

Testimony of

George B. Lopez
Vice President
James B. Nutter & Company

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“Reverse Mortgages: Polishing, Not Tarnishing The Golden Years”

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Thank you, Chairman Kohl, Ranking Member Smith, and other distinguished members of the Special Committee on Aging, for allowing me the opportunity to speak to you about the most remarkable home loan program with which our firm has ever been associated—the FHA HECM reverse mortgage program.

I am George Lopez, Vice President of James B. Nutter & Company, a privately owned national mortgage banking firm headquartered in Kansas City, Missouri.

Founded in 1951, James B. Nutter & Company has a proud home lending tradition dating back to the Truman administration. I am pleased to report that this year James B. Nutter & Company celebrated its 50th anniversary of FHA mortgage lending. This well-established FHA lending pedigree enabled our selection to pilot the FHA HECM program in 1988. Subsequently, in November 1989, James B. Nutter & Company closed the first FHA HECM reverse mortgage in the nation for Ms. Marjorie Mason of Fairway, Kansas.

The length of our firm's experience with the reverse mortgage product is exceeded only by the depth of our experience. Currently, James B. Nutter & Company is the #2 wholesale reverse mortgage lender in the nation, processing over 1,000 transactions each month and serving over 10,000 customers and 450 correspondent lenders in 47 states and the District of Columbia. We also originate forward mortgages in 50 states and the District of Columbia.

James B. Nutter & Company has always participated in loan programs that benefit both the borrower and the lender. Despite the large profits that a subprime lending program would have garnered for our firm, we chose not to engage in this deleterious lending practice that has wreaked havoc on the mortgage industry.

During the course of these hearings, you will no doubt hear about the phenomenal growth of the reverse mortgage product in the past decade as well as its projected growth to come. On January 1, 2008, just three weeks from today, the first of America's baby boomers will enter retirement age and effectively usher in a new era of reverse mortgage lending. Millions of baby boomers will soon be able to take advantage of the life-changing benefits of a reverse mortgage.

The challenge for lenders like James B. Nutter & Company as well as this Special Committee is to ensure that we work together to preserve the integrity and purpose of this unique program. For the reverse mortgage product is a very fragile product—it's poorly understood by the media and even less so by many retirees. Misconceptions abound. Even the investor community is now only beginning to comprehend the vast complexities of the reverse mortgage instrument.

There is broad consensus within the mortgage lending industry that the FHA reverse mortgage program has been a resounding success. Thanks to the efforts of FHA, Fannie Mae and the National Reverse Mortgage Lenders Association, the reverse mortgage program is well-positioned to enhance the retirement security of millions of Americans in the years to come.

Nevertheless, it is important to look for ways to protect the program and ensure that no aspect of the program can be corrupted by those who would seek to manipulate our senior citizens for their own gain. Needless to say, any negative publicity about the FHA reverse mortgage program could do incalculable damage.

In my remarks today I will focus on the life-changing impact of a reverse mortgage, the integrity and superior execution of the reverse mortgage product (especially when compared to that of a forward mortgage), and some modest policy recommendations.

The Impact of the FHA Reverse Mortgage Program

To understand the positive effect that a reverse mortgage can have on the life of a senior citizen, one must listen to the voices of those who have already been helped.

In our experience, the abstract concepts of exorbitant health care costs, escalating living expenses and the looming threat of losing one's home are transmuted into a harsh reality that millions of senior citizens face each day. In many instances, the reverse mortgage is literally the only option to which our clients can turn for help. Consider the following advantages of a reverse mortgage:

- Reverse mortgages prevent foreclosures. In the past year alone, our firm has handled reverse mortgage transactions that have prevented dozens of home foreclosures. In many cases, the reverse mortgage closing occurred the day or week before the subject property was to be auctioned. The emotional and financial benefits in this context cannot be overstated. The reverse mortgage was the miraculous solution to an otherwise hopeless and tragic situation.
- Reverse mortgages offset higher medical costs. Our firm has handled many reverse mortgage transactions that have enabled seniors to pay for costly medical treatments, to avoid entering a nursing home prematurely and to pay for medical equipment and/or prescription drug medications that they otherwise could not afford. In one memorable example, a Southern California couple was able to access their home equity to pay for a daughter's organ transplant operation--a procedure that, we have been told, will add years to her life.
- Reverse mortgages help seniors fix their homes. In the past year, our firm has closed hundreds of reverse mortgage loans that have covered the costs of critical home repairs, a common problem plaguing our senior community. Again, these repairs would not otherwise have been made but for the reverse mortgage.
- Reverse mortgages provide peace of mind. Countless reverse mortgage transactions have given seniors the ability to fend off the rising tide of higher living expenses. Whether escalating credit card debt or utility bills, increased property taxes or homeowners insurance premiums, or the loss of income from the death of a loved one, the funds made available from a reverse mortgage address these needs. Reverse

mortgages thus provide a unique peace of mind and dignity that every senior citizen deserves.

It's important to note that these are not isolated instances. The examples I've cited take place each and every day. I'm certain that every reverse mortgage lender in America could come before this body and relate similar stories.

The bottom line is this—too many of our seniors who are rapidly approaching retirement age have not saved enough to meet their needs. Even those seniors with a higher equity position and/or higher net worth can enter their retirement years ill-prepared to deal with the financial realities to come. The reverse mortgage program can thus play a vital role in securing a rich and rewarding retirement for seniors of all income brackets.

The Integrity of the FHA HECM Reverse Mortgage Program

Thanks to the efforts of FHA and Fannie Mae, the FHA HECM reverse mortgage program was designed with an eye towards sound lending principles and strong consumer safeguards. It's a potent product combination that many lenders in the forward mortgage world would be wise to imitate. It's safe to say that if subprime lenders and Wall Street investors had followed the same formula when designing many of their risky subprime products, we wouldn't be in the mess we're in today.

Owing in large part to these sound lending principles, the evils of mortgage fraud and deceptive advertising practices have not yet crept into the mainstream of the reverse mortgage industry. In fact, I am happy to report that in the past year our firm has received no complaints of any kind related to unscrupulous 3rd parties taking advantage of our seniors. According to the National Reverse Mortgage Lenders Association, there have been very few reported incidents related to these issues and what complaints they have received were related to the marketing of loan products that were *not* reverse mortgages.

Our guard is up, but it's important for this Special Committee to recognize the unique protections that inhere in the reverse mortgage product:

- Strong counseling protocols. Before formal application can be made and the loan process started, the senior client must attend mandatory reverse mortgage counseling by a FHA-approved third party. Not only do these counselors do a good job of educating the senior client about the loan terms and closing costs, but they operate entirely independent of the mortgage lender. There is no fiduciary connection between the two.
- Family members and advisors are encouraged to participate. In the counseling and application process, family members of the senior client are encouraged to participate. In this way, the senior client receives valuable advice from a diversity of sources that have their best interest in mind.

- Closing costs are heavily regulated. Unlike the forward mortgage world in which RESPA allows a lender to charge almost anything, FHA mandates a set list of allowable reverse mortgage closing costs that cannot be modified. In other words, there are no “junk fees” or “mark-ups” which are so prevalent in the forward mortgage world.
- Lenders must be FHA-approved. In order to originate a FHA HECM reverse mortgage, lenders must be FHA-approved. To obtain this approval, a lender must meet a sizeable net worth requirement, agree to submit annual audited financial statements and must not appear on any watch lists. These are but a few of the FHA requirements but the point is clear—not every lender can originate a reverse mortgage and, best of all, the “fly by night” broker is effectively prevented from entering the market.
- Lenders adhere to a strong, industry-wide best practices agreement. Under the auspices of the National Reverse Mortgage Lenders Association, reverse mortgage lenders sign a strict “Code of Ethics & Professional Responsibility” that covers employer-employee standards, loan disclosure, proper execution of the loan application and closing process, privacy standards and acceptable compensation practices.
- Lenders cannot fund third parties. With only a few exceptions, all proceeds from a reverse mortgage go directly to the senior client and not someone else. Exceptions include proceeds used to pay off an existing mortgage balance, to pay for home repairs mandated by the appraiser, to pay the client’s property taxes or homeowners insurance, or to satisfy liens encumbering the title to the property.

In the final analysis, no loan program is perfect. But the strong consumer safeguards built into the FHA reverse mortgage program provide an excellent deterrent to those who would seek to take advantage of our seniors. In our opinion, major changes do not need to be made.

Modest Policy Recommendations

I would leave you today with a few reverse mortgage policy recommendations that we feel would enhance an already successful loan program. I would urge members of this Special Committee to consider the following:

- Endorse passage of the FHA Modernization Act. There appears to be widespread bipartisan support for passage of this Act. We feel passage would markedly improve the FHA reverse mortgage program and help a larger percentage of retirees benefit from the lower rates and higher loan proceeds that the FHA HECM affords.
- Augment HUD counseling protocols. We recommend that HUD augment existing counseling protocols to include questions that probe more deeply into whether individuals other than the lender have approached the senior client to do a reverse

mortgage—i.e., who these individuals are and if they are marketing any exotic financial products. These additional questions would help “smoke out” any unsavory actors, and would particularly help protect those seniors who are single, widowed or who have no family to advise them.

- Monitor loan closing documents. At closing, senior clients are required to disclose whether or not they will be using the loan proceeds to purchase an annuity either voluntarily or involuntarily. If so, they are required to disclose the name and contact information of the annuity provider as well as the financial details of the product. FHA thus has the means to monitor the situation for potential problems and, if necessary, formulate an appropriate response.
- Educate counselors about new proprietary reverse mortgage products. There are more than 20 relatively new reverse mortgage products currently on the market that contain a plethora of new loan features, new indices and loan terms. The counselors do a remarkable job and the more informed they are, the more effective the counseling.

Conclusion

We owe an enormous debt to the senior citizens of our country. They’ve raised our families, fought our wars, put a man on the moon, cured diseases and moved us into the Computer Age.

Unfortunately, life has increasingly become more difficult for our seniors. While many of our seniors are living longer and leading more productive lives, their financial resources aren’t keeping pace.

Thankfully, policymakers can point to the FHA HECM Reverse Mortgage Program as a viable solution to this alarming trend. The Senate Special Committee on Aging is to be commended for bringing all of us together to discuss these issues today. For only through informed discussion and debate can consensus be reached and solutions found.

Thank you again for allowing me to testify and I would be happy to respond to any questions you may have.

