

Written Testimony of
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Before the
Committee on Corporations
Rhode Island General Assembly

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Chairman Kennedy and distinguished members of the Committee on Corporations, thank you for giving me the opportunity to share my views on House Bill 7237 sponsored by Reps. Peter Palumbo and Arthur Corvese.

Currently, I serve as Associate Director of the National Reverse Mortgage Lenders Association, headquartered in Washington, D.C. NRMLA is the principal nationwide non-profit trade association for banks and financial services companies that originate, service and invest in reverse mortgages. The association fulfills several roles: educating consumers about the opportunity to utilize reverse mortgages, training lenders to be sensitive to the needs of older Americans, and developing 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.

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 Rhode Island, 198 reverse mortgage loans were made in 2005 compared to 144 in 2004. As record numbers of senior homeowners decide to use reverse mortgages as part of their retirement planning, NRMLA seeks to reassure the general public about the numerous consumer safeguards built into today's reverse mortgage programs.

Although all reverse mortgage products available in today's marketplace are structured similarly, the most popular program is the Home Equity Conversion Mortgage, or HECM, administered by the U.S. Department of Housing and Urban Development (HUD). Among HECM's consumer protections are several important features:

- **Standard & Capped Interest Rates.** The interest rate is the same no matter which lender a senior chooses. On HECM, interest rates are adjusted either monthly or annually (the borrower chooses) and based on an index called the 1-year U.S. Treasury Constant Maturity Rate published weekly by the Federal Reserve. Both the monthly and annually adjusted rates have lifetime caps. On other products, different indexes are used.
- **Limitation on Fees.** Origination fees are limited by HUD regulations and may be financed as part of the reverse mortgage. This means a senior incurs very little out-of-pocket expense to get a reverse mortgage.
- **Advance Disclosure.** The Total Annual Loan Cost, or "TALC" disclosure, required by the Federal Reserve Board, is provided to the prospective reverse mortgage borrower and displays the total transaction costs over the projected life of the loan. This way, a senior is made fully aware of the costs incurred in obtaining the reverse mortgage.
- **Independent Counseling.** Before a reverse mortgage application can be processed, the prospective borrower must first meet with an independent counselor. Both HUD and AARP oversee a network of counselors whose job is to review the transaction, answer any questions the borrower may have about reverse mortgages and suggest alternative options.
- **No Maturity Date.** A reverse mortgage cannot become due during the homeowner's lifetime. It is a permanent tool. The fact that there are no required payments and there is a lifetime right to occupy the home provides great protection against unforeseen or unanticipated future circumstances, rendering reverse mortgages vastly safer than other loan alternatives.
- **No Prepayment Penalty.** Although the loan is not due and payable until the senior permanently moves out of the home, it can be paid-off at any point prior with no additional fees or costs.
- **No Penalty for Canceling the Loan.** After the loan closes, a senior has up to three days to cancel the transaction, the so-called "right of rescission," for any reason whatsoever.
- **Asset Protection.** The HECM is a "non-recourse" loan. This means that the amount due can never exceed what the home is worth. Title to the home always remains with the borrower. When the loan becomes due, the lender is repaid the sum of funds advanced plus the accrued interest, but never more than the value of the house. If there is remaining value, it belongs to the homeowner or the estate.

As you can see, the HECM reverse mortgage program—which accounts for 95 percent of all reverse mortgage transactions—is highly regulated to protect its users. The same is true for the other two reverse mortgage products available today, Fannie Mae's Home Keeper reverse mortgage and the Cash Account "jumbo" loan program offered by Financial Freedom Senior Funding Corporation, based in Irvine, Calif.

Rhode Island property law includes a specific chapter on reverse mortgages. Rhode Island property law provides that whenever a mortgage deed contains a certain legend and complies with the Rhode Island Reverse Mortgage law in all other respects (as discussed below), the advances to be secured by the mortgage, including any future advances, will be secured in an aggregate principal amount outstanding at any time not to exceed the stated amount of such mortgage deed from the time of recording.

The Rhode Island Reverse Mortgage law provides in pertinent part as follows:

(a) Reverse mortgages may be written over any amortization period currently in use by lending institutions and may provide that the reverse payments made on the amount borrowed be payable by the mortgagee to the mortgagor over monthly periods not to exceed ten (10) years with the then outstanding balance due and payable at the conclusion of the term or amortized on a standard payment basis for the remainder of the original term of amortization. Interest on the outstanding advance may either be charged to the mortgagor throughout the initial payment term, or may be accumulated and due upon the conclusion of the original payment term.”

(b) Reverse mortgages may be written over any amortization period currently in use by lending institutions with a portion of the mortgage proceeds used to purchase an immediate or deferred life annuity contract from companies authorized to issue annuity contracts in this state. In such cases, the monthly annuity payments shall be used to pay interest payments on the mortgage loan with the remainder forwarded to the mortgagor. Repayment of principal in such cases would occur on the sale of the security or the closing of the mortgagor's estate, whichever occurs first.

Rhode Island House Bill 7237 would amend this section to strike paragraph (a) in its entirety and result in language to the effect that reverse mortgages may be written over any amortization period currently in use by lending institutions with a portion of the proceeds used to purchase an immediate or deferred life annuity contract. It is not clear, but taken at its worst, this amended language would mean that the only method by which to properly perfect a lien in a reverse mortgage transaction in Rhode Island would be in those instances where a portion of the mortgage proceeds are used to purchase an annuity contract.

NRMLA cannot support this legislation without clarification that the revision is intended to allow reverse mortgages of any term, not merely a term of 10 years, and that an annuity contract permissively may be purchased with the proceeds of a reverse mortgage, but that purchase of such a contract is not a condition precedent to lien perfection of a reverse mortgage in the Commonwealth of Rhode Island.

NRMLA is very supportive of an amendment to allow reverse mortgages of any term. The existing Rhode Island Reverse Mortgage law may require a senior to draw reverse mortgage payments that they may otherwise not need or want. This may negatively impact our seniors by:

- Increasing the rate at which the equity in the property is used.
- Increasing the interest expense on the loan balance.
- Increasing the risk that the senior may be vulnerable to unscrupulous parties if they have excess funds on hand
- Increasing the risk that the senior may not have the funds available when needed.

We appreciate your review of our comments and consideration of our request not to enact this bill as currently drafted. If you have any questions or would like any additional information, I would be happy to respond.

Respectfully Submitted,
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National Reverse Mortgage Lenders Association