were made in 2005 compared to 10,228 in 2004.

In its current form, as we understand it, S.B. 1609 would:

- Prohibit reverse mortgage products that require the simultaneous purchase of an annuity;
- Impose a time delay on the offering of an annuity that is to be purchased with proceeds from a reverse mortgage;
- Require mandatory counseling for any reverse mortgage product to be conducted by a HUD-approved counselor;
- Require a lender who negotiates a contract in one of five foreign languages recognized by the state, to provide a set of closing documents in that same language.

Currently no reverse mortgage product requires the purchase of an annuity in connection with the loan. However, we could foresee the development of products down the road by responsible major insurers and banks that might pair reverse mortgages with annuities and/or long-term care coverage in structures that would be advantageous to senior homeowners. Constraints should not be placed on future product innovation, particularly in response to a perceived abuse that might be relatively limited and isolated in its occurrence. Alternatively, we would suggest a disclosure that makes it clear to the prospective borrower that there is no obligation whatsoever to purchase a particular annuity -- or any other product or service -- with the proceeds from a reverse mortgage.

In connection with the FHA HECM program, counseling is already required pursuant to FHA regulations. States need not and should not act where the federal government has already done so pervasively. Other reverse mortgage products also require counseling by program design and the industry wholly supports the notion that high quality counseling should be available to all reverse mortgage borrowers.

However, HUD-approved counselors should not be required for other than HUD programs. Our concern is that the HUD counseling network is already under-funded and under-staffed. The federal government currently only provides funding for less than one-third of the cost of counseling for FHA HECM borrowers. Counseling agencies are forced to scramble for funds to fulfill the balance of the counseling demand just for FHA borrowers.

Requiring counseling by this same network for privately sponsored reverse mortgage products—without providing a means of financial support for it—is problematic. Furthermore, the HUD-approved counseling organizations do not necessarily possess the financial sophistication for newer products that we expect to see

introduced in the future. They will require more training. If this provision is to be enacted, the state should assure an adequate level of funding or authorize a counseling fee structure to make sure that counselors can be properly compensated and trained. If they are not, the protection they can provide will become meaningless.

The requirement that closing documentation be printed in a foreign language is acceptable to us, as long as there is a provision for use of a translator provided by the borrower, in lieu of foreign language documents. Lenders working under some types of licenses in California are already subject to this requirement, while others have been given an exemption.

Requiring a “wait period” before a senior can be offered an annuity after getting a reverse mortgage is an acceptable safeguard, but we question how this provision would be implemented and enforced, particularly in cases where there is no relationship between the entity making the reverse mortgage and the entity selling the annuity?

While we support Sen. Simitian's efforts, we feel the specific provisions proposed need further thought and refinement. We have been working with the Senator and his staff to date and hope to continue doing so.

Conclusion

Reverse mortgages offer an important choice and benefit to senior homeowners. Reverse mortgages do not give rise to the perceived abuses that Senate Bill 1609 is intended to address. The principal reverse mortgage product being offered in the United States today is comprehensively regulated by the federal regulations that authorize such loans. Other products adhere to similar safeguards. In that regard, abusive practices that might occur in connection with reverse mortgages have already been addressed by a comprehensive federal regulatory scheme and industry standards for best practices.

We appreciate your review of our comments and consideration of our request not to enact this bill as currently drafted. Instead, we suggest that the time be taken to thoughtfully develop and provide meaningful safeguards in areas where seniors might need protection without constraining future product innovation that might be beneficial to California’s senior population. If you have any questions or would like any additional information, I would be happy to respond.

Respectfully Submitted,
Peter H. Bell, President
National Reverse Mortgage Lenders Association
Washington, DC