

Dates Established for National Aging In Place Week

Now is the time to start planning activities for National Aging In Place Week 2005, which has been designated November 6-12. Last year, in partnership with the National Aging In Place Council, NRMLA successfully coordinated senior fairs, educational workshops and media events in 30 locations across the country to highlight home and community-based services—and home modification strategies—that enable seniors to live in their homes longer.

In each location, NRMLA members banded together with professionals from the aging, healthcare, legal, financial services and building/design sectors to coordinate activities. Our goal this year is to help organize activities in at least 45 cities.

Our belief is that an overwhelming majority of older Americans want to

AGING IN PLACE WEEK, *continued on page 6*

Mahoney, Hulbert Elected NRMLA Co-Chairs

NRMLA is pleased to announce the re-election of James Mahoney and Sarah Hulbert as Co-Chairmen of the 2005 Board of Directors.

Mahoney is President and Chief Executive Officer of Financial Freedom Senior Funding Corp., headquartered in Irvine, Calif. Financial Freedom, a subsidiary of IndyMac Bank, is the largest originator and servicer of reverse mortgages in the U.S.

He has been involved in the development, design, marketing, origination and servicing of reverse mortgages since 1990. Prior to the formation of Financial Freedom, Mahoney was President and CEO of Freedom Home Equity Partners, a reverse mortgage company that he helped develop from inception.

NEW NRMLA BOARD, *continued on page 7*

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A Message from the President

Good News and Bad for the Reverse Mortgage Business



Peter Bell

There is both good news and bad news for the reverse mortgage business.

The good news is that we've been discovered. We've made ourselves known. The media, elected officials, government executives and academic researchers have all taken

note of reverse mortgages and are trying to figure out how the product best fits into society.

The media has been very kind. We have received coverage from outlets across the country explaining the essentials of reverse mortgages and how they help people. NBC News, *The Wall Street Journal*, *Money Magazine*, *The Christian Science Monitor*, *Washington Post*, hundreds of local dailies, numerous local television affiliates and many specialty publications have portrayed reverse mortgages as a positive

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Reverse Mortgage Legislative Meeting

JUNE 14-16, 2005

Washington Terrace Hotel, Washington, DC
Registration Information: www.nrmlaonline.com

NRMLA Annual Meeting & Reverse Mortgage Expo

SEPTEMBER 8-10, 2005

Hyatt Regency San Francisco, San Francisco, CA
Registration Information: Coming Soon

A reverse mortgage is a unique loan that enables senior homeowners (62+) to convert part of the equity in their homes into tax-free income without having to sell the home, give up title, or take on a new monthly mortgage payment.

Association and Industry News

TAKE ADVANTAGE OF NRMLA'S LEARN WHILE-U-LUNCH PROGRAM

NRMLA's Learn While-U-Lunch program has proven a wildly successful continuing education program for members.

So far this year, speakers have discussed strategies for turning "leads" into loan applications, common servicing issues, and explaining Total Annual Loan Cost (TALC) and other disclosures to reverse mortgage borrowers. Both experienced loan officers and newcomers to the reverse mortgage business are taking advantage of the program.

The "Learn While U Lunch" program is a series of short (three quarters of an hour) telephone seminars, scheduled for the second Tuesday of each month, about

INDUSTRY NEWS, continued on page 8

The **National Reverse Mortgage Lenders Association** is a national trade association that provides education, advocacy, and referral services to firms that are involved in the reverse mortgage industry.

Co-Chairs

Jim Mahoney

FINANCIAL FREEDOM SENIOR FUNDING CORP.
IRVINE, CA

Sarah Hulbert

SEATTLE MORTGAGE COMPANY
SEATTLE, WA

President

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Reverse Mortgage Advisor is published quarterly as an information service for NRMLA members. The subscription price is included in membership dues.

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BORROWER PROFILE

Charles Teixeira

PINE GROVE, CALIF.

During World War II, Charles Teixeira, now 77, trained to be a fighter pilot in one of the war's most famed aircraft, the P-51 Mustang. He never saw combat, though, because the war ended before he received his wings.

"I was never able to fly solo," he said. "I only flew with an instructor."

With the war over, the federal government didn't need any more pilots. But Teixeira had to serve two more years, so the Air Force offered the Massachusetts native a new job designing and painting decals on airplanes.

"To earn a little extra cash, I painted designs on the backs of pilots' flight jackets," Teixeira said in a recent interview.

After leaving the service, Teixeira entered college to study commercial art. He then moved to California, and for the next 40 years until his retirement in 1985, was a sign painter for a water utility company.

Teixeira, a widower, has lived a comfortable retirement. Yet his curiosity was piqued one day when he saw a commercial advertising

TEIXEIRA PROFILE, continued on page 7

Join a NRMLA Committee

One way to enhance your membership in NRMLA is to participate in one or more of our five committees. Our goal is to harness your knowledge and expertise, so that NRMLA can be a more effective advocacy organization. Choose from one of the following committees:

- **Legislative Committee.** (*Co-Chair: Patrick McEnerney, BNY Mortgage*). Responsibilities: Help NRMLA promote our political agenda on Capitol Hill; Educate policymakers, so they're made aware how the reverse mortgage program can benefit seniors in their home districts; Provide guidance to NRMLA staff on federal legislative issues.
- **HUD, State & Local Issues Committee.** (*Co-Chairs: Joe DeMarkey, BNY Mortgage; Nick Buscaglia, M&T Mortgage*). Responsibilities: Help NRMLA work with HUD to streamline and improve the HECM program; Identify HUD regulatory and administrative issues that need addressing; Develop policy positions and background papers; Present issues at NRMLA conferences; Help NRMLA staff identify state, county and municipal issues that impact reverse mortgages

NRMLA COMMITTEES, continued on page 8

Turning Leads Into Applications

By David Peskin

Over the past couple of years, the reverse mortgage industry has seen an influx of “lead generation” companies to assist lenders with their marketing efforts. Through legal channels, these companies obtain consumer information, such as mailing addresses, phone numbers, and e-mails. This information is sold to reverse mortgage lenders seeking to market their services to prospective clients.

TYPES OF LEADS YOU CAN PURCHASE

Historically, lenders have generated reverse mortgage leads through networking with elder law attorneys, CPAs, and other similar professionals—and from referrals. This type of marketing is time-consuming and the lead stream is inconsistent. It’s difficult to build a sales force without a steady influx of leads making it tough to grow your business at a more rapid pace.

Incorporating lead generation into your marketing program allows you to reach a larger group of prospects with relatively little time or effort (in comparison to traditional networking and relationship building), build a strong “pipeline” to fuel future growth, receive referrals from lead generation clients, and is a valuable tool to recruit quality loan officers.

TYPES OF LEAD GENERATION PROGRAMS

There are three types of leads: cold, warm and hot.

Cold leads are historically used for direct mail. The cost to obtain a cold lead ranges from \$15-\$45. The information that is obtained is minimal—name, address and maybe exact age (lead is older than 65 usually).

A cold lead is not exclusive, meaning the information is public and accessible to anyone. A cold lead’s interest level in reverse mortgages has not been established yet. It is up to you via your direct mail piece or telephone conversation to establish interest.

Warm leads are used for direct mail and tele-marketing. The cost to obtain a warm lead is

PURCHASING LEADS, continued on page 9

HECM Interest Rates: How Are They Calculated and Where Are They Headed?

By Gerald C. Wagner, PhD

This article summarizes how Home Equity Conversion Mortgage (HECM) interest rates are calculated and forecasts where they may be headed. For the last two years, rates have been low and very favorable for HECM borrowers.

Rates got so low that HUD capped HECM proceeds. Although we recently bounced off the limits a few times, the caps will likely have no effect until the next economic cycle, since rates appear to be rising.

(Editor’s note: Mortgage Letter 04-18, published 4/23/04, upgraded the HECM calculation software by establishing a new “floor” for the expected interest rate—set at 5.50 percent—that’s used to calculate how much a borrower can qualify for at the time of application. The 5.5 percent floor includes the 10-year Constant Maturity Treasury rate, plus the current 150 basis point spread. So, if rates fall below four percent, the calculation software will only compute principal loan amounts based on the new floor.)

THE EXPECTED RATE (BASED ON THE 10-YEAR CMT PLUS MARGIN) IS USED TO FIND THE INITIAL PRINCIPAL LIMIT (SUBJECT TO HUD’S NEW 5.50% FLOOR). THE EXPECTED RATE (WITH NO FLOOR) IS USED TO FIND THE INITIAL SERVICE FEE SET-ASIDE AND FOR ALL PAYMENT PLAN CALCULATIONS THROUGHOUT THE LIFE OF THE LOAN.

CONSTANT MATURITY TREASURY RATES

On the first business day of every week, the Federal Reserve publishes the prior week’s average interest rates. Two are important for HECM reverse mortgages: the one-year and 10-year Constant Maturity Treasury rates (CMT). The phrase “constant maturity” means the Fed uses actual market rates and interpolates between them since there likely will not be an existing Treasury

HECM INTEREST RATES continued on page 14

My Approach to Marketing Reverse Mortgages

By Rob Misheloff, GotLeads

(Editor's Note: Following is the second of a three-part series. The opinions expressed in the article are the author's.)

Before getting into the specific methods that are used to market reverse mortgages, it is necessary to understand what drives seniors to consider taking out a reverse mortgage. People are much more likely to become customers if they have a perceived "need."

In the case of a reverse mortgage, the need, quite simply, is money. The typical U.S. senior citizen has an annual income under \$24,000. Seventy percent of all senior citizens own their home outright, meaning there is no existing mortgage.

Even those seniors who don't have an existing mortgage on their home are likely to need money. For example, a two-person household with an income of \$24,000 per year and a \$200,000 home likely has the following fixed expenses:

- Medical expenses: \$10,000 per year
- Property taxes: \$2,000 per year
- Maintenance and repair: \$5,000 per year
- Utilities: \$2,000 per year
- Income tax: \$3,000 per year

Total: \$22,000 per year

This leaves \$2,000 per year, or less than \$200 per month to spend on food, clothes, entertainment, car insurance, and life's other "incidental" expenses. These people need money!

Obviously, this profile will be more applicable in certain geographic areas than others. It would be very foolish to use your marketing dollars to introduce the reverse mortgage to people living in the Hamptons! As such, when determining where to allocate your marketing budget, your success will be based on finding areas with large concentrations of senior citizens and identifying areas where people are likely to have financial need.

HOW TO MARKET HECMS

There are numerous ways to market reverse mortgages. These include:

- Radio
- Television
- Print (magazine/newspaper)
- Referral
- Telemarketing
- Internet Leads
- Direct Mail

A discussion of each method will follow shortly. First, however, we must consider the concept of richness and reach. "Richness" is the quality of information and the ability to target your prospects. For example, a face-to-face sales presentation is very rich, containing information that is very specific to the person you are sitting in front of. In contrast, "reach" is the number of people you are able to "touch" via your marketing efforts. A television commercial, for example, will be viewed by millions of people, thus having great "reach."

Generally speaking, there is a trade-off between richness and reach. Marketers basically have the option either to provide information-rich communications at the expense of reach OR to offer greater reach at the expense of the information content. Since it is not possible to maximize both simultaneously, one must find a suitable alternative in between.

HECM "MARKETING TOOLBOX"

Radio

Radio advertising can reach thousands of consumers simultaneously. It is also an effective "branding" tool. However, radio's richness suffers greatly due to the "reach." While senior citizens may be hearing your message, you are also spending marketing dollars to advertise your service to people in their 30s, 40s, and 50s. Clients who have used radio report that while they get a lot of calls through radio ads, they spend an enormous amount of time on the phone with people who are unlikely to take out a reverse mortgage and are just "getting information." Reported "customer acquisition cost" is \$1,200. An additional drawback is that seniors are less likely than the rest of the population to listen to

MARKETING HECMS, continued on page 11

remain in their homes for as long as possible, but lack awareness of private and public-sector resources that make independent living possible. Coordination among these various stakeholder groups is essential in order to meet the needs of our growing aging population to remain living in their housing of choice.

HISTORY OF NATIONAL AGING IN PLACE WEEK

In the reverse mortgage business, lenders commonly work with individuals and businesses that provide special help to seniors, such as legal aid or in-home care. Seniors who need to modify their home environments, pay for long-term care, or seek advice from financial planners—but lack the financial resources to pay for these services because they are living on a fixed income—will often obtain a reverse mortgage.

To help promote these partnership opportunities at the national level, NRMLA convened a National Advisory Council for Aging In Place in mid-2003. Acting as an advisor to NRMLA, the Council's primary objective was to generate increased awareness that, if aging in place is a long-term personal objective, home modifications to make the home safe and comfortable should be considered.

Home modifications refer to adaptations to homes that can make it easier for someone to carry out daily activities, such as bathing, cooking, and climbing stairs. These modifications also include alterations to the physical structure of a home to improve its overall safety and condition.

A second and equally important objective was to build a lasting coalition of business professionals in each community to assist homeowners with pursuing their home modification needs. These include consultants who advise on strategies for improving home accessibility, comfort, and safety; architects and interior designers; remodelers/builders; reverse mortgage lenders; occupational therapists and care managers.

To help sustain this effort, NRMLA created a web site at www.seniorsafefhome.com, published a consumer booklet titled the NRMLA Guide to Aging In Place, hosted a national summit in Washington, DC, and organized the first-ever National Aging In Place

Week from November 9-15, 2003.

As part of National Aging in Place Week, Advisory Council participants hosted a variety of activities. They showcased homes that were successfully modified to accommodate independent living, organized public workshops to discuss the benefits of home modification, and conducted seminars to educate professionals about home modification and aging in place issues. Events took place in Seattle, Wash., Los Angeles; Minneapolis, Minn., Boston; Buffalo, N.Y. and Charleston, S.C.

Our initial success sparked a groundswell of interest among NRMLA members and other allied business professionals to participate in future aging in place activities. In 2004, NRMLA helped organize National Aging in Week activities in 30 locations. We also launched a second web site for professionals at www.ageinplace.org.

Rather than focus exclusively on home modification strategies, NRMLA expanded the educational format so that seniors were made aware of public and private sector programs. These include health-care, housing and other support services, that promote independent living.

In each location, senior service providers banded together to host seminars and resource fairs to encourage homeowners to be proactive in thinking about their future housing and care needs.

Ultimately, we decided the best way to sustain our aging in place outreach campaign was to form a new professional organization called the National Aging In Place Council.

COMPLIMENTARY NAIPC MEMBERSHIP

Because NRMLA has helped sponsor previous National Aging In Place Week activities, we are offering a complimentary membership in the National Aging In Place Council to any NRMLA delegate whether Primary, Alternate and Additional.

Delegates can join NAIPC online at www.nrmlaonline.org. If you want to learn more about the NAIPC itself or how to organize a local Council and activities during National Aging In Place Week, please visit www.ageinplace.org or contact Darryl Hicks, 202-939-1784, or dhicks@dworbell.com. **RMA**

Hulbert has been active in all aspects of reverse mortgages since 1992, with hands-on experience in marketing, origination, processing, underwriting, post-closing and servicing.

She entered the reverse mortgage industry in early 1992 with Providential Home Income Plan in San Francisco as a senior marketing representative. In 1994, Ms. Hulbert joined Unity Mortgage as Western Regional Manager, where she oversaw all reverse mortgage operations in 10 western states. Since 2000, she has been employed by Seattle Mortgage Company, Seattle, Wash., as Vice President and National Director of the Reverse Mortgage Division, where she manages all retail and wholesale reverse mortgage operations.

Also elected to the Executive Committee are: Robert Wyatt, Fifth Third Bank of Florida, Fort Myers, Fla., (Vice-Chairman); Nick Buscaglia, M&T Mortgage Corporation, Buffalo, N.Y. (Vice Chairman); Patrick McEnerney, BNY Mortgage, Jacksonville, Fla. (Vice Chairman); Mary Ressetar, Wells Fargo Home Mortgage, Chicago, Ill. (Secretary) and Dan Ryan, Farwest Mortgage Bankers, Inc., Placentia, Calif. (Treasurer).

Other individuals elected to one-year terms on the Board of Directors include: William Agner Homeowners Mortgage Service, Inc., Carmel, Ind.; Dennis Pigg, Sr., Safeway Mortgage, Inc., Smyrna, Ga.; Mark Browning, Community Home Equity Conversion Corp., Rochester, N.Y.; David Carey, Fannie Mae, Washington, D.C.; Cheryl Chapin, Wells Fargo Home Mortgage, Bourne, Mass.; Lloyd Daniel, California Reverse Mortgage Co. Sacramento, Calif.; Joe DeMarkey, BNY Mortgage, Milford, Mass.; Paul Franklin, Franklin Funding, Inc., Charleston, S.C.; Steve Irwin, Financial Freedom Senior Funding Corp., San Francisco, Calif.; Bart Johnson, Financial Freedom Senior Funding Corp., Irvine, Calif.; Edward Kitchen, Senior's Equity Income, Inc., Granger, Ind.; Robert Sivori, BNY Mortgage, West Paterson, N.J.; Vanessa White, BNY Mortgage, West Paterson, N.Y.; John Nixon, Seattle Mortgage Company, Bellevue, Wash.; Shawna James Seattle Mortgage Company, Seattle, Wash.; Tony Garcia, LibertyStreet Reverse Mortgage, Carlsbad, Calif.; Dean Jones, SCME Mortgage Brokers, Inc.,

San Diego, Calif.; David Levitt, Circle Mortgage Corporation, Hollywood, Fla.; John Myers, Financial Heritage, San Diego, Calif.; and Scott Norman, Financial Freedom Senior Funding Corporation, Austin, Texas.

Jeffrey S. Taylor, Wells Fargo Home Mortgage, Inc., Greensboro, N.C., serves on the Executive Committee as Founding Chairman of NRMLA. **RMA**

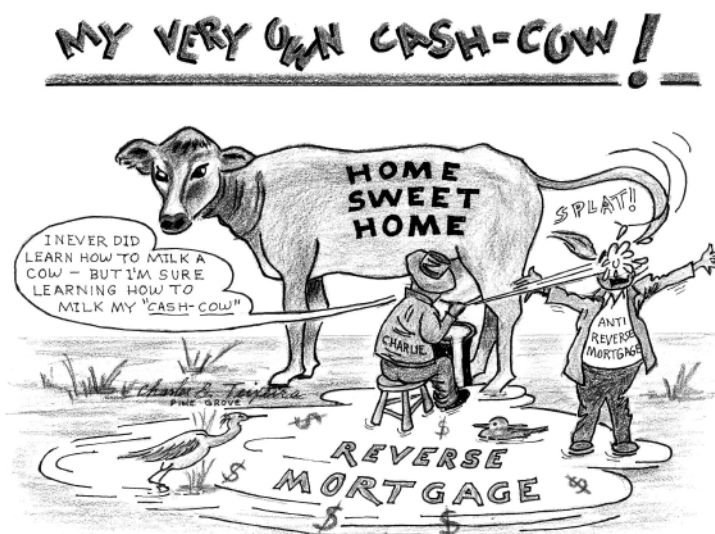
TEIXEIRA PROFILE, continued from page 3

reverse mortgages from Reverse Mortgages of California, based in Sacramento.

"What really sold me on reverse mortgages was that I'd be receiving tax-free income every month for as long as I live in my home," he said. "What other program provides consumers with tax-free income? None that I know of." The reverse mortgage, he concluded, is "a little booster" that provides extra money to do things that may not have been possible otherwise while living on a fixed income.

Teixeira is so pleased with his reverse mortgage that he drew the accompanying cartoon titled "My Very Own Cash Cow."

"The reverse mortgage allows me to milk the equity out of my home," he noted. "It's a great program for seniors." **RMA**



and develop and implement strategies for dealing with such issues.

■ **Education Committee.** (*Co-Chair: Paul Franklin, Franklin Funding, Inc.*). Responsibilities: Assist NRMLA in the development and planning of educational programs and services for reverse mortgage lenders; Plan programs for NRMLA regional conferences and Annual Meeting; Identify topics and speakers for the Learn While-U-Lunch program; Develop professional designation programs for reverse mortgage lenders and underwriters.

■ **Marketing & Promotion Committee.** (*Co-Chair: Dan Ryan, Farwest Mortgage Bankers, Inc.*). Responsibilities: Help increase awareness of reverse mortgages; Work with NRMLA on our consumer education campaign and press outreach efforts; Identify reverse mortgage borrowers to be featured in our media outreach; Help cultivate strategic alliances with other organizations

■ **Ethics Committee.** (*Co-Chair: Dennis Pigg, Safeway Mortgage*). MEMBERSHIP IS BY APPOINTMENT ONLY. Responsibilities: Ensure that NRMLA members are complying with our Code of Conduct; Update NRMLA's Code of Conduct and Best Practices when necessary; Review consumer inquiries and complaints and investigate where necessary.

Committee membership is open to any Primary, Alternate or Additional Delegate. As part of your membership, each firm designates one individual as its Primary Delegate, or principal contact, and has the option of designating one Alternate Delegate who also receives all membership mailings. You are also allowed to designate as many Additional Delegates as desired. Additional delegates receive all membership mailings, confidential memos, the Reverse Mortgage Advisor newsletter, and other publications. Additional delegates pay annual dues of \$50 per person.

Each committee will set its own schedule, but in general will convene face-to-face at least once a

year at NRMLA conferences and via conference call as needed to carry out activities in between meetings. This year, the Legislative and HUD, State & Locals Issues Committees will meet during our Legislative Conference in Washington, DC, June 14-16. All five committees will convene at the NRMLA Annual Meeting & Reverse Mortgage Expo, September 8-10 at the Hyatt Regency San Francisco in San Francisco.

Attendance at these meetings is mandatory. We feel it's necessary to impose strict attendance guidelines to ensure our committees remain as efficient and successful as possible, and are comprised of dedicated individuals.

Sign up now for a committee now by visiting NRMLA's web site at www.nrmlaonline.org and clicking About NRMLA. If you have any comments or questions, please contact my colleague Darryl Hicks, 202-939-1784, or by e-mail at dhicks@dworbell.com. **RMA**

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specific reverse mortgage or other senior-oriented topics that are beneficial to the growth of your business. The program is for NRMLA members only.

To view our 2005 program agenda, please visit www.nrmlaonline.org and access the Resources section.

IS YOUR NRMLA WEB SITE LISTING UP TO DATE?

Have you begun making reverse mortgages in a new state? Added or changed loan officers? If so, you might want to make changes/additions to your firm's listing on NRMLA's popular Lenders List, the most visited part of NRMLA's Web site. The Lenders List identifies – for potential borrowers everywhere – member lenders that offer reverse mortgages in each state. It's the only resource of its kind!

Each NRMLA member lender is entitled to at least one complimentary listing —with firm name, contact person, phone number, e-mail, and Web address. Additional listings may be purchased

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beyond the complimentary listing(s).

We advise you to check your listing(s) on the Lenders List at least once a month to ensure that your current listing information (e.g., contact person, telephone, e-mail address, etc.) is accurate. To view your listing, go to www.reversemortgage.org. To make changes/additions to your listing(s), contact Jean Gordon, 202-939-1799, or jgordon@dworbell.com

CONSUMER BOOKLETS AVAILABLE FOR SALE

NRMLA distributes several dozen of our informational booklets each week to consumers who want to learn more about the reverse mortgage program. The booklets include: Just the FAQs: Answers to Common Questions About Reverse Mortgages, Using Reverse Mortgages for Healthcare: A NRMLA Guide to Consumers, and the NRMLA Guide to Aging In Place.

NRMLA members have found these guides to be a useful resource for their senior clients. Our Just the FAQs booklet, for instance, provides helpful, easy-to-understand information about the loan application process for reverse mortgages, fees and interest charges, how much is owed when the reverse mortgage comes due, and consumer safeguards.

To order copies of NRMLA's consumer guide for your clients, contact Darryl Hicks, 202-939-1784, dhicks@dworbell.com.

TEXAS UPDATE

The Texas Senate unanimously approved legislation (SJR 7) on March 3 to amend the state Constitution in 2005 to permit reverse mortgage lines of credit and to eliminate a current requirement that all loans fund on the first business day of the month.

In the state House of Representatives, the Committee on Financial Institutions approved SJR 7 on March 21 by a vote of 6 to 0.

SJR 7 now must go to the (1) Committee on Calendars before it can be voted on by the (2) Texas House of Representatives. If SJR 7 is approved in the full House by the "required two-thirds" vote, it must then be approved again by the (3) Senate—since the House & Senate versions of the bill differ—before it can be presented to (4) Texas voters on the November 8th ballot.

"While we still have a long way to go, the long-term outlook is promising," said Scott Norman, President of the Texas Reverse Mortgage Lenders Association. For additional questions, Norman can be reached at 512-423-4545 or snorman@austin.rr.com. **RMA**

moderately priced. Information that's obtained includes a name, address, age, telephone number and home value

A warm lead has expressed a mild interest in the product but would like to learn more. This individual most likely responded to a direct mail letter, advertisement or some sort of email solicitation.

By contrast, consumers are considered hot leads because they have expressed a high level of interest in the reverse mortgage program and want to learn more ASAP. These individuals want to meet with a reverse mortgage specialist.

Because the closing rate for a hot lead is much higher, so is the cost to obtain this person's information; typically \$45 to \$100. Information provided includes the individual's name, address, age, telephone number, home value and mortgage balance. This is considered an exclusive lead because the information is disseminated to only one lender—you.

LEGAL RAMIFICATIONS OF LEAD GENERATION

Now that we have established the types of leads that are available and the best way to utilize them, it is important for you to understand what you can and cannot do with the lead to abide by privacy laws.

A cold lead is where you reach out to a consumer without the consumer initiating contact with you. As long as you are certain the consumer's information is public knowledge, you can send a direct mail piece.

For telemarketing purposes, if you obtain a consumer's name, address and telephone number, lead generation firms will require you to do the following:

1. Go to www.donotcall.gov
2. Apply for an SAN number – for every area code that you cold-call within,

you must have permission from the government stating that you can do so. This SAN number provides you access to the latest national registry of the do not call list. Note: you must reapply for this number once a year

3. The company that you are purchasing your leads from will scrub its list against the most recent Do Not Call registry to ensure your list is up to standards.
4. Lastly, the lead generation company will ask for a copy of the script you are using to put on file. You must keep detailed records to ensure your scripts have been approved by a compliance professional and that you have accurate records of the SAN information.

With regard to warm and hot leads, as long as the prospect initiates contact with you by responding to any type of advertisement created by you or a lead generation company, this prospect is considered a client. This gives you the right to contact that individual via telephone, direct mail or email. However, if this individual asks not to be contacted again by your firm, you must make sure you or someone from your organization abides by their request. Lastly, if you send a blast email or newsletter to your prospects, you must always have an opt-out disclosure.

CONVERTING LEADS—WHO SHOULD ASSIST?

The person on your staff chosen to “work” the lead depends, in large part, on the type of lead purchased.

A cold lead can be handled by a junior people or trained assistants. Their job is to gather information about prospects—including age, home value, property type—to see if they qualify for a reverse mortgage. If they qualify, the junior person should let them know that a reverse mortgage specialist will contact them. If not, the lead is essentially eliminated.

This person’s job is to take cold leads and qualify them – turning them into warm leads for a senior loan officer.

WARM TO HOT LEAD

If lead have been qualified, it’s important to

“warm them” up. This should be handled by a senior person, someone knowledgeable who can answer detailed questions and who will make the most of this opportunity.

In terms of handling your warmed-up lead, be sure to make an introductory call to establish a relationship. State where you’re calling from, reiterate how you received the lead’s information. This reminds the consumer that they asked to be contacted, and that this is not a cold call.

It can be helpful to reiterate the client’s information—“So I see you have a single family house worth \$200,000, a mortgage balance of \$50,000...”. This helps to build client familiarity. Find out the reason they may be interested in a reverse mortgage, whether it’s debt consolidation, living expenses, or home repair.

Ask clients questions that will help you understand their need, such as: “Why are you looking for additional income? or What do you intend on using the reverse mortgage proceeds for? Currently, what is your monthly income, what are your expenses?” What you need to do is identify clients’ financial needs and suggest how a reverse mortgage can meet those needs. This will make setting the appointment easy. I call this tactic needs-based selling. Never give a question that requires a Yes or No answer, for example, would you like to make an appointment with me so I can further explain your financing options?

A better option is to say “the next step would be for us to sit down so I can further explain all of your different financing options, as well as how the reverse mortgage process works. What’s better for you, evening or daytime?”

If your lead is asking a lot of questions on an initial call, try saying “I understand you have a lot of questions, and I’m happy to answer them all. Why don’t you write down each of them, and at our meeting we can go through them all in detail. What would be better for you—evening or daytime?”

If your lead isn’t ready for an appointment send out a follow-up letter with specific information about your company, let them know in the letter you will call them again in a week, and don’t throw

away a pre-qualified, exclusive lead.

Develop 30-day, 60-day, 90-day and 6-month follow-up letters—and send them out religiously. Lender Lead Banc, for example, has follow-up letters that you can automatically generate for a given lead. These are regular, recurring follow-ups, via mail and phone, to help you convert at a later point. A reverse mortgage is a major decision and a long process. Give your leads the necessary time to pan out.

After scheduling an appointment, suggest to clients that they bring friends or family members who are part of the decision-making process. These people will have a voice no matter what, so it's best to meet them face-to-face to explain a product's value and deal with any potential objections. This extends your relationship to a senior's family and builds your potential referral base

WHAT NOT TO DO

If your client wants more information, **DO NOT** send an application summary. Instead, send a basic information package about your company—without fees or qualification requirements

Specific figures can scare off a lead and are better to go over face-to-face. Remember, your leads already have plenty of information on the reverse mortgage program.

Don't forget the importance of face-to-face meetings. Take an application in-person, and prior to HUD counseling. Don't send your leads to HUD counseling before meeting them face-to-face. This is critical to your conversion.

Help your lead fill out the application. **DO NOT MAIL** the application unless your driving time is completely unreasonable. You are legally entitled to take the application prior to counseling. You just cannot charge any fees to the borrower or order a FHA case number until you get the certificate.

Conversion rates speak for themselves: Face-to-face 85% versus Mail 15%-25%.

CONCLUSIONS

If you're going to make the investment to buy leads, you should work them with regular follow-ups and have extensive marketing tools at your disposal:

- Self-populating follow-up letters
- Loan officer recruiting materials, allowing you to leverage your ability to offer these leads
- Easy-to-access, personalized marketing letters, postcards, flyers, etc.
- Online education materials and training for loan officers
- Phone scripts geared to different scenarios
- New tecues generated through market research and focus groups

Lastly, measure your return on investment for each lead in order to ensure that your lead generation program is minimizing costs and maximizing profits. Remember, referrals that you receive from these lead sources help to reduce your overall cost and maximize your return on investment.

*Editor's note: Lender Lead Banc is a Melville, NY-based marketing company that focuses on generating exclusive, pre-screened leads for reverse mortgage lenders. David Peskin can be reached at (631) 454-6023 or dpeskin@lenderleadbanc.com. **RMA***

MARKETING HECMS, *continued from page 5*

the radio. Radio's "peak listening hours" are during commute times. Most, if not all, of your prospects will not have a job.

Television

While we have little anecdotal evidence to cite, we assume TV suffers from the same richness vs. reach drawback as radio. Television may be slightly more effective than radio as seniors are likely to spend time watching television. A recent article in Forbes Magazine, however, cited that advertising on television is "admitting that you don't know who your customers are." Because of the low amount of richness available in a television ad, we are going to assume that acquisition cost is the

MARKETING HECMS, *continued on page 12*

same as radio. Television, however, is a useful branding tool.

Print

Print advertising in newspapers and magazines can provide a great amount of reach. Unfortunately, print media suffers from the same “richness” drawback as television and radio. Print advertising can be effective; however, one must consider that advertising in the newspaper must be done daily, and can cost many thousands of dollars monthly to reach a relatively small population. Cost of customer acquisition for print media will vary tremendously based on cost to advertise, frequency of advertisement, and distribution of the material (i.e. number of subscribers). Print can be an effective tool for branding.

Referrals

Get all the referrals you can! No matter what. They’re free! You can base your entire business on referrals—as long as you don’t want to make very much money. Referrals are very rich but provide very little reach. Basing a business on referrals is a way to ensure that you won’t be able to develop a business plan, won’t be able to predict origination volume, and will lose business to your competitors. With that said, we strongly suggest you develop referral sources, but only as a supplement to your other marketing efforts.

Telemarketing

Telemarketing can be a great tool for customer acquisition. However, we strongly caution you that if done “wrong,” trying to run your business via a

telemarketing staff can be a real budget buster. If you don’t have experience setting up call centers, you may want to think twice about telemarketing as a way to generate leads. Also, you most certainly do not want your “A-list” sales reps and closers to spend their days “dialing for dollars!” In order to use telemarketing as a lead generation tool, you need to set up a separate telemarketing arm, with people doing nothing but making phone calls. You will also have to understand that your employee turnover will be astronomical. You will have to set up the call system, scripts, training, etc. We strongly recommend that if you want to use telemarketing in your business plan, you should use an outside service.

Internet Leads

Internet leads can be very cost-effective. They cost between \$25 and \$50 each. Problems you will encounter include: leads with bad phone numbers, people who don’t own homes, and people under the age of 62. Even so, your cost of customer acquisition will only run about \$600. The largest drawback of Internet leads is the fact that not enough seniors are on the Internet asking people to contact them. You are not likely to find enough Internet leads that you can buy to sustain a real business. Additionally, Internet leads do not enable you to brand your company.

Direct Mail

While we admit having a particular bias—the authors of this guide operate a direct mail firm—if

REVERSE MORTGAGE MARKETING TOOLS AT A GLANCE

	RICHNESS	REACH	ENTRY COST	BRANDING	COST PER HEAD	TIME INTENSITY
Radio	Very Low	High	High	Yes	\$1,200	High
Television	Very Low	High	High	Yes	\$1,200	High
Print	Very Low	High	Varies	Yes	Varies	Varies
Referral	High	Very Low	Minimal	No	Minimal	Low
Telemarketing	High	Low	Low	No	\$1,000	Very High
Internet	High	Low	Low	No	\$600	High
Direct Mail	High	Medium	Medium	Yes	\$300-500	Medium

you find a more effective way to advertise, please let us know! Direct mail is scalable—you can reach as many people as you wish to pay for. It can also be highly targeted. For example, you can tailor your mailing to only reach people over 65 who own their home and have a mortgage amount low enough to qualify for a HECM. In addition, direct mail can have a high level of richness. You can, for example, send letters telling people exactly what their loan opportunity is under the HECM program, assuming you know their age and the value of their home. Cost of customer acquisition for direct mail is between \$300 and \$500.

WHAT IS "CUSTOMER ACQUISITION COST"?

In the above examples, we mentioned your cost of customer acquisition. This is the most important factor you need to consider when you are planning your marketing budget. NOT cost per "eyeball" (for TV advertisers), cost per piece (for direct marketers), or cost per lead (for Internet leads). The only thing in the entire world that matters is how much it costs you to bring a customer through your door. In an extreme example, if you paid \$250 per lead, but had a 99% close rate, you would buy every lead you could get your hands on! On the flip side, if you could get leads for a dollar, but you had to speak with 1,000 people to find a customer, that wouldn't be a very attractive solution.

Aside from determining which advertising methods are most cost-effective, cost of customer acquisition should be used as a business-planning tool. If you know your cost of customer acquisition, you can determine for yourself how much business you will do in the next quarter. You simply determine how much volume you can handle, multiply that by your customer acquisition cost! You've then determined a marketing budget. If only everything in life were so easy.

(Headquartered in San Diego, CA, GotLeads—A DF Interactive Co. is a NRMLA member and past exhibitor at conferences. Rob Misheloff can be reached at 800-858-7010 or by e-mail at robm@gotlds.com.) **RMA**

option for seniors.

Elected officials, both at the state houses and on Capitol Hill, are recognizing that the home equity wealth possessed by elderly individuals is an important resource in addressing the needs of an aging population.

Policymakers at a diverse range of federal agencies including the Departments of Health & Human Services, Veterans Affairs, Commerce and Treasury are studying if, and how, reverse mortgages should be encouraged.

Economists, gerontologists, and public health analysts at numerous institutions are pursuing academic research on topics inspired by growth in the use of reverse mortgages.

Being discovered brings broader consumer awareness, of course, and a resulting increase in loan production. That, so far, is all good.

Growth is healthy—provided that it is handled by competent companies possessing the utmost integrity and a sense of responsibility to clients, who are knowledgeable in industry affairs and involved in the community. That, in a nutshell, is the core mission of NRMLA—assuring that American's demand for reverse mortgages can be fully met by companies committed to standards that emphasize the highest ethical integrity, place fulfilling the clients true needs beyond all else, and have a commitment to the communities they serve.

Growth, however, attracts a broad range of individuals and companies into a field, including some who may not fully understand the intricacies of this market, the challenges and respect required in dealing with an elderly client base. This would be bad.

As elected officials and other policy-makers learn about reverse mortgages, some see potential benefits. Others recall adverse publicity and perceive the potential for abuse. That is why we're seeing attempts at legislation at the state level (Conn. & Ark.). That is why some consumer groups adamantly oppose attempts to be innovative, such as the LaFalce amendment on long-term care or liberalizing counseling procedures.

Now that we've been discovered, reported on, and given support by the political establishment, none

whose maturity is exactly one year or 10 years.

The 10-year CMT, plus a margin, is called the HECM Expected Rate, and, in combination with the age of the youngest borrower, determines the Principal Limit Factor (PLF). The PLF multiplied by the HECM Maximum Claim Amount (Claim) gives the loan's initial Principal Limit. The Claim is the lesser of the home value or the HUD county lending limit. In Mortgagee Letter 2004-18 dated April 23, 2004, HUD changed the rules. Now, if the Expected Rate is less than 5.50%, lenders must use 5.50% to find the PLF.

The 5.50% "floor" only applies to finding the PLF. The actual Expected Rate is still used to find monthly payments (term or tenure) and the amount of the initial service fee set-aside. By putting a floor on the rate used to calculate the PLF, HUD effectively capped the PLFs. Although the floor was met in recent months, it was never imposed because the weekly Expected Rate did not fall below 5.50%.

So what rates apply where? The Expected Rate (based on the 10-year CMT plus margin) is used to find the initial Principal Limit (subject to HUD's new 5.50% floor). The Expected Rate (with no floor) is used to find the initial service fee set-aside and for all payment plan calculations throughout the life of the loan.

The one-year CMT rate plus margin is the actual interest rate charged on the loans adjusting either

monthly or annually. Loan Principal Limits, and presumably Line-of-Credit limits, grow at the loan's actual interest rate plus a 0.5% per annum Mortgage Insurance Premium.

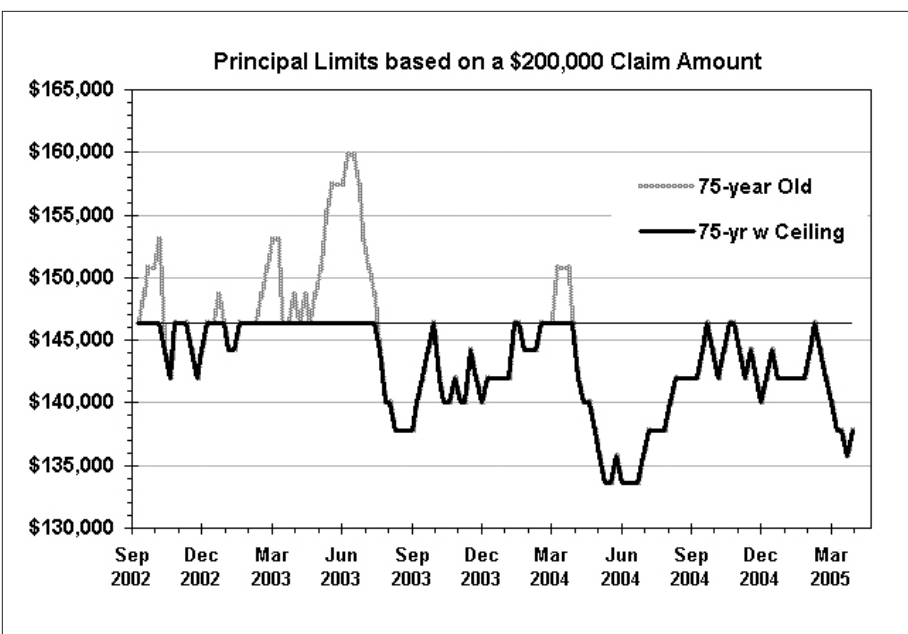
The chart below shows what effect the new 5.50% floor would have had on initial Principal Limits if the floor had been in place over the last few years. So far, the cap floor has had no effect. Recently, we hit the limit, but did not surpass it. The light gray lines show uncapped Principal Limits. The black lines show the effect of the new caps.

ANNUAL VS. MONTHLY ADJUSTING RATES

The 1-year CMT rate plus a margin is the loan's actual interest rate. There are two types of HECMs—those where the interest rate adjusts annually and those with monthly adjustments. Fannie Mae's ARM Plan 856, which provides for annual interest rate adjustments, has two percent per adjustment and five percent lifetime interest rate caps. The lifetime cap applies as an interest rate ceiling as well as an interest rate floor. ARM Plan 857, which features monthly interest rate adjustments, has a lifetime interest rate cap that is 10 percent above the initial mortgage interest rate. ARM Plan 857 has no floor or per adjustment limitation.

Fannie Mae is the primary investor and sets the HECM loan margins. The current margin is 1.50% on monthly-adjusting HECMs and 3.10% on annually-adjusting HECMs. This explains the popularity of the monthly-adjusting HECM since borrowers receive substantially higher Principal Limit Factors from it than they receive from the annually-adjusting HECM.

A prior week's average one-year CMT rate is used to find a new loan's initial interest rate. Existing loans are adjusted using the average rate from a week published more than 30 days before the interest rate change date. This is so the loan servicer can notify the borrower in advance of



rate changes.

One-year CMT versus 10-year CMT? Why two different rates? The HUD HECM program designers assumed that the current 10-year CMT rate is a forecast of 1-year CMT rates over the life of the loan. A simplified two-year example will show how HUD's approach works.

Say that today, the one-year rate is 2.0%, and the two-year rate is 3.0%. This approach implies that the 1-year rate will rise to 4.0% next year. Why? Because making 2.0% for one year and 4.0% for the second year gives an average 3.0% (today's two year rate).

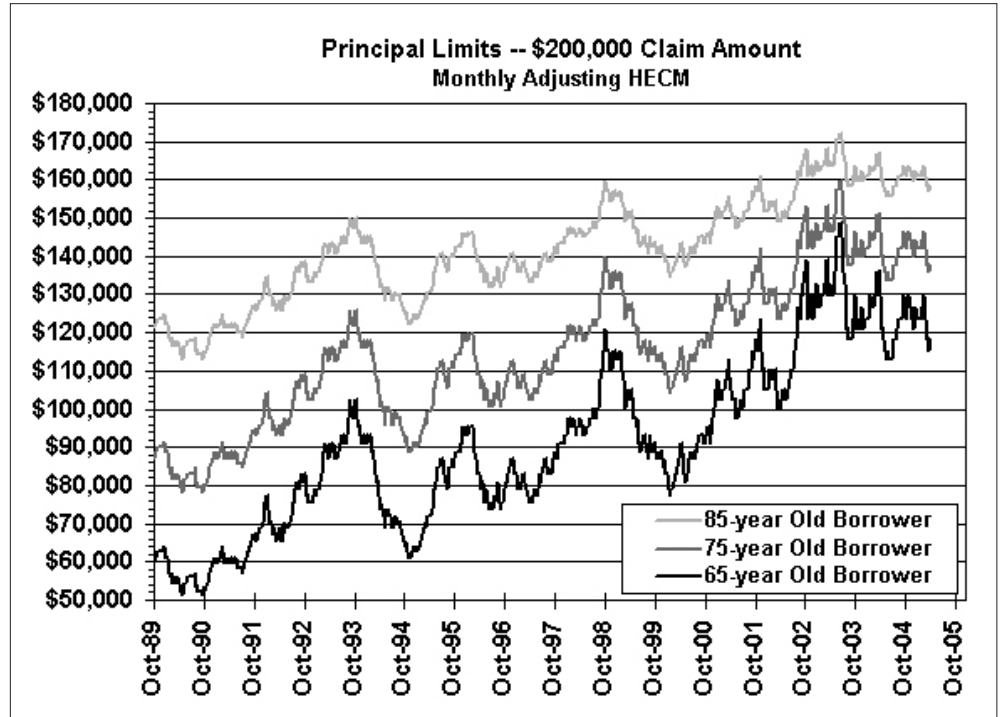
This raises an interesting question for software designers.

Should the one-year or 10-year rate be used in projecting Line-of-Credit (LOC) capacity growth and amortization schedule loan balances? In a normal world where the initial 10-year rate is higher than the initial one-year rate, using the 10-year rate makes the LOC growth look great, but likely overstates future loan balances. Using the now low one-year rate over the life of the loan shows lower expected LOC growth, but likely overstates future remaining home equity by understating future loan balances. Rates will not stay low forever.

The HUD software uses the 10-year rate in its amortization schedule and does not consider future selling expenses of the home (7.0% per the FED). Ibis PC software allows users to choose which rate to use in the amortization schedule and includes 7.0% selling expenses. Online reverse mortgage tools from Ibis' sister company, NETirement.com, use the current one-year rate when calculating projected LOC growth (see the NRMLA calculator), as does Financial Freedom's online calculator.

Recently, rates have been historically low. The chart shows how HECM benefits have changed over the last 15 years. The last few years have been great.

Can interest rates be forecast? Not very well.



When you look at individual economists' forecasts and the consensus (an average of those forecasts), you see that they are conservative. If rates are "low" (say below the average of the last 10 years), the forecasts are for rising rates. If rates are "high", the forecasts are for falling rates. The further current rates are off the average, the bigger the expected change.

In reality, rates do not move slowly toward a past average. Often rates pop upwards or downwards (generally toward the average) after being fairly stable for a while. If I had to make a forecast today, I would say that rates will be 5.50% to 5.75% a year from now. That is up between 1.00% and 1.25%—this is the conservative method. But, the 10-year CMT has averaged 7.94% over the last 10 years. If rates pop, as they are prone to do, the 10-year CMT may be 6.00% in a year and 8.00% in a few years. As the charts above show, that would have a major impact on the money available from a HECM.

(Editor's Note: Jerry Wagner is President of Ibis Capital, LLC based in San Francisco, CA and the designer of NRMLA's online calculator. He can be reached at (415) 563-3367 or wagner@ourtoolbox.com) RMA

want to learn that they might have jumped too soon. Those who have given us coverage or support don't want to find out that there are more issues here than meet the eye. Any negative development would be widely noticed, leading to our day in the sun rapidly fading away.

One bad apple does spoil the whole bunch when it comes to media relations and gaining the support of politicians. To continue our success, we have to be squeaky clean. No cutting corners. No doing things out of sequence with the regulations, handbooks and mortgagee letters—no matter how confusing all those documents might be.

As the value of reverse mortgages is further recognized, the funding from them will be used more and more to purchase various products including financial services like insurance and annuities, as well as health care services. Individual professionals or distribution networks in those fields might be good natural marketing partners for reverse mortgage lenders.

It is essential that, in any cooperative effort with allied professions, all aspects of the applicable regulations and procedures are fully complied with. Compensation issues are a particular area of concern to which utmost attention to rules must be paid. FHA requirements, RESPA, HUD rules and state mortgage banking laws all come into play here. There is an intricate web of regulation and it is critical that all reverse mortgage lenders pay close attention.

As I said at the beginning of this column, the good news is that we're getting the attention paid to reverse mortgages that we've been seeking. The bad news, however, is also that we're getting the attention—as well as the scrutiny that comes along with it.

The reverse mortgage business is being looked at, analyzed and assessed like it never has been before. If we stand up to the scrutiny, our growth will continue unabated. If it is found that lenders work with other parties who do not share our commitment to doing what's right for the customer, or that lenders sometimes skirt the rules, our future growth will be constrained.

As new lenders enter the reverse mortgage business and competition intensifies, some members might be inclined to develop strategic relationships or enter into referral relationships, part-time employee arrangements and other structures that don't quite meet the rules. I hope that this doesn't happen, but am already beginning to see signs that it is.

To help provide guidance, I have asked our general counsel to develop guidance on such relationships. A memo is being prepared for our Ethics Committee which will then review our Code of Conduct and Best Practices to see if those two documents can be strengthened on this topic.

So, the bad news is actually the same as the good news. We are drawing a lot of attention to reverse mortgages. I guess that's not really such bad news—as long as we all do the right thing. **RMA**

Briefs

HECM PRODUCTION UP 30 PERCENT

Home Equity Conversion Mortgage (HECM) production volume is up 30 percent from last year, according to the latest government statistics.

Data show that the U.S. Department of Housing and Urban Development insured 16,731 HECMs during the first five months of the current federal fiscal year (September 30, 2004 thru February 28, 2005), compared to 12,848 during the same period last year.

HECMs account for roughly 90 percent of all reverse mortgages made in the U.S. During FY 2004, HUD insured a record 37,829 HECMs, which was more than double the number of loans produced in FY 2003, 18,097.

*You can view HUD's monthly HECM activity reports at www.nrmlaonline.org. **RMA***