

Evolution of Reverse Mortgage Market Bringing New Opportunities

By Atare E. Agbamu, CRMS and Darryl Hicks

In just the past five months (January thru May 2007), the reverse mortgage business has witnessed a rapid evolution not seen in over 17 years of existence. The reverse mortgage industry is finally beginning to mirror the traditional “forward” mortgage market, as more lenders have launched a wider variety of products and pricing options designed to fit the needs of our senior customers.

The years of slow growth (1990-2002) led to a period of rapid growth (2003-2006), which created the ‘critical mass’ necessary to reach the point

INDUSTRY UPDATE, continued on page 5

Product Innovation Creates New Challenges

By Atare E. Agbamu, CRMS

It wasn't long ago that consumers had three reverse mortgage products to choose from: the FHA HECM, the Fannie Mae Home Keeper, and the Financial Freedom Cash Account. Now Seattle Mortgage Company, Generation Mortgage Company, Countrywide Home Loans, VirtualBank and Sun West Mortgage Company have all introduced competing programs, and later this year, BNY Mortgage Company and Vertical Lend (dba Lender Lead Solutions) will be following suit.

In addition to these private sector programs, new multiple-margin HECM products have been introduced, as well as a fixed rate option by BNY Mortgage.

All these developments are good for customers and healthy for originators. But there is another, more complicated, side to this explosion of choice that bears greater scrutiny. To discuss these issues, NRMLA put

NEW PRODUCTS, continued on page 7

INSIDE THIS ISSUE

<i>NRMLA Creates Spanish Language Booklet</i>	2
<i>“Do Not Call” Compliance for Reverse Mortgage Industry</i>	2
<i>Ethical Issues in Reverse Mortgage Lending</i>	3
<i>Reaching Out to Religious Leaders</i>	3
<i>How Talk Radio Can Position You as a Guru in Your Markets</i>	4
<i>Maximizing Your NRMLA Membership</i>	7
<i>Did You Know?</i>	14

NRMLA Creates Spanish-Language Consumer Booklet

NRMLA is pleased to announce the publication of *Respuestas a Preguntas Comunes Sobre las Hipotecas Revertidas*, a Spanish-language version of *Just the FAQs: Frequently Asked Questions About Reverse Mortgages* in response to the growing demand for reverse mortgages among the Hispanic community.

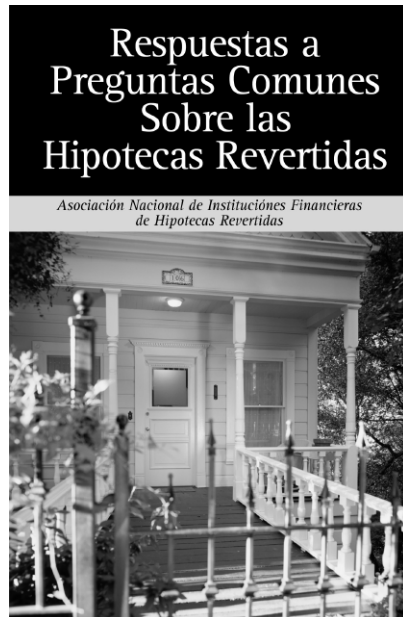
Copies are available for purchase (by NRMLA members only). Additional questions and pricing information can be directed to Brian Nagendra, at bnagendra@dworbell.com, or 202-939-1745.

Since they were first introduced in 2001, the NRMLA booklets have become a popular sales tool for members to distribute information to prospective clients.

Just the FAQs is our most widely sold booklet, covering the basic elements of the reverse mortgage program and explaining common misconceptions.

The booklet series (English-only) also includes *Using Reverse Mortgages for Healthcare*—which includes case studies showing how reverse mortgages can help pay for prescription drugs and round-the-clock care—and *Modifying Your Home to Promote Greater Independence: A Guide to Aging in Place*.

Each booklet is roughly 12 pages in length. You can purchase either generic copies with the NRMLA



SPANISH BOOKLET, continued on page 14

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.

“Do Not Call” Compliance for the Reverse Mortgage Industry

By Neil Garfinkel and Jean Noble

(Editor’s note: The following article summarizes a conversation that took place between our two authors during a recent Learn While-U-Lunch program.)

Consumer privacy is a very hot topic—and as marketing people we all must be aware of the consumer’s right to privacy.

To this end, we have become an opt-out universe. Consumers are given opportunities to opt-out of all types of marketing campaigns. The DNC Registry, or Do Not Call Registry, is an example of an opt-out list.

Launched in October 2003, the National Do Not Call Registry is a list of phone numbers from consumers who prefer to limit the telemarketing calls they receive. The registry is managed by the Federal Trade Commission (FTC), the nation’s consumer protection agency, and enforced by the FTC, the

DO NOT CALL, continued on page 8

National Reverse Mortgage Lenders

Association is a national trade association that provides education, advocacy and other services to companies involved in the reverse mortgage business.

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Your Mother was Right: Ethical Issues in Reverse Mortgage Lending

By Atare E. Agbamu, CRMS

Consider for a moment the following ethical scenarios and how you would respond. A 92-year-old woman needs cash for property taxes and homeowners insurance. As a last resort, she applies for a reverse mortgage, but her 50-year-old, live-in son prevents her from speaking with you. She loses her home and ends up nesting in an apartment with her son.

A doting son-in-law escorts his mother-in-law into your office. He turns out to be a financial planner and annuity salesman, who advises his mother-in-law to get a reverse mortgage to purchase a lump-sum, cash advance plan.

An eager son leads his 75-year-old mother to your shop to get a reverse mortgage, but the mother doesn't seem too enthusiastic.

The original monthly-adjusting HECM yields your company an additional one percent premium based on the amount of the customer's initial draw. New HECMs with one percent margins pay no premium, but they offer customers more money at reduced overall costs. Because the

ETHICAL ISSUES, continued on page 10

Religious Leaders Can Help Build Acceptance of Reverse Mortgages

By Atare E. Agbamu, CRMS

Faith is important to many older adults. Go to any church, synagogue, or mosque during worship hours, and you will find them present in large numbers.

An essential part of any community, you should know how to get into houses of worship to share the reverse mortgage concept. But how should you approach a house of worship? Who should you talk to? How should you prepare your presentation? What should you talk about? What should you bring with you? What should you expect? What are some of the challenges you will encounter, and how should you manage them?

These are some of the questions Dennis Pigg of Safeway Mortgage (Smyrna, GA) and Pamala Henderson of Countrywide Home Loans (Calabasas, CA) addressed for reverse mortgage lenders at NRMLA's Annual Meeting in San Francisco last fall.

APPROACH THE SHEPHERD, GRAZE IN FAMILIAR PASTURES

The pastor, rabbi, or imam is your go-to person. Using pastor and church as proxies for religious leaders and houses of worship, Dennis

RELIGION, continued on page 12

Talk Radio Can Position You as a Guru in Your Markets

By Atare E. Agbamu, CRMS

He answers questions for seniors and for mortgage professionals. They call him with their issues, and he helps them find solutions. Many have not met him for he is a voice: a caring voice, a passionate voice, a strong voice for seniors in the communities that he serves.

Every weekend since 2004, his voice has informed and reassured many in Northern California and Northern Nevada. Linda Kloseit, an escrow officer, wanted confirmation that reverse mortgage loan limits and principal limits are not the same concepts. She called him. Karen Clarke, a senior with a HECM loan, wanted her checks to start rolling in again. She called him. Like many listeners, Kloseit got the correct information, Clarke her checks.

How did Tom Rafferty, host of The Reverse Mortgage Show in Sacramento, California, become the person customers and professionals call when they want answers to their reverse mortgage questions or solutions to their issues?

Hosting a weekly radio show in your market or markets can inject vigor into your business. It can transform you, a regular reverse mortgage professional, into an authority. Talk-show radio did it for Rafferty. It can do it for you.

In a Question and Answer session at the 2006 Annual Meeting in San Francisco last fall, Bill Agner (of The Mortgage Network, Inc. Indianapolis, IN) asked Rafferty to share his "talk radio" experience with industry professionals.

DOUBLED INCOME IN FIRST YEAR

Hosting The Reverse Mortgage Show has done more than build Rafferty's brand as the go-to person for reverse mortgage information, insights, and expertise in his markets: It has made him money.

"In the first year [2005] of doing radio, I doubled my income from the previous year [2004]. In the first 6 months of this year [2006], I have made as much as the previous year," Rafferty said in response to an audience question about 'return on investment' on his talk radio show.

For Rafferty, who has been a mortgage professional for over 30 years, the "psychic income" is

even more gratifying.

"I kept seeing seniors being taken advantage of by annuity salespeople, by people who want to use money from reverse mortgages to generate commissions for themselves," said Rafferty. "Reverse mortgages have turned me into a senior activist."

AIR-TIME AVAILABLE FOR SALE ON WEEKENDS

If you want to be the senior activist/reverse mortgage guru in your market, Rafferty said you have to do some digging. Identify news-talk radio stations in your market, listen to them, familiarize yourself with their programming, know the demographics [available from the radio stations], ask for the terms of a news-talk radio show contract, and find out cost of air-time.

In his Bay Area, Sacramento, and Reno markets, air-time for his show runs between \$600 and \$1,400 for an hour a week. He owns the air-time during his show. If he chooses, he can sell ad time or spots, but he doesn't. Other talk-radio hosts sell spots to cover their costs and generate revenue as their shows gain more listeners and secure stronger ratings.

Ratings, market size, and day-of-the-week determine how much stations charge for air-time. If you can find it, air-time in Los Angeles will cost you more than air-time in Sacramento or Mankato, Minnesota. And weekends are almost always available.

Rafferty said there is a trend among radio stations to have local talk shows on weekends. "They want local people. Do your homework and approach the salespeople on the radio station. Just call up and tell them what you are looking for. In an active market, it may be tough because most stations will already have something similar. You just have to keep fishing until you find one that will consider you. It is an incredible venue. It works extremely well," he said.

FOLLOW SENIOR COMMUNITIES FOR CONTENT

Rafferty has no problem finding material for his show. He finds ample program content in the senior

RADIO, continued on page 14

INDUSTRY UPDATE.

continued from page 1

we're at now. Whereas the entire industry funded a total of only 14,000 loans in 2002, just under 90,000 loans were funded in calendar year 2006. No one was particularly interested in our industry or product at low volume levels, but the recent attainment of 'critical mass' has created a whole new level of interest and activity.

Much of the growth can be attributed to Financial Freedom's decision in 2003 to expand its wholesale operation from roughly 55 percent to 80 percent of its total business, thus paving a way for many lenders and brokers to enter the business.

Other market drivers included Wells Fargo, which built volume and distribution through its own retail branch system, and Seattle Mortgage Company, which expanded its wholesale business. (Note: Seattle Mortgage's reverse mortgage operation was acquired by Bank of America.)

The pricing wars that we've seen of late started last year when Financial Freedom (and Lehman Brothers) reduced the margin on its "jumbo" Cash Account products to compete more effectively against the FHA HECM in the mid-size home market (\$450,000-\$550,000).

A second major development occurred when Financial Freedom and Seattle Mortgage Company, with the 'critical mass' described above, created an auction on Wall Street that recognized (for the first time) the true asset value of the traditional HECM 150 margin product.

Once these companies started securitizing HECM loans, Ginnie Mae woke a few more people up on Wall Street when it announced plans in the fall to develop a platform to expand the secondary market for reverse mortgages.

All these factors contributed toward what we're seeing now. But that was just the beginning.

It was right around the time of NRMLA's 2006 Annual Meeting last September that Seattle Mortgage introduced the first, new private sector reverse mortgage in over six years, The Independence Plan. Since then, Countrywide Home Loans, Generation Mortgage

Company, Sun West Mortgage Corporation and VirtualBank have all launched competing products.

BNY Mortgage Company jarred the market earlier this year by cutting the investor margin on the HECM monthly adjustable product by 50 basis points, announcing the move would increase customer proceeds and lower overall costs of a reverse mortgage.

Within weeks, Financial Freedom, Wells Fargo, and Seattle Mortgage followed suit by creating their own versions of the so-called HECM 100, as well as other multiple-margin HECM products designed to address a variety of customer needs.

On March 5, BNY launched a fixed-rate version of the HECM. Banco Popular, the dominant provider of reverse mortgages in Puerto Rico, has offered a fixed-rate HECM for years, but BNY is now the first continental U.S.-based lender to do so. In response, the Department of Housing and Urban Development is working on a mortgagee letter that will help clarify how certain features, such as the note rate, principal limit lock, and payment plan options should work for a fixed-rate HECM.

However, that has not deterred BNY and its correspondents from originating fixed-rate loans in the interim.

To gain some additional perspectives on these major developments, NRMLA put together a panel of industry leaders at our Western Regional Conference in Newport Beach, CA this past February.

Moderated by NRMLA's General Counsel, Jim Brodsky, the panel featured Sarah Hulbert of BNY Mortgage (Renton, Wash.), Pamala Henderson of Countrywide Home Loans (West Hills, Calif.), Jeff Lewis of Generation Mortgage Company (Atlanta, GA), Bart Johnson of Financial Freedom (Irvine, Calif.), and Erik Anderson of Seattle Mortgage Company (Seattle, Wash.)

DIFFERENT HECMS FOR DIFFERENT FOLKS

Brodsky expressed curiosity over the driving

IN JUST THE PAST FIVE MONTHS (JANUARY THRU MAY 2007), THE REVERSE MORTGAGE BUSINESS HAS WITNESSED A RAPID EVOLUTION NOT SEEN IN OVER 17 YEARS OF EXISTENCE.

INDUSTRY UPDATE, continued on page 6

forces behind these industry developments.

Our business, said Hulbert, is witnessing a transition from a “one-size-fits-all HECM product to one that has an infinite number of variables” and that customers will have “real choices based on an evaluation of their needs.”

LONG-TERM PERSPECTIVE

Brodsky questioned whether the HECM will continue its dominance or whether it will be overtaken by the proprietary programs coming to market.

Johnson replied that the reinvention of HECM, with multiple pricing and closing-cost options, has secured its longevity, noting, “What we are seeing now is a variety of HECM products; therefore, I think it will be around for a long time.”

Hulbert agreed that the HECM has a “long-standing” future, but she advised that the industry has to make education of counselors and loan officers a key priority so that consumers are able to make decisions regarding which products meet their needs.

HECMs and proprietary products can co-exist, Henderson added, but “we are going to have a lot more proprietary products, because one or two products do not meet the needs of every senior out there.”

JUMBO PRODUCT ENGINEERING: IT'S ALL ABOUT PROCEEDS

Brodsky shifted the discussion to proprietary products. Brodsky wanted to know the criteria and the factors influencing product designers' thinking.

Just as forward product design is all about getting the borrower the right monthly payment, Lewis said the key factor in reverse product engineering is the amount of proceeds the borrower is eligible for.

“The number one component in this marketplace is proceeds,” added Lewis. “We’re trying to come up with a responsible way to generate as much proceeds as possible.”

MARKET SEGMENTATION BY NEEDS

Still on proprietary product design, Brodsky asked the panel about “market segmentation.” Are lenders

putting senior customers in neat little marketing baskets— younger seniors, older seniors, married, unmarried, high-net-worth, low-net-worth? He also asked if there are programs designed to “split the marketplace into subsets in ways that are not there now.”

Hulbert said market segmentation is coming. “We are not necessarily going to be looking at age seg-

ments, but we are going to look at our clients' needs. If you have a borrower who wants cash for a shorter term, wouldn't it make sense to go with an option that lowers upfront costs versus one that lowers overall costs over a longer life?”

Whereas if you've got a customer who plans to stay in his home for a longer period of time, it might make sense to go for a product that has a lower rate, hence lower life of loan costs, she said.

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THE ROAD AHEAD: A DIFFERENT CREDIT MENTALITY

Brodsky steered the discussion to the future. He asked the group what a similar panel discussion would be like in three to 10 years.

Anderson predicted that with more industry data available to inform decision-making by all industry participants, Wall Street would become more comfortable with reverse mortgages, and we could see more money flowing into the business.

Henderson foresaw more Boomers with a “different credit mentality” that may be “more leveraged” than today's customers. She added that their presence would inspire new products and force changes in existing product features. As a result, better pricing would be available for future products.

Brodsky forecasted changes in the “legal environment” commenting that the “set of laws” which has given the industry special cover would have to be updated.

Lastly, Lewis envisions reverse mortgages as core life-cycle financial tools that people are more comfortable with, similar to traditional first and second mortgages. “They'll be common,” added Lewis, “and they won't require much education and the process of originating them will be a lot faster than it is today.” **RMA**

together a panel of industry leaders at our recent Western Regional Conference in Newport Beach, CA.

Moderated by NRMLA's General Counsel, James Brodsky, the panel featured Sarah Hulbert of BNY Mortgage (Renton, Wash.), Pamala Henderson of Countrywide Home Loans (West Hills, Calif.), Jeff Lewis of Generation Mortgage Company (Atlanta, GA), Bart Johnson of Financial Freedom (Irvine, Calif.), and Erik Anderson of Seattle Mortgage Company (Seattle, Wash.). The following article is based on comments made during a Q&A with audience members.

SIMPLIFY, SIMPLIFY, SIMPLIFY

Some in the audience expressed concern that these generally positive developments could come at a significant price—that is, greater complexity for customers and loan officers.

Sarah Hulbert agreed that product innovation adds a distinct layer of complexity, and that keeping abreast of new products, new features in existing products, and simplifying them for customers will become “absolutely critical” for loan officers.

Bart Johnson declared that complexity can and will come. He invited the audience to imagine a reverse mortgage world with 150 products, including many proprietary programs.

“No single salesperson in any company can pretend to explain every product,” he told audience participants. “So it looks very much like the forward industry, where you have brokers that pick the best from each of several lenders until they think they have a menu that represents all needs. That’s what they show. That’s where we are going to end up. There is no way any single company is going to be able to explain the full breath of what exists here.”

Pamala Henderson added that third-party counseling and education can help breakdown product complexity for customers.

TRANSITION JUMBO REVERSE WITH NO UPFRONT COSTS

Hulbert indicated there is some talk about developing proprietary loans with zero closing cost options that could be used to help refinance customers into better products.

“If you have a borrower who is in a reverse mortgage and another plan becomes available, and

there are no upfront costs for moving into that plan, that’s a pretty easy transition,” said Hulbert.

Brodsky quipped that we’re not talking about a “free lunch” and said the forward marketplace struggles with these issues too. “That’s why I think a refinance may be an analogy here,” he added.

SUBORDINATE LOANS

The industry leaders were asked if they are planning to add subordinated loan products to “fill the gap if there isn’t enough money to pay off an existing loan.”

Jeff Lewis said such a product may be possible if the capacity of the first mortgage is curtailed.

“If you’ve got a first mortgage that is going to take up all the borrowing capacity, then no (we can’t offer subordinated financing),” he said, “but if you somehow limit the capacity of the first, then you can have a second. But as of now, no one has introduced a first that has a limited capacity.”

Brodsky said subordinate financing presents “some statutory issues” on the FHA side. *(For more information, please refer to FHA Mortgagee Letter 2006-20, which can be downloaded from NRMLAOnline.org.)* **RMA**

Getting the Most From Your NRMLA Membership

Following is a list of questions that we frequently receive from members about membership benefits, getting listed on our Lender Locator, and logging onto NRMLAOnline.org to view Members Only content. If you have any questions not answered below, please e-mail Darryl Hicks, at dhicks@dworbell.com.

1) *What does it mean to be a NRMLA delegate?*

Each company that joins NRMLA can designate two people as contacts. We call these people the Primary Delegate and the Alternate Delegate. The Primary Delegate is responsible for your company’s membership and web site listings if applicable. The Primary Delegate receives annual membership renewal notices and is the person NRMLA

COMMON QUESTIONS, continued on page 8

contacts if we have any questions. Both the Primary and Alternate Delegates receive e-mail updates from NRMLA, have the option of participating on one or more of our committees, and receive our quarterly print newsletter, Reverse Mortgage Advisor. If anyone else in the same company wishes to have these same benefits, especially being on NRMLA's official e-mail distribution list, they can join as Additional Delegates, which costs \$50 for an annual membership.

2) If I join as an Additional Delegate can I get listed on NRMLA's consumer site, ReverseMortgage.org? No, but you can purchase additional listings for \$50/month or \$600/year. First, you need to gain permission from the Primary Delegate. If you don't know who that person is, please e-mail Linda Latimore, at llatimore@dworbell.com. After obtaining permission, Linda will send you the Additional Web Site Listing Form and the Recurring Billing Contract. You fill out your contact information on the Web Site Listing Form. For payment, you provide us with your credit card information on the Recurring Billing Contract. We charge \$300 for the first six months right away. After six months, NRMLA starts charging your credit card \$50/month until you tell us to stop. Both forms are faxed to Linda, at 202-265-4435.

Federal Communications Commission (FCC), and state officials.

In addition to the federal registry, 41 states have similar privacy laws on the books. As of September 2006, approximately 132 million phone numbers were listed on the National DNC Registry and another 35 million phone numbers on state lists. A recent poll indicates that approximately 76% of adults are on the National DNC Registry and 94% of adults are aware that the registry exists.

What this means is that a significant percentage of the population has expressed a preference not to receive telemarketing phone calls. Does this mean that you can't telemarket? No, it simply means that you have to know and comply with the complex laws that deal with telemarketing.

VIOLATIONS

Before proceeding, let's discuss the ramifications of violating the DNC laws. Under federal law, you can be fined up to \$11,000 per offense, i.e. per phone call while state fines range from \$500 to \$25,000.

Violations can hurt your pocketbook and your public image. You don't want to appear in the press as a company who violates laws; this certainly includes Do Not Call laws.

WHO IS RESPONSIBLE FOR COMPLIANCE?

Both the company (the Bank or Broker) and the loan officer are responsible for complying with DNC laws.

Many loan officers do not think of themselves as "telemarketers" but under the law they are. Every time you pick up a phone, you are potentially falling within the definition of the Do Not Call laws. For example, it is important to remember that even a referral is still a cold call. So, for example, if a friend suggests you call their friend—if that person is on a DNC list, you cannot call.

WHAT DOES THE LAW DO?

The good news is that existing law creates a framework in which you can telemarket. The law establishes a "safe harbor," which means if you follow all of the procedures under the law you cannot be guilty of violating the law; and the law also creates certain "carve-outs" or exemptions.

SAFE HARBOR

Many believe that following the DNC laws is simply buying a list and not calling the people on the list. This is not the case; that is only part of what the law says that you must do.

It is up to the company to create a compliant environment that encompasses the right rules, processes, procedures, technology,

record keeping and policing strategies.

These include: 1) Registering with the FTC and acquiring the National Do Not Call Registry (must update every 31 days); 2) Acquiring state Do Not Call Lists (currently CO, FL, IN, KY, LA, ME, MA, MN, MS, MO, OK, PA, TN, Texas, WI and WY); 3) Creating and maintaining a DNC list specifically for your company; 4) Creating a written DNC policy, such as a Policies and Procedures Manual (include consequences for non-compliance by employees and third parties); 5) Training all employees and vendors on DNC procedures; 6) Creating a company policy on DNC procedures to be distributed to consumers on request; 7) Maintaining Internal Records on Compliance activities; and 8) Refraining from calling numbers on the DNC lists (Federal, State and Company specific).

EXEMPTIONS

Even if person is on a DNC list, you can call if: 1) You have written permission to do so from the customer. The letter has to be clear and conspicuous, dated with a signature or some other proof of approval; 2) You have an established business relationship with that person. You can contact a person within 18 months of a previous transaction (measured most likely from closing date) and/or (b) you can contact a person within three months from their inquiry or application to you (the test is whether the consumer had reasonable expectation of receiving a return phone call); 3) You have a personal relationship with that person; 4) It is a business-to-business call; or 5) the caller is from a charity, tax exempt non-profit organization, political campaign, surveyor or pollster.

COMPLYING WITH THE LAW

Provided you comply with the DNC laws, you can telemarket. Your company must obtain a SAN (Subscription Account Number) via web or telephone (www.donotcall.gov), and you must create a written DNC Compliance Manual (i.e., Policies and Procedures).

All employees must be trained on the compliance manual and the training process must be documented. Your company must maintain complete and adequate records, including inbound consumer requests

and records of past customers.

You have to maintain a "real-time" internal "Do Not Call" list. Check and document all outbound calls against a current copy of the National "Do Not Call" list before employees place a call. The Federal "Do Not Call" list must be less than 31 days old and obtained using your employer's SAN number.

ACQUIRING A SAN NUMBER AND SCRUBBING LISTS

To acquire your SAN number, you must provide information about your organization, your organization's function, and about the organization's authorized representative. You must certify that your organization will comply with the requirements of the National Registry.

Then you log in with your company ID and password. Subscribe to the area codes you want and pay for your subscription. Data for up to five area codes is free. The annual fee is \$62 per area code of data (after five), with a maximum annual fee of \$17,050 for the entire U.S. database.

ESTABLISHED BUSINESS RELATIONSHIPS

If you have conducted business with a consumer within the past 18 months, you may call that consumer again. If, however, the client refuses to speak with you, you may not call them again.

If a consumer makes an inquiry or submits a loan application, the company can call that person for the next three months.

Once again, if the consumer makes a specific request that you not call, then don't, even if you have an established business relationship with the person.

If a consumer calls in direct response to an advertisement, he or she may be contacted for up to three months. You must track these consumers internally to ensure that they are not called after the 90 days ends.

Lead generation providers who do not fall under the EBR exemption are responsible for scrubbing their lists before providing them to you. However, this does not release you from culpability. You must rescrub any list internally for compliance, regardless of the source.

COMMON MISTAKES

To avoid future problems, please do the following:

1. Keep accurate, written records (you must also have written records of how you comply)
2. Check and maintain correct lists (Federal, State and Company Specific)
3. Update lists in a timely fashion (Federal – monthly; Company Specific – monthly; States – vary)
4. Have loan officers update company-specific lists
5. Loan officers and companies must recognize that they are included in the DNC laws
6. Have written guidelines to give to consumers
7. Check the lists correctly—this is called “scrubbing”—by utilizing proper technology, methodology, etc.
8. Apply exemptions (some states have different rules than the federal government. For example, NJ does not have any EBR rule for inquiries or past transactions)
9. Meet all requirements of the law. It is not enough to have a list, but no written guidelines; It is not enough to have written guidelines, but no means of recording how you comply with the guidelines; It is not enough to record how you comply with guidelines, but not have any procedures to ensure compliance or how you deal with lack of compliance
10. Recognize that both a banker/broker and the loan officers are responsible for compliance
11. Monitor your policies. Do you check to see if calls were permissible? Do you conduct audits?; and lastly
12. Have a policy to handle non-compliance. **RMA**

(About the Authors: Neil Garfinkel is a founding member and the partner-in-charge of the banking and real estate practices of the law firm of Abrams Garfinkel Margolis Bergson, LLP, a full service law firm with offices in New York and California. Jean Noble has played a critical role in the creation and development of the Senior Lending Network lead generation program at Lender Lead Solutions based in Melville, N.Y.)

HECM counselor is not aware of the availability of lower-priced HECMs, your customer doesn't know either.

Your long-time HECM customer desperately needs to raise additional cash through a refinance. Your analysis shows she will pay \$10,000 to get \$30,000.

In each of these situations, what would you do? Placing the needs of the borrower ahead of your own is central to the NRMLA identity. To underscore this value, a panel moderated by NRMLA President Peter Bell was convened during our Annual Meeting last fall to discuss what each person would do if confronted by situations like these.

The panel was comprised of Brett Kirkpatrick of Mortgage Financial, Inc. (Beverly, Mass.), Kevin Kaltenbach of American Senior Funding Corp (Tustin, CA.), and Kevin Murphy of Kastle Mortgage (Belmar, NJ).

THE ANXIOUS ADVISOR

In the first situation, an anxious son seemed to want the reverse mortgage loan more than his mother.

Kirkpatrick, Murphy, and Kaltenbach said the son could be a passionate advocate of reverse mortgages, or he could have twisted motives. They advised originators in the audience to arrange to be alone with the customer and probe her need for the loan, to make sure she is under no outside pressure.

How do you get to be alone with your customer? Ask your customer to call you when she gets home, tell her you want to talk with her alone, find out the existence of other relatives that can act as a check on the potentially abusive son or daughter. Your goal is to ensure that your customer is getting the loan for her own benefit.

Another resource is the counselor. A disinterested third-party, the counselor can call the customer to find out whether a family member is coercing her. This is an example of how good communication between a lender and a counselor can help the senior.

In the next example, the doting son-in-law could be a caregiver who wants to get paid for legitimate services rendered. Or, as a panelist discovered, he could be an annuity salesperson who wants his mother-in-law to get her cash in a lump sum. In this case, the mother-in-law learned about other options during the loan process and scuttled the lump-sum idea.

ADULT PROTECTIVE SERVICES

Most cities or towns have agencies charged with protecting older adults from abuse. You should know the Adult Protective Service (APS) agencies in the communities where you originate reverse mortgages, and you should consult with them when you feel a senior is in an abusive situation.

Kirkpatrick, Murphy, and Kaltenbach agreed that APS should have been called to protect the 92-year-old lady from her son, who, ironically, lost his inheritance because he prevented his mother from getting a reverse mortgage.

"JOHN, I NEED TEETH": REFINANCE VALUE IS IN THE EYE OF THE CUSTOMER

Bell's second scenario was a repeat customer who wanted a refinance where costs outstripped benefits. Although the panel conceded that borrower benefits should always outweigh costs to justify a refinance, they were concerned that some customers might just defy the originator's advice and proceed to do a more costly refinance with a less scrupulous lender down the street.

In such a situation, they cautioned you could consider accommodating your customer's request by cutting your fees to keep her from going elsewhere to do a more expensive refinance. (Note: FHA/HECM's 5-times rule preempts HECM refinances unless the benefits to borrower outweigh costs five times and the refinance happened within five years of the original HECM loan. It is doubtful FHA will insure a HECM refinance which violates this rule.)

The panel repeatedly stressed that a customer's needs, not a lender's fees, should generally drive a refinance. However, there are refinance scenarios that defy clear-cut answers.

One panelist told this story: A couple with a small manufactured home was referred to his firm for a reverse mortgage. An analysis showed they would pay \$10,000 in closing costs to get about \$9,000 net. Based on the numbers, the loan officer rightly counseled them against going through with the loan. The next day, the social worker who had referred the couple called and gave the ethical loan officer a

severe tongue-lashing.

Unknown to the hapless loan consultant, the couple were in dire medical and financial straits, and cash from a reverse mortgage was their last resort. They had terminal medical conditions. They couldn't pay for their medicines, their food, or their heat. Although he was acting ethically and professionally, the loan officer, from the social worker's perspective, was "denying" the couple their "last hope."

Another story was told by reverse mortgage pioneer and author John Lucas of GMAC Mortgage. Many years ago, a 91-year-old customer called Lucas about getting extra cash to do dental work. Lucas ran the numbers and concluded it was a bad idea for the customer to pay about \$13,000 to net \$29,000. Lucas decided to visit his customer to explain why it was unadvised to go on with the refinance. With a big grin and with eyes fixed on Lucas, the customer pointed to the missing spaces in his mouth and said: "John, I need teeth."

The moral of these stories is that the value of a refinance is in the eye of the customer. As an originator in such circumstances, the panel urged that your

job is to listen empathetically to your customer, validate their needs, run the numbers, and get out of their way. Ultimately, the decision to refinance is theirs, not yours.

ANNUITIES EVERYWHERE

Bell's third scenario involved annuities. The annuity is separate from the reverse mortgage transaction, but your customer told you that she is considering buying one. There is no thirsty son-in-law in sight, just you and your customer. How would you handle it? What would you say? What would you do?

The panelists concurred that you should make sure your customer knows what an annuity is; you should disclose that you are not an annuity expert, and you should ask her to seek expert advice. You should also mention that the HECM tenure cash-advance plan acts like an annuity without double

IN OUR BUSINESS, AS IN LIFE, ETHICS BOILS DOWN TO OBSERVING THE GOLDEN RULE, TREAT OTHERS AS YOU WOULD WANT THEM TO TREAT YOU. TREAT YOUR REVERSE MORTGAGE CUSTOMERS AS YOU WOULD TREAT YOUR OWN PARENTS OR GRANDPARENTS.

costs and the taxes often associated with annuities.

They admitted the advice might be different with a jumbo reverse mortgage loan customer where the life tenure payments option might be unavailable. Even in jumbo cases, they urged originators to do a "gut check" to ascertain that their motivation helps the customer.

THE OTHER SIDE OF PRODUCT CHOICES

Emerging product diversification in the industry inspired Bell's fourth hypothetical situation. There are some products that might pay you more, and pay your customers less, while increasing their overall costs. In the era of one-percent-margin HECMs, the original monthly adjusting HECM (a.k.a. HECM 150) carries such a temptation.

For the panel, it was a clear-cut answer: Do what benefits your borrower the most.

"Put your customer's interest first. You are much better off. You are able to sleep at night," said the panelists.

In our business, as in life, ethics boils down to observing the golden rule, treat others as you would want them to treat you. Treat your reverse mortgage customers as you would treat your own parents or grandparents. **RMA**

Atare Agbamu formed ThinkReverse LLC, a Twin Cities-based training/consulting firm, to help originators address demographic change via reverse mortgages. A specialist with Credo Mortgage, Atare is the first to propose reverse mortgages as risk-management tools for forward lenders. Besides marketing, originating, and researching reverse mortgages since 2001, Atare has authored over 70 articles and a book on reverse mortgages.

Pigg said, "Your pastor is an intricate part of your community. People share with their pastor things they won't share with anybody else. A pastor is a major center of influence."

So, how do you approach a pastor? Pigg said the most effective way is through a member of his congregation that you are currently working with. If you have served the customer well, if you have solved her problems via a reverse mortgage, simply ask: "Would you mind introducing me to your pastor or your senior ministry leader?" Pigg said.

He added that an endorsement from a member of the church enhances your chances of getting a favorable reception from the pastor. Then, have one pastor share what you have done at his church with another pastor at another church and, in time, you will have a network of churches, pastors, and church members helping you spread the 'gospel' of HECM.

Pamala Henderson added that your faith history is your credential, so you should consider your faith 'qualifications' before approaching a house of worship or its leader. Do you normally worship at a church, a synagogue or a mosque? Then, start at your home church and with your pastor.

"Do not go to a faith-based institution just because you want to market reverse mortgages," Henderson cautioned. Unless you are a person of faith yourself, "you will be discredited," she warned.

KNOW YOUR SUBJECT. TALK SENIOR ISSUES. TALK 'BENEFITS AND SERVICES'

Although a pastor's blessing increases the program's credibility (and yours) and gets you in the door, "you have to know what you are talking about," said Pigg. A thorough knowledge of reverse mortgages, familiarity with documents in the application package, and a tutorial on how to speak with senior groups will keep you in the room at the church. Pigg suggested a simple method of introducing every reverse mortgage document: "Mrs. Jones, this is the document; this is what it says; this what it does; do you have any questions?"

Knowing your reverse mortgage stuff is important, but do not go talking about reverse mortgages, Pigg advised. Instead, talk about "senior issues," such as Medicare, Medicaid, prescription drugs, Social Security, retirement income, long-term care, and others. Show your pastor how reverse mortgages can solve a senior's problems. That is how you get the pastor's attention, Pigg said.

"Are you knowledgeable enough about what your product can do, and how it can solve their problems?" Pigg asked audience members.

The Smyrna, Georgia-based reverse mortgage lender said you must know why you are in a house of prayer. You are not there to discuss theology, and you don't want to question the pastor's doc-

trine. You are there to talk “benefits and services” to the pastor’s oldest congregants.

‘BRING THE CAKE AND DONUTS AND YOU BRING A CROWD’

In addition to your message of hope, take some treats when meeting with a group of seniors. Pigg and Henderson found cakes and donuts are favorite treats at these gatherings. As Pigg puts it, “you bring the cake and donuts, you bring a crowd. Feed them; they will come.”

Pigg arranges with a caterer to bring cake decorated with his company’s logo to his presentations at churches. And they get to see the logo before the cake is sliced.

In his conversations with senior groups in houses of worship, Pigg said he doesn’t use presentation tools like power point. His method is informal, one-on-one type conversation. He goes there to listen to them, to find out what their challenges, fears, and regrets are, and to suggest solutions. Empathetic listening is essential.

“Spend more time listening than you do talking. God gave us two ears and one tongue. Maybe we are supposed to listen twice as much as we talk,” he said. As CEO of her church’s economic development corporation, Henderson has a platform that enables her to reach a church-affiliated audience. “Look at the qualifications you have and use them to open doors,” she advised.

HECKLERS AND OTHER CHALLENGES IN HOUSES OF PRAYER

Whichever key you use to open the door to houses of worship, you should expect hecklers and other challenges, said Pigg. Here is Pigg’s way of disarming hecklers:

“Folks, I’m so glad to see you here and I want to tell you, I don’t want your hand touching your check book, I don’t want your hand touching your wallet. I’m not here to sell you anything. But here is what I’m going to ask you to do today. Even though this may not be what you need, this might be exactly what your next door neighbor needs, what your parents need. So, if you would, listen to this program. You might be able to go out and help someone else.”

The line works every time said Pigg because people in houses of worship want to help somebody.

The temptation to offer financial incentives “to support” houses of worship in return for bringing you reverse mortgage business is another test you must prepare for, both speakers mentioned. This is also one lure you want to resist no matter what some of your competitors may be doing or be rumored to be doing. Federal law regards such quid pro quo as a kickback. It is illegal. “Don’t fool around with RESPA [Real Estate Settlement Procedures Act],” Pigg said.

INSIGHTS FOR WORKING HOUSES OF WORSHIP

Here are some additional insights from Pigg and Henderson that you can use in marketing reverse mortgages in religious institutions:

- Rabbis, pastors, or imams are major centers of influence in your community. Educate them about reverse mortgages and ask for their support;
- Most large houses of worship have adult ministries or senior programs. Consider it your community service duty to spread the word about what reverse mortgages can do for seniors;
- Pastors are professionals and they expect you to be one. You have to deliver consistently to retain credibility;
- Your personal integrity is critical;
- Many seniors are inactive in their churches because of guilt over not being able to financially support their churches; help them relieve their guilt;
- In today’s economy, houses of worship are hurting financially like everybody else;
- Don’t tell them what they have to do; tell them what the different options and opportunities are. If seniors are motivated, they’ll do the right thing; and
- Be sensitive to the uniqueness of the faith-based group you are dealing with.

For many older adults, religion and spirituality are core values. Houses of worship are vital parts of your communities, and your pastors, rabbis, and imams are significant points of influence. Pigg advises:

“Whatever you do, be motivated by being a positive influence in the life of a senior.” **RMA**

communities he serves, and he is lucky to get through 25 percent of his content every week. For example, Karen Clarke's checks were suspended because her servicer received an erroneous report that her homeowner's insurance was not current. Rafferty got a copy of her hazard insurance, sent it to the servicer, and got her checks back. During his next show, he shared the story with listeners, and Clarke called in to say 'thank you,' validating Rafferty's story and reinforcing his influence.

"There is a lot of talk radio content in the senior community. It's important stuff to get out one way or another."

Your ability to talk from your heart, as well as your head, is essential. Rafferty cautioned that you should not even consider a radio show unless you know your subject very well. And branding yourself as a reverse mortgage guru through talk radio is going to take time, he advised. You will have to become a part of the station's "fabric."

"Your name has to become synonymous with the radio station. Radio helps you establish yourself as an expert in your market, and your heart comes through about what you believe when you are on the air. If you are faking it, you are going to know it on the radio," Rafferty said. **RMA**

(Editor's Note: Karen Clarke and Linda Kloseit are assumed names.)

Did You Know.....

Following is a common list of questions that we at NRMLA routinely get asked by our members. If you have a separate question, please e-mail Darryl Hicks, at dhicks@dworbell.com.

1) Will My Client Lose Her Government Assistance If She Gets a Reverse Mortgage?

A reverse mortgage does not affect regular Social Security or Medicare benefits. However, if your client receives Supplemental Security Income (SSI) or Medicaid, which are means tested (that means they are limited to individuals with low incomes), any reverse mortgage proceeds that your client receives must be used immediately. Funds that are retained after the month in which they are received could count as an asset and impact SSI or Medicaid eligibility. For example, if you receive \$4,000 in a lump sum for home repairs and spend it all the same calendar month, everything is fine. Any residual funds remaining in the person's bank account the following month would count as an asset. If the total liquid resources (including other bank funds and savings bonds) exceed \$2,000 for an individual or \$3,000 for a couple, you would be ineligible for SSI. The eligibility requirements are roughly the same for Medicaid, but do vary by state. Below is a link to the Social Security Administration's operating instructions that discuss reverse mortgages and their treatment under the SSI program. Reverse mortgages are mentioned briefly at the bottom of the page. The Centers for Medicare and Medicaid Services, the federal agency that oversees Medicare and Medicaid, follows the same rules.

Link: <https://s044a90.ssa.gov/apps10/poms.nsf/lnx/0501140300!opendocument>

DID YOU KNOW, continued on page 16

SPANISH BOOKLET, continued from page 2

logo on the back cover, or customize the back cover with your personal information.

In addition to our consumer booklets, we sell three booklets that are part of the Use Your Home to Stay at Home series developed by the National Council on Aging (www.ncoa.org), with a grant from NRMLA and some of our largest members.

The Use Your Home booklets, published in 2005, explain America's healthcare system and promote reverse mortgages as a possible tool for homeowners to pay for current or future long-term care needs, such as in-home care or home modifications that promote independent living.

All of our booklets, and corresponding order forms, can be downloaded from NRMLAOnline.org. (Click Reference/Publications at the top of the Home Page and then click Consumer Booklets.) **RMA**

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2) If my client does not qualify for a large enough reverse mortgage to pay off an existing loan, what options does the borrower have to close that gap?

*Regulations preclude a borrower from incurring any unpaid obligation in connection with the HECM transaction, other than the HECM itself. In other words, the borrower cannot use a credit card or other form of secured or unsecured financing to close the HECM. Bona fide grants and gifts from acceptable sources (municipal programs, non-profit organizations, family members, etc.) wherein there is neither a requirement for, nor an expectation of, repayment are acceptable when properly documented. **RMA***

COMMON QUESTIONS, continued from page 8

3 I'm not a NRMLA delegate, and I don't wish to become one, but my company is a member. What benefits do I get?

The basic benefits you receive as an employee of a member firm include: 1) access to Members Only documents and resources on NRMLAOnline.org. You must first register on the site and create a User Profile to gain access to these materials; 2) access to NRMLA's Learn While-U-Lunch program, a monthly conference call where subject matter experts talk about different reverse mortgage and aging topics. Each program costs \$25 or you can register for a 6- or 12-month package deal. To view this year's calendar, login to NRMLAOnline.org and click on the Events tab; 3) registration at the Member Rate for any NRMLA conference; and 4) Receipt of NRMLA's monthly e-mail newsletter, NRMLA Washington Update, which covers industry news for that part particular month. To receive the newsletter, please e-mail Linda Latimore, at llatimore@dworbell.com.

4) My company joined several months ago, but I don't see my company listed on ReverseMortgage.org. Why is that?

Before we can post your company, the Primary Delegate must send us a signed copy of the Code of Conduct form enclosed in your new member package. The Code of Conduct form must be signed by the CEO and the original mailed to our office. You can also fax a copy to our office, so that we can begin the posting process. We also need copies of the Annual Certification and Web Site Listing forms. The latter includes the web site listing contact information and the state(s) that contact should be listed in. Oftentimes, the Primary Delegate forgets to send this information to us, which delays your listing. If you have any questions, please e-mail Linda Latimore, at llatimore@dworbell.com. **RMA**

Briefs

NRMLA Board Approves Professional Certification Program

At its Annual Spring Board of Directors Meeting in Washington, D.C., April 24-26, the NRMLA Board of Directors agreed to proceed with developing a professional designation program.

As more companies enter the reverse mortgage business, the need for higher educational and ethical standards becomes critically important. NRMLA has engaged Professional Testing, Inc. (PTI), headquartered in Orlando, Fla., to work with the association's Education Committee to develop the Designation.

*Our objective will be to identify the knowledge, skills, and abilities that a reverse mortgage professional needs to perform in a competent and ethical manner, thus building upon NRMLA's core mission, which is to reassure America's adult population that the demand for reverse mortgages is being met by companies committed to standards that emphasize integrity and place fulfilling the clients true needs beyond all else. **RMA***