

STATEMENT OF RANKING MEMBER GORDON H. SMITH

U.S. Senate Special Committee on Aging “Reverse Mortgages: Polishing Not Tarnishing the Golden Years” December 12, 2007

Good morning. I would like to thank Senator McCaskill and Senator Kohl for holding this important hearing. We need to do our best to ensure that the integrity of reverse mortgages is sustained throughout the sizeable growth in the industry.

Reverse mortgages are becoming an increasingly popular option for seniors to supplement their income, meet unexpected medical expenses and more. The advantage of a reverse mortgage is that it allows seniors to remain in their home, retain ownership of their home, and on top of all of that, receive cash payments.

Although reverse mortgages became available in the United States 20 years ago, this loan market only recently has seen rapid growth. From 1990 to 2002, FHA insured loans grew from 157 to 13,000. In 2007, FHA issued over 107,000 reverse mortgage loans. That is a 68,000 percent increase in just 17 years.

However, as this rapid growth continues, so grows our responsibility to properly inform and prepare senior homeowners for what could potentially be a marketplace ripe for inappropriate products and downright fraudulent brokers.

Increasing emphasis on the continued need for well-trained FHA approved senior mortgage counselors, targeting and eliminating inappropriate products and brokers, and enhancing overall consumer education are all areas we can improve.

The Department of Housing and Urban Development and private lenders have an ever-increasing level of responsibility. With proper preparation and planning, the industry stands to provide seniors with much-needed income and stability, while without it seniors stand to lose their home, their lifestyle and their piece of mind.

HUD's Home Equity Conversion Mortgage program has proven successful thus far. Since its inception, the cap on the number of mortgages allowed in the program has been increased a number of times. The elimination of the cap can benefit more elderly citizens who have the vast majority of their wealth tied up in their homes and need cash to pay for expenses in their golden years. I support legislative efforts to remove this cap.

We hear a lot about the concept of aging in place, and with strong consumer protections, the reverse mortgage industry has the chance to provide seniors the opportunity to do just that, to grow old in a comfortable, secure home environment.

I look forward to hearing from today's witnesses.