Reverse Mortgage

The official magazine of the National Reverse Mortgage Lenders Association
May - June 2011 Volume 4 No. 3 • www.NRMLAonline.org

Hillbook

Your Washington Who's Who in Reverse Mortgages

Page 6

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lins (R-Me.)

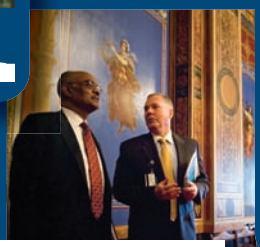
Rep. Spencer
Bachus (R-Al.)

Sen. Daniel
Inouye (D-Hi.)

Rep. Judy
Biggert (R-Il.)

Sen. Patty
Murray (D-Wa.)

Colin Cushman
FHA



Erica Jessup
FHA

Ted Tozer
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Inside:

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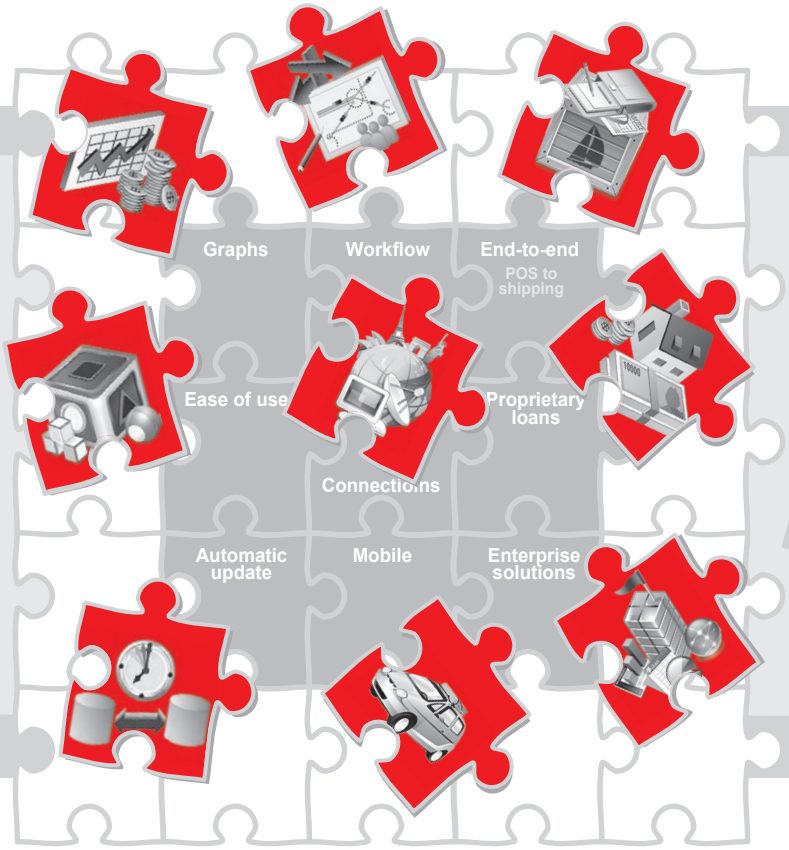

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Your Washington Who's Who in Reverse Mortgages - page 6

By Marty Bell

May-June, 2011 • Volume 4, No. 3

NEWS INSIDE

Touch Points

Exploring the Borrower/ Servicer Relationship

16

Compliance

Coping with a Fast Changing Regulatory Environment

20

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National Reverse Mortgage Lenders Association

Reverse Mortgage

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Robert Menendez - Luigi Novi (p8)
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NRMLA
National Reverse Mortgage Lenders Association

Balanced Viewpoint

By Peter Bell, President of NRMLA

The Demands of Complexity

This past January, the morning program Fox & Friends ran a segment on reverse mortgages on which Fox News Legal analyst Bob Massi, sitting in front of a large graphic that read "Shattered Dreams," stated "I am not crazy about reverse mortgages" because "when you pass, the bank owns your house."

As we reported at the time, we immediately contacted Massi and explained why he was wrong and a week later, he went back on the program and explained his mistake. (Massi has also graciously invited me to join him on his syndicated radio show in May so we can spend a full-hour discussing reverse mortgages rather than a Fox news soundbite.)

A major frustration in the reverse mortgage business is that we live with a persistent flood of misinformation. Reporters who seem to be accurate on other topics mis-report on this one. Consumer protection groups make unsubstantiated accusations that then spread virally, lies assume the role of factoids, factoids show up in the press and become ammunition for politicians. It's truly a vicious cycle. It's almost a year now since we brought in Rasky Baerlein Strategic Communications, reputation management experts, to join us in a national public affairs effort and much too much of the time has been devoted to correcting misinformation.

We can all, if we so choose, claim we are victims and wallow in self pity. We can all hope that tomorrow the spread of injurious misinformation will just fade into the mist. Or we can stop kidding ourselves and face the facts: the product we offer is complex and not easy to understand.

On the surface, it's just a home equity loan with a deferred repayment. In other words, you can draw off the equity line today and not pay any of it back until you leave the home. Simple to explain—until you get into the weeds: There are variable and fixed loans, each with its own varying features, benefits and drawbacks; there's the Saver and the Standard, and the HECM for Purchase; there's the product insured by the government and the one that's not, although not many of the latter, for now anyway, though there used to be; there's an MIP for the Standard and a different MIP for the Saver; there are loans with servicing set asides and loans without them; loans with origination fees at the maximum allowed, or at a lower fee, or with no fee. You can't lose your home, unless… It's a non-recourse loan, unless…You all know the routine.

Recently, our Independent Certification Committee, Professional Testing and some of our members have been working on updating the Certified Reverse Mortgage Professional exam. The questions in the exam were originally written about two years ago. The process of updating the exam began with an ICC subcommittee reviewing all the rules and regulations that did not exist when the exam was originally constructed. In just that time, there have been Mortgagee Letters and other advisories creating new policy on counseling, HECM to HECM refinance, subordination of debt, the HECM Saver, tax and insurance defaults, NMLS licensing, non-borrower spouses. This is not stuff that turns up in your average senior's daily conversation--or reporters' or politicians' for that matter.

So how do we get over this high hurdle of reverse mortgage complexity and build a more successful industry?

The only way we can combat misinformation and gain the acceptance we believe our product warrants is if everyone delivering the product — loan officers, lenders, support staff, vendors and counselors — is highly informed and accurate, transparent and trustworthy, and if our products are evaluated to be fair.

We recently received a large pile of complaints filed by consumers with the office of the Attorney General in one populous state. Far too many of these complaints argued convincingly that misinformation had been disseminated to borrowers by loan originators. Others dealt with practices where the loan officer clearly did not put the senior's best interest first and foremost. Each one of these complaints hurts each one of us.

NRMLA, with the support of Rasky Baerlein, is in the process of planning a national public relations effort aimed at America's seniors to assure them--pledge to them--that they can depend on a NRMLA member, and that the best interest of the senior will be our members'only consideration. This is not a pledge we make lightly.

The pledge is backed up by our Code of Ethics and Professional Responsibility, our internal review via our Ethics Committee (with a strong focus on inappropriate advertising), our Certified Reverse Mortgage Professional designation program complete with Continuing Education requirements, Ethics course, background check and an exam, our stream of communications including immediate issuance of all new Mortgagee Letters and other rules and regulations, and the educational sessions we present regularly on our annual calendar of conferences.

The complexity of our product demands a deep commitment from all of us who choose to represent it. We can only make this pledge if we have high expectations of our membership. And we do.

—P.H.B.

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Hillbook

A Washington Who's Who in Reverse Mortgages

By Darryl Hicks and Marty Bell

Washington, D.C. can sometimes seem like a professional sports team in this era of free agency and salary caps — both are characterized by their transiency. As the vendor in the aisles at Yankee Stadium used to shout, "You can't tell the players without a scorecard."

Elections yield cyclical changes—and in this era in which incumbency is no longer a security ticket, more change than ever. Lobbying firms poach government officials paying lucratively for their rolodexes. And some folks just plain don't want to live in a town where daily conflict is de rigueur. Oh, and yes, some people perform well and progress upward.

In our modest-sized reverse mortgage sector, in the year since we last gathered here for a NRMLA Policy Conference, the FHA commissioner has left HUD, the Comptroller of the Currency has retired, the Republicans have replaced the Democrats as the majority in the House of Representatives and assumed committee chairmanships, and a brand new regulatory agency has been mandated.

This is your Washington, D.C. scorecard, your up-to-the-minute roster of government officials whose jobs touch upon reverse mortgages, organization by organization, position by position. We hope this enhances your understanding and enjoyment of the game.

Coverage begins on Page 8

Elizabeth Warren
CFPB

J. Mark Iwry
Treasury

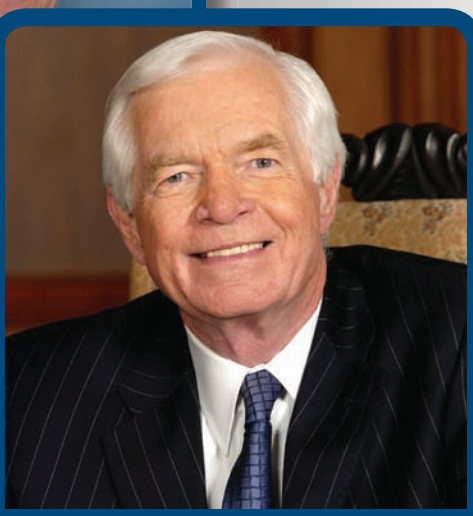
Rep. Barney
Frank (D-MA)

Erica Jessup
FHA

Vicki Bott
FHA

Sen. Tim
Johnson (D-SD)

Sen. Jim
DeMint (R-SC)



Sen. Thad
Cochran (R-MS)

Sen. Daniel
Inouye (D-HI)

Rep. Norman
Dicks (D-WA)

Congress

Congress makes the laws and doles out the cash. This year, according to the scoring of both the Office of Management and Budget and the Congressional Budget Office, the HECM program needs no appropriation, which is a positive thing. But the industry is touched upon by a new law, The Dodd-Frank Wall Street Reform and Consumer Protection Act.

Most of the work in Congress is done in committees. And most of the detail work is done in subcommittees. There are two committees in each house that wrestle with the reverse mortgage program. In the Senate, they are the Banking, Housing, and Urban Affairs Committee and the Appropriations Committee. In the House of Representatives, they are the Financial Services Committee, which oversees housing policy and the financial services sector, and the Appropriations Committee. The Senate

U.S. Senate

Banking, Housing and Urban Affairs Committee

Tim Johnson (D-SD), Chairman

Sen. Tim Johnson (D-SD)

After 10 years in the House, Johnson won a Senate seat in 1976. This year he replaced the retired Chris Dodd as committee chair. Johnson's voting can be quirky and across party lines. (He voted for the Bush Tax Cuts and Samuel Alito.) He lists retirement security as one of his priorities on his web site. Johnson paid a visit to our Policy Conference in 2009, admitted he knew very little about reverse mortgages and asked to be educated. He appeared to be quite taken as he listened to a dozen members describe situations in which they helped needy seniors.

Sen. Richard Shelby (R-AL)

Richard Shelby (R-AL), Minority Ranking Member

Originally elected as a Democrat, Shelby switched allegiances in 1994 due to disagreements with Bill Clinton's tax policies. He has proposed a balanced budget amendment every single year since 1987 and and will keep proposing it as long as he is in office. He has a traditional conservative approach — he is a staunch advocate of limited government and considers universal healthcare an "unmitigated disaster." He has not been actively involved in the reverse mortgage conversation.

Subcommittee on Housing, Transportation and community Development

Robert Menendez (D-NJ), Chairman

Sen. Robert Menendez (D-NJ)

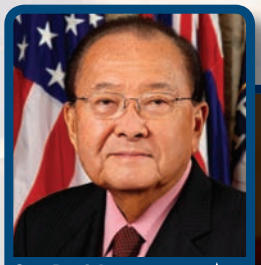
After six terms in the House, Menendez was appointed to his Senate seat by John Corzine, who gave up that seat to run for Governor of New Jersey, then won re-election in 2010. Currently the only Hispanic in the Senate, he is the son of immigrants who grew up in a tenement in Union City and is committed to protecting his middle class constituents from powerful interests. Menendez also chairs the Democratic Senate Campaign Committee and has his work cut out for him with 23 Dems up for re-election among the 33 Senate contests in 2012.

Jim DeMint (R-SC), Minority Ranking Member

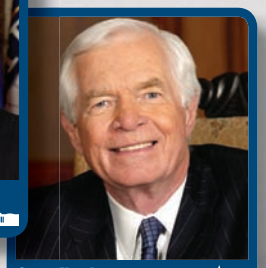
With former ranking member David Vitter moving to the top Republican spot on an Environment and Public Works subcommittee, DeMint assumed this position this year.

Sen. Jim DeMint (R-SC)

Just elected to his second and what he claims will be his last term, the former marketing research company owner is the leading Congressional fund raiser for the Tea Party via his Southern Conservatives Fund. He has publicly argued that homosexuals and unmarried sexually active women should not be permitted to teach. And he has proposed repeal of an act to eliminate high-wattage, incandescent bulbs, claiming it's an impingement on his freedom.



Sen. Daniel Inouye (D-HI)



Sen. Thad Cochran (R-MS)

Appropriations

This year there is no appropriation involving the HECM program in the budget.

The committee chair is **Daniel Inouye** (D-HI) and the minority ranking member is **Thad Cochran** (R-MS).

Banking Committee includes the Housing, Transportation and Community Development Subcommittee, which has the primary oversight for HUD. The House Financial Services Committee includes an Insurance, Housing and Community Opportunity subcommittee which performs the same role. And each Appropriations Committee has a subcommittee devoted to Transportation, Housing and Urban Development and Related Agencies (often referred to as THUD). The Key players:

Subcommittee on Transportation, Housing and Urban Affairs and Related Programs

Patty Murray (D-WA), Chair


Sen. Patty Murray (D-WA)

Now in her 4th term, the 61 year old Senator from Bothell, Washington reacted to the recent recession by sponsoring the Financial and Economic Literacy Improvement Act of 2009, which includes financial literacy assessments for school students and aimed at equipping Americans to make sound financial decisions.

NRMLA members and constituents who visited with the Washington Senator's staff at last year's policy conference found them knowledgeable and supportive of the HECM program, but, at the same time, unable to make any promises on the appropriation that was then on the table given all the other appropriation demands.

Susan Collins (R-ME), Minority Ranking Member


Sen. Susan Collins (R-ME)

With the retirement of Kit Bond, this role was assumed by Collins, one of the Republicans who has regularly worked across party lines to achieve her goals. Collins collaborated with her chair, Senator Murray, for instance, to pass the SAFE Port Act in response to 9/11.

A moderate Republican and proud of it, she voted both for Samuel Alito and Sonia Sotomayor, also voted for the recovery act, but against health care reform. From Caribou, Maine, where each of her parents served as mayor, she was a Hill staffer (for Senator William Cohen) who then became her state's Senator.

U.S. House of Representatives

Financial Services Committee

Spencer Bachus (R-AL) Chairman


Rep. Spencer Bachus (R-AL)

In his 10th term representing Alabama's 6th District, which includes Birmingham and Tuscaloosa, Bachus has been unopposed in six straight elections. Bachus has been a vocal opponent of online gambling (particularly poker) and Sarah Palin ("The Senate would be Republican today but for the states in which Palin endorsed candidates"). As the new chair of a committee that has jurisdiction over all issues pertaining to the banking system, housing, securities and exchanges, Bachus began his chairmanship by stating, "In Washington, the view is that the banks are to be regulated, and my view is that Washington and the regulators are there to serve the banks."

Barney Frank (D-MA), Minority Ranking Member

First elected in 1986, Frank chaired this committee from 2007 through 2010 and was the most vocal and knowledgeable proponent of the reverse mortgage program in Congress. In one television appearance, he summarily dismissed the comparison of subprime loans and reverse mortgages as "just wrong." He is the proud sponsor of both the American Housing Rescue and Foreclosure Prevention Act and the Wall Street Reform and Consumer Protection Act (aka the Dodd Frank Act). Hill staffers have bi-annually voted him the "funniest, brainiest and most eloquent" member of the House. As opposed to his chair, he is a proponent of online gambling.


Rep. Barney Frank (D-MA)

Subcommittee on Insurance, Housing and Community Opportunity

Judy Biggert (R-IL), Chair

Appointed committee chair for this Congress, Biggert is a 7th term Congresswoman from Illinois' 13th District west of Chicago. Voted by peers as one of the 10 most

Continued on Page 10

Hillbook • *(U.S. House) Continued from Page 9*

bi-partisan Republicans in the House, her focus in her career has been on health, education and sound economic responses to weaknesses in the economy. She opposed Dodd Frank, the unemployment benefits extension and mortgage loan modification, but voted for the repeal of Don't Ask Don't Tell and is a member of Republicans for Choice. NRMLA has recently been invited to begin a conversation with her about reverse mortgages.


Rep. Judy Biggert (R-IL)


Rep. Luis Gutierrez (D-IL)

Luis Gutierrez (D-IL), Minority Ranking Member

This 10 term descendent of Puerto Rican parents representing a big chunk of downtown Chicago (Illinois 4th) makes this subcommittee's leadership all-Illini.

Gutierrez replaced former chair Maxine Waters as the main Democratic voice. The first Latino in Congress from the Midwest, his focus has primarily been immigrant issues, including working to increase the presence of immigrants in the banking system, particularly in community banks, and watchdogging "unbanked" financial services businesses like money transfer and check cashing operations.

Appropriations Committee

There is no appropriation on the table in this Congress.


Rep. Harold Rogers (R-KY)

Harold Rogers (R-KY), Chair

In his 16th term, and after 27 years on this committee, Rogers recently became its chair. From the district in Kentucky that includes Appalachia, one of the poorest districts in the country, Rogers' focus has been jobs and education locally, and preserving the natural treasures of Appalachia. On his website, it says he was awarded this chairmanship due to his "tough oversight and holding government accountable for wasteful spending."

Norman Dicks (D-WA), Minority Ranking Member

In his 13th term from the Northwestern-most corner of the original 48 states, Dick has served on this committee for his entire 27

Ginnie Mae

The Government National Mortgage Association, better known as Ginnie Mae, is part of the U.S. Department of Housing and Urban Development. Ginnie Mae guaranties mortgage-backed securities that are comprised of FHA-insured loans, including HECMs, which are then sold to investors both foreign and domestic.

In September 2007, Ginnie Mae introduced the HECM Mortgage-Backed Securities program, which greatly expanded the investor base for reverse mortgages. To date, Ginnie Mae has guaranteed almost $22 billion in HMBS.

Theodore Tozer, President


Theodore Tozer
Ginnie Mae

A 30-year veteran of the mortgage, banking, and securities industries, Ted Tozer was sworn in as President of Ginnie Mae on February 24, 2010. Tozer is a strong supporter of HMBS, but, at the same time, has not been shy to implement new rules — notably higher net worth requirements for Ginnie Mae Issuers — that are meant to mitigate risk to the program.


Stephen Ledbetter
Ginnie Mae

Stephen L. Ledbetter, CFA, Senior Vice President of Mortgage-Backed Securities

As Senior Vice President of Mortgage-Backed Securities, Stephen Ledbetter is responsible for operations of all Ginnie Mae MBS programs, including HMBS, and over 200 active single-family and multi-family issuers and a trillion dollar portfolio. When NRMLA proposes a policy change to the HMBS program, Ledbetter is a key point of contact to discuss its feasibility and steps toward implementation.

Mike Nardacci, Director, Capital Markets, Structured Transactions

Prior to joining Ginnie Mae in 2009, Mike Nardacci spent 25 years working in the financial services industry for companies such as KPMG, Fieldstone Investment Corporation (publicly-trade REIT) and Freddie Mac. In his current role, Nardacci helps prepare information and materials related to Ginnie Mae securities and works with the various groups involved in closing a securities transaction. If an investor has a question related to an HMBS security, Nardacci would be the point of contact.

year tenure. Given his home location, it is not surprising his priorities have been on defense issues (especially Navy related) and the environment (particularly protecting timber and salmon.)


Rep. Norm Dicks (D-WA)

Subcommittee on Transportation, Housing and Urban Development and Related Issues

Tom Latham (R-IA), Chairman

A farmer and owner of a seed business from a town of 168 in north central Iowa, Latham is in his 8th term. He is known as one of the most fiscally conservative members of the House, strongly anti-tax and pro-spending cuts for social programs. And yet, as ranking minority member prior to the 2010 election, Latham visited last year's NRMLA Policy Conference where members explained the need for the appropriation that was on the table at the time and then when a Congresswoman from Texas proposed moving some of the appropriation to another program, Latham stood up on the House floor and objected vehemently.


Rep. Tom Latham (R-IA)


Rep. John Olver (D-MA)

John Olver, (D-MA), Minority Ranking Member

A 20 year House veteran from Massachusetts' 1st District which covers 40% of the state's area but only 10% of the population, Olver is a staunch liberal, the sponsor of a bill called Expanded and Improved Medicaid For All, a single payer system that would have covered all Americans with Medicare and strong advocate of Federal funding for abortion.

Olver also visited NRMLA's Hill Conference as committee chair last year and then guided the passage of the proposed appropriation through his committee. The appropriation was eventually deemed unnecessary due to increase in the MIP fund and the creation of the HECM Saver.

Michael Drayne, Director, Single Family Division, Office of Mortgage-Backed Securities

Michael Drayne — a 25-year mortgage market veteran — is a Director in Ginnie Mae's Single-Family Division of the Office of Mortgage-Backed Securities. Prior to joining Ginnie Mae, Drayne co-founded American Home Bank's reverse mortgage unit, which originates loans both from consumers and through a network of third-party banks, credit unions and non-profit lenders.

John Kozak, Account Executive, Single-Family Division

John Kozak has been with Ginnie Mae more than 10 years and is a frequent speaker at NRMLA conferences where he updates members on the HMBS market. Kozak is an account executive who works closely with Ginnie Mae Issuers to address any questions they may have related to HMBS. He reports directly to Michael Drayne.

White House Middle Class Task Force


J. Mark Iwry Treasury

As a means to focus on raising the living standards of the middle class, the White House organized a task force under the auspices of Vice President Joe Biden and including Secretaries of eight cabinet departments including HUD and Health and Human Services. This cross-departmental collaboration is new to the executive branch. One of the primary goals of the group is protecting retirement security.

J. Mark Iwry, Special Assistant to the Secretary of the Treasury and Retirement Specialist.

After working in the Clinton White House, Iwry spent eight years at the Brookings Institution researching for the Retirement Security Project financed by the Pew Foundation and in collaboration with David C. John of the Heritage Foundation. Iwry has led the design of new initiatives to encourage retirement saving including automatic, opt out IRAs, expansion of the Saver's Credit which provides tax credits for retirement savings, simplifying 401-K programs and investment for small businesses and the CLASS Act (see *Nest Egg* column, p.30). He presented these programs at last year's NRMLA Policy conference.

Continued on Page 12

Federal Housing Administration

The Federal Housing Administration (FHA) operates as a department within the U.S. Department of Housing and Urban Development and is in the business of insuring mortgages, including reverse mortgages. FHA insures the most popular reverse mortgage product in the country, the Home Equity Conversion Mortgage, enforces all the rules governing the HECM, and approves the lenders that are able to offer it to consumers. If we didn't have FHA, there would be no reverse mortgage program to speak of.


Karin Hill
FHA

Vicki Bott, Deputy Assistant Secretary for Single Family Housing

With his focus set on risk management and restoration of the health of the mortgage insurance fund, now retired FHA Commissioner David Stevens made a savvy selection luring his former Wells Fargo colleague Vicki Bott out of Austin, Texas and the private sector and to Washington, DC and HUD in September of 2009. Bott brought along 20 years of comprehensive and varied experience in the mortgage lending business, which has been invaluable to her and to us. As Deputy Assistant Secretary for Single Family Housing, she runs a division with 900 employees responsible for direction and management of all single family mortgage insurance programs including product management and development; management and disposition of single family properties acquired by foreclosure or default; and the approval and monitoring of FHA-approved lenders. This means that in her first 18 months on the job she has been in the lead on such refinements to the HECM program as creating the Saver, adjusting the mortgage insurance premium and finding a workable policy to deal with tax and insurance defaults.

Karin Hill, Director, Single-Family Program Development

When an important issue related to HECM arises, the first person NRMLA normally contacts at FHA is Karin Hill. After spending 30 years working in the private sector for various banking institutions, Hill joined FHA in June 2010 as Director of Single-Family Program Development. She has direct supervision over most single-family loan programs, including HECM, and the network of HUD-approved housing counselors.

Ruth Roman, Director, Program Support Division

A graduate of Yale University and the John F. Kennedy School of Government at Harvard University, Ruth Roman is Director of Program Support and the day-to-day manager of FHA's housing counseling network. She oversaw the adoption of a HECM counselor roster and exam, counseling protocol, Financial Interview Tool (FIT) and BenefitsCheckUp, all of which have vastly improved the counseling process for prospective HECM borrowers.

Betsy Cromwell, Erica Jessup and Kathy Hardy, Housing Policy Specialists

Much of the grunt work that goes into developing new policies and responding to questions from lenders and consumers, is handled by housing policy specialists, such


Betsy Cromwell
FHA

Consumer Financial Protection Bureau

Created by the Dodd Frank Act, the CFPB is a brand new regulator, an independent bureau within the Federal Reserve devoted to creating transparency for mortgages, credit cards and other financial products. Simply, its job is to eliminate the "fine print" in financial agreements.

Directed to set rules that, among other goals, level the playing field for banks and clarify costs and features of products for seniors, the bureau is now in formation and due to begin operation July 21, 2011. Another directive: Produce a report on reverse mortgages within one year of formation.

Elizabeth Warren, Assistant to the President/Special Advisor to Secretary of the Treasury

A professor at Harvard law, 62 year old Warren came to Washington to chair the Congressional Oversight Panel that oversaw the TARP bailout. An author of six books and over 1200 articles on consumer advocacy, Warren recently said on a video on the WhoRunsGov website, "I think the notion that the OCC is looking out for the consumer is laughable. The OCC is there to watch out for the banks."


Elizabeth Warren
CFPB

So Warren suggested and pushed hard for the formation of this bureau to provide "simplicity and transparency from the consumer viewpoint." She has been appointed to organize that bureau, but not to run it. Already a controversial figure, Warren has been called "our most effective modern regulator," by Simon Johnson, former chief economist of the International Monetary Fund while House Republicans have opposed her as being anti-business. "You have a lot of discretion and a lot of power," House Financial Services chair Spencer Bachus said to her at a hearing, "but very little accountability."

as Betsy Cromwell, Erica Jessup and Kathy Hardy. Cromwell works in Program Support where her focus is counseling issues, whereas Jessup and Hardy focus exclusively on the HECM program.

Elissa Saunders, Deputy Director, Single-Family Asset Management

Elissa Saunders works closely with NRMLA's Servicing Committee on matters related to taxes and insurance, claims issues, repair administration and other servicing-related matters.

Ed Szymanoski, Associate Deputy Assistant Secretary for Economic Affairs

While he no longer works on the HECM program, we would be remiss if we did not mention the contributions of Ed Szymanoski, one of the principal architects of the HECM program. Today, Szymanoski is Associate Deputy Assistant Secretary for Economic Affairs, within the Office of Policy Development and Research, where he oversees economic and policy support for HUD's programs.

Colin Cushman, Manager, Portfolio Analysis

Colin Cushman is the brains behind HECM Saver. He also reminds us all that FHA is an insurance company. Cushman's ultimate goal is to make sure that incoming receipts collected from mortgage insurance premiums exceed (or at the very least equals) what is being paid out in claims. When home prices plummeted in 2009 and the Office of Management and Budget forecasted huge losses for the HECM program, Cushman reduced principal limit factors to offset potential losses, thus eliminating the need for an appropriation.


Colin Cushman
FHA

Colleen Weiser, Industry Liaison

For many years, Colleen Weiser worked in servicing, but is now an industry liaison between FHA and mortgage industry trade groups, such as NRMLA. She makes sure NRMLA is supplied with the latest HECM statistics and important news coming out of FHA.

Volky Garcia, Deputy Director, Quality Assurance

Volky Garcia is a watchdog of sorts. As Deputy Director of Quality Assurance, Garcia oversees a staff of auditors that conduct compliance reviews to ensure Lenders are following FHA rules and regulations and conducting business in a safe and sound manner. Last year, Garcia spoke at two NRMLA events to highlight inappropriate marketing and advertising strategies that some companies were using to sell reverse mortgages.

Touch Points:

Exploring the Borrower/Servicer Relationship and How It Evolves Over Time

By John LaRose

Much is written about the origination process of reverse mortgages, and appropriately so. Counselors, loan officers, processors, underwriters, and closing/title agents are the first points of contact for the borrower. These first points of industry contact form and frame the reverse mortgage experience for every borrower. It is the responsibility of these individuals to ensure that everything is timely and properly executed, and that everyone is working hard to ensure that borrowers have a pleasant and informed experience.

Let's move forward in the typical life cycle of the reverse mortgage as it is passed to the servicer. The sales and closing process of a reverse mortgage can often take up to six months, though from time-to-time it may run longer. When the servicer receives a loan after closing, it is being entrusted with a valuable asset that will be in its possession an average of seven years. There are multiple "touch points" that frontline industry professionals will have with borrowers in the origination process, but they number far less, and pale in comparison, to the touch points a servicer will have with the borrower over the life of the loan.

These touch points begin with the servicer's initial contact with the new borrower. On forward loans the first call to the new borrower may be as brief as 45-60 seconds. Not on the reverse side! In the reverse world, that first borrower call averages 7-10 minutes and it is not uncommon for these calls to go on for 30+ minutes. The average senior borrower requires more explanation, more patience, but those of us who service this product understand and accept this responsibility willingly.

In lieu of a welcome call some servicers send the borrower a detailed packet of information complete with frequently asked questions as well as a graphic explanation of the monthly statement. This booklet not only provides new borrowers with a wealth of information; borrowers can save it for future reference, too.

Every month, shortly after statements are mailed, incoming calls are simply off the charts. The senior borrower is much more attentive to detail and will ask about anything they do not understand, and demand full explanations. Thankfully, servicers don't have to explain the servicing fee set-aside every month, month-after-month, and often to the same borrowers. Please know that the servicing community owes a huge debt of gratitude to the industry professional that first thought of eliminating this very confusing item.

THE AVERAGE SENIOR BORROWER REQUIRES MORE EXPLANATION, MORE PATIENCE, BUT THOSE OF US WHO SERVICE THIS PRODUCT UNDERSTAND AND ACCEPT THIS RESPONSIBILITY WILLINGLY.

One interesting factoid we learned since we began servicing reverse mortgages five years ago is that the inbound call volume is a surprisingly predictable trend. The percentage of incoming calls every month is approximately 20% of our portfolio. In 2005, when we were servicing 5000 loans, we received approximately 1000 incoming calls per month. Celink now services 55,000 loans and can expect 11,000 incoming calls (each a separate touch point) per month. The upside of this is the regularity of this trend makes staffing decisions for our Borrower Care department rather predictable.

As we continue working through the life cycle of a reverse mortgage, there are additional touch-points between the servicer and borrower. After the first year of the loan, the borrower will be required to certify residency. This may seem like a simple process: mail a letter out and get a signed certification back. Our experience demonstrates that certifying residency can be anything but simple at times, in fact over 20% of the borrowers simply do not respond for a variety of reasons. Some borrowers perceive the contact as an intrusion; some react in a downright hostile manner; and some question the validity of our request each and every year. These exceptions consume considerable amounts of time as we explain the reason behind the request; remind them of the fact that they agreed to this during the closing process; and reiterate that it is required by HUD.

If the borrower requires repairs from closing, there is a significant amount of time spent educating the borrower on the process and their obligations under the Repair Rider. Frequent phone calls and letters are generated back and forth between the borrower, the contractor, and HUD-certified inspectors — all in an effort to assist the borrower in completing their repairs while, at the same time, trying to protect the borrower from unscrupulous home improvement

Continued on Page 18

Continued from page 17

contractors. It is not uncommon to find a remodeling company attempt to talk the borrower into additional (and possibly unneeded) repairs, nor is it uncommon for a repair invoice to come in higher than the original quoted bid. In each of these situations, the reverse servicer is responsible for working with the contractor, and the borrower, to resolve these issues amicably.

The draw request process is yet another time that the servicer must remain highly diligent for possible fraud, especially and somewhat surprisingly this mostly occurs with family members of the borrower. Servicers need to be able to quickly determine if the signature is valid and if anything else looks unusual on the draw request form--and I mean anything. If so, the borrower should be contacted to verify information. Other "nuances" in this process include a borrower sending in a draw request for an unusually high amount of money and then calling in to make sure we received it. Anxiousness in the process by the borrower can signal that "all is not right" and servicers must be aware of even the slightest hint of trouble. One last thing servicers need to be concerned about is any type of coaching by a third party during phone conversations as this can often be a sign the borrower is being coerced into doing something they don't want to do. When this occurs most servicers will call the borrower back several hours later to make sure everything is okay.

When the borrower is unable to pay their taxes and/or insurance, a servicer is faced with a very complex and delicate situation. Some borrowers have family members who can help them and some have financial reserves outside of their reverse mortgage. Unfortunately there will be a percentage of any reverse servicing portfolio that represents borrowers who have little or no additional resources. They may have only social security income to live on and their reverse mortgage has been fully drawn and spent. Regardless of how you feel about these situations, servicers must work diligently with these borrowers to resolve the defaults. Throughout the process, a servicer must respect the borrowers' dignity, and there is nothing easy about coming to resolution in these cases.

The death of a borrower or his/her spouse is, without a doubt, the most difficult and traumatic situation a servicer has to deal with on a daily basis. Servicers will be working with grieving family members who run the gamut of needing gentle but guiding "hand-holding" — advising them of their responsibilities regarding the loan, all the way to working alongside them for the next year to properly dispose of the property (if the last surviving borrower has passed away). Servicing staff that manage this process require the patience of a saint, the calm presence of a Tibetan monk, and the sensitivity and compassion of a funeral director.

It is easy to commoditize the reverse mortgage servicing process and overlook the emotional touchpoints. The truest value of servicing extends above and beyond the cost of processing paperwork; it is, more significantly, another dose of personal attention and care that helps seniors age with security and dignity in their homes.

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Compliance:

Coping in a Fast Changing Environment

By Kay Kinney

In professional sports, rule changes are made during the off-season, so the coaches and players at least have an entire training camp in which to learn to implement them.

In reverse mortgage lending, however, the rules keep changing practically overnight. HUD's 2009 ten per cent haircut on the HECM principal limit seemed to come in the blink of an eye. Most recently, a long anticipated new rule on loan originator compensation was put on hold at the last minute due to a lawsuit, then implemented five days later.

In the past year alone, in addition to the Loan Originator Compensation rule, reverse mortgage lenders have had to absorb a new counseling protocol, a change in the upfront FHA mortgage insurance premium, new Truth in Lending requirements, changes in the Good Faith Estimate and the HUD-1, new taxes and insurance default procedures, and new proposed rules from the Federal Reserve on disclosures, advertising, cross selling and counseling that were on the verge of implementation and then put on hold because we suddenly found ourselves with a new regulator — the Consumer Financial Protection Bureau — which is now going to examine all the regulations and likely write its own. Oh, and we also have a brand new product — the HECM Saver.

And then there are a slew of new regulations and laws enacted by the states. There is little redundancy with federal rules, especially for disclosures. A few states have instituted counseling requirements that are different from those required for HECM loans and even require borrowers to sign an additional document. "This state overlay is growing," says Amanda Clinton of NetEquity. Smaller non-bank lenders are especially affected by new state licensing rules. "We have loan officers spending close to $5000 a year to maintain licenses in just 8 states," Clinton says. Licensing requirements and costs have made it more difficult for small lenders, such as NetEquity, to recruit and retain good loan officers. National banks that had relied on federal preemption from all of these state rules have lost that preemption in the 2010 Dodd-Frank Act, and are facing compliance challenges at the state level for thr first time.

If this appears to be an unusually frenetic year of regulation alteration, it's not.

Which leads us directly into the compliance department. Compliance is the in-house umpire for a reverse mortgage lending operation. Its function is to make sure the rules are followed for each transaction. But what is it like trying to umpire the game when the rules keep changing?

How Lenders Are Coping

The changes are coming so rapidly, says Amanda Clinton, operations manager for NetEquity, that old-fashioned compliance manuals are useless. "Everyone in our industry must consider themselves compliance professionals now," she says, and lenders cannot simply put a manual on a shelf and assume everyone reads it. Constant communication on regulatory changes and compliance is essential.

A specific, tailored quality control plan is a key starting point for compliance, says Bob Emerling, chief compliance officer for

American Advisors Group (AAG.) "You have to have QC policies and procedures that are specific to your business, your production model, and your personnel," he says. Having served as an outside QC consultant to AAG before joining the company, Emerling has seen other companies simply photocopying someone else's QC program and submitting it to HUD. "HUD has very specific rules and guidelines for QC, and every company should start with those, but then you have to add your own additional file reviews and checklists so that your plan fits your company." He says that at AAG, multiple checks for compliance as a loan moves through the process ensure that the loan will be compliant when it closes, and that compliance problems do not cause a loan to fall through just before closing.

Extensive periodic training is also important. Emerling says, "a lot of salespeople who have worked for different companies accumulate 'folklore' about what is allowed and what isn't. They are usually wrong. Our training makes sure they 'unlearn' this erroneous information and understand specifically what is allowed and what isn't."

Training is also an on-going initiative at MetLife Bank, according to Mary Brown, Vice President and chief compliance and security officer. "We have mandatory training requirements when a new employee joins our Bank; we then have on-going training programs to keep our employees current on all new laws and regulations. New industry practices, such as changes to products, are communicated in the form of Compliance Bulletins to the field and if necessary, follow-up training sessions. MetLife Bank also has an internal Policies and Procedures website that is updated constantly." Discovery of even minor violations by an employee can result in remedial training and reports to management.

Compliance can be a particular challenge for wholesale lenders. Bank regulators tend to hold the wholesale lender responsible for violations by brokers. MetLife Bank has extensive monitoring and testing protocols for its wholesale lending. Compliance bulletins are distributed to brokers as well as retail salespeople. Brown says her department makes clear to brokers that if they are consistently or materially non-compliant, they run the risk of revocation of their approval to do business with MetLife.

Today's challenges

Lenders say their biggest compliance issues today are appraisals, counseling, and more recently, loan officer licensing and compensation. Because there is no traditional credit underwriting for RMs, it is easier to focus on the appraisal as a point of compliance. "We review appraisals in-house, and will often go back one or two times for additional comparables or other changes," Emerling says. "Getting the best appraisal possible is the most important step in making every loan a good loan."

Counseling is another source of frequent compliance problems. "Everyone knows the borrower has to receive counseling," Emerling says, "but it is very important that the process keep its integrity and that counseling is always an arms-length deal." Problems typically arise when loan officers get involved in the counseling process, often just because they are trying to help the borrower. AAG has a firm policy that prohibits any calls from salespeople to any counselors for any reason, and also prohibits salespeople from steering customers to any counselor — even for a lower price.

> **"[The changes are coming so rapidly,] Everyone in our industry must consider themselves compliance professionals now."**
>
> —Amanda Clinton,
> Operatons Manager, NetEquity

In terms of loan officer compensation plans, lenders need to be mindful of not only rules, but costs incurred by LOs, especially in obtaining multiple licenses. For MetLife Bank, the new Federal Reserve rule was so sweeping in its impact, says Mary Brown, that the company appointed a dedicated manager to oversee its implementation. One approach to compensation that NetEquity has found successful is giving bonuses to LOs who obtain new licenses or renewals. It recently overhauled its compensation plan to comply with the new rule, but according to Amanda Clinton, it will be reviewed in a few months. "We won't know for a while if the plan is working to maximize production and also profits. And if we know one thing, it is that interpretations of the rule will probably change and require us to change along with it."

According to attorney Jim Milano, of Weiner, Brodsky, Sidman, Kider in Washington, DC, the rule is very important for smaller reverse mortgage lenders that broker loans. Because FHA rules cap origination fees, a lender that is brokering HECM loans is limited if it wants the borrower to pay all of its compensation, but it cannot receive compensation from both the borrower and the lender. FHA recently eliminated the correspondent category for FHA lenders and forced a number of small companies to become brokers. "These smaller lenders and brokers need to be especially diligent about compliance on compensation," says Milano. He believes the new Consumer Financial Protection Bureau will be especially focused on reviewing compensation plans and proper disclosures of broker compensation.

Failure Is Not An Option

Despite many challenges and increasing costs, compliance is still a key to any lender's ultimate success. "The pace of change has been staggering, but in the end, compliance is just another cost of doing business," says Amanda Clinton. "Compliance and customer service are our two top priorities. Our philosophy is that if we are doing things the right way, we will be profitable."

Innovation

Genworth: Shifting the Discussion

By Shannon Hicks

The reverse mortgage industry is undergoing a transformation, a makeover of sorts. Despite falling home values and the recent mortgage meltdown the HECM has proven a stalwart product that is attempting to expand its reach. The introduction of the HECM Saver began reshaping typical cost bias in the media and opened up some intriguing markets beyond the historical borrower. Yet there remains an untapped and unrealized potential of reaching the financial community. Our industry has just begun to take the first steps toward reaching financial professionals. Genworth Financial Home Equity Access, for one, has begun executing a well-planned strategy to educate its financial advisors on the reverse mortgage's value as a retirement planning asset. Senior Vice President of GFHEA, Jim Novack gave us some insights on their strategy.

Genworth Financial Inc. is no stranger to the public as a trusted brand for life insurance and financial products. Genworth entered the reverse mortgage world officially in 2007 with its acquisition of Liberty Reverse Mortgage, which was rebranded as Genworth Financial Equity Home Access, Inc., or GFHEA. A major player in reverse mortgage production, Genworth ranks 4th in wholesale and 7th in retail sales (Reverse Market Insight: February YTD 2011). As a financial services provider, the transition to reverse mortgages seemed a natural progression in its continued mission to deliver financial security to senior clientele. They see the reverse mortgage as an opportunity for retirees to discover a new product that provides liquidity, retirement cash flow and a safety net.

A specific and structured plan to communicate with advisors and broker-dealers has already begun by Genworth with printed and electronic media and also the opportunity for professionals to complete courses as part of their continuing education. To help make the connection between a reverse mortgage and retirement they have created illustrative scenarios for specific financial situations. Beyond mere education Genworth is also stressing the importance of compliance and suitability with its internal financial advisors. They have taken the unique approach of not only covering the basics of a reverse mortgage but also how the advisor can utilize a reverse mortgage to retain assets under management as their clients age.

This holistic view in financial planning incorporates all of the client's assets, including their home, as part of their overall strategy. As Mr. Novack stated "it comes down to which assets a client may want to spend down first, and how to do that in a tax-advantaged way." He has a good point. A retiree with a considerable qualified retirement plan, such as an IRA, may prefer to utilize their home's equity rather than suffer the tax consequence of spending down a fully taxable account. It's a point to ponder. Beside tax ramifications, many retirees look to spend down the assets with the lowest rate of return. Mr Novack cited a great example: a retiree who purchased their home in 1990 might consider their rate of return in appreciation considerable. But then factor in the true rate of return adjusted for inflation and that 'investment' may have only yielded a 1-2% return opposed to their investment accounts that may be realizing more growth. Addressing the home as a retirement asset opens the doors of discussion between the advisor and client as to which assets should be utilized first. "Advisors should put the house down as part of the equation," Mr Novack added.

The largest hurdle in reaching the financial community is a long-standing perception bias that exists for reverse mortgages. High costs were a common objection and the idea the product was only for the house-rich-cash-poor retiree. This often led professionals to cite the reverse mortgage as a "last resort" option. The HECM Saver has made inroads reducing this bias with its lower costs, flexibility and cash flow. The Saver has also gained attention as a viable alternative for retirees who have lost or no longer qualify for a traditional home equity line of credit.

Another challenge is getting the home into the overall picture when it comes to retirement planning. Jim Novack illustrates that not discussing the home as part of an individual's retirement is "akin to a doctor only examining your arm and telling the patient I can tell everything about your body by looking at your arm." Typically the home is listed as an asset during retirement planning, but is never considered as part of the equation or discussed properly in context. As reverse mortgage professionals we must remember a reverse mortgage is not a source of premium or investment dollars for advisors, but rather a tool to assist them in better managing their clients' existing assets and risks. We must not sell financial professionals short with this misconception.

Today, reality is beginning to set in for both retirees and financial advisors. A recent study by the Society of Actuaries found that for 90% of retirees and those nearing retirement, their home represents 60% of their total retirement assets. The traditional approach to retirement planning will be challenged in coming years as pension income is replaced by personal retirement savings, including the home. Our industry will benefit from major lenders like Genworth taking a solution-oriented message to the financial community that the reverse mortgage is not a liability, but truly a retirement planning asset and solution for many.

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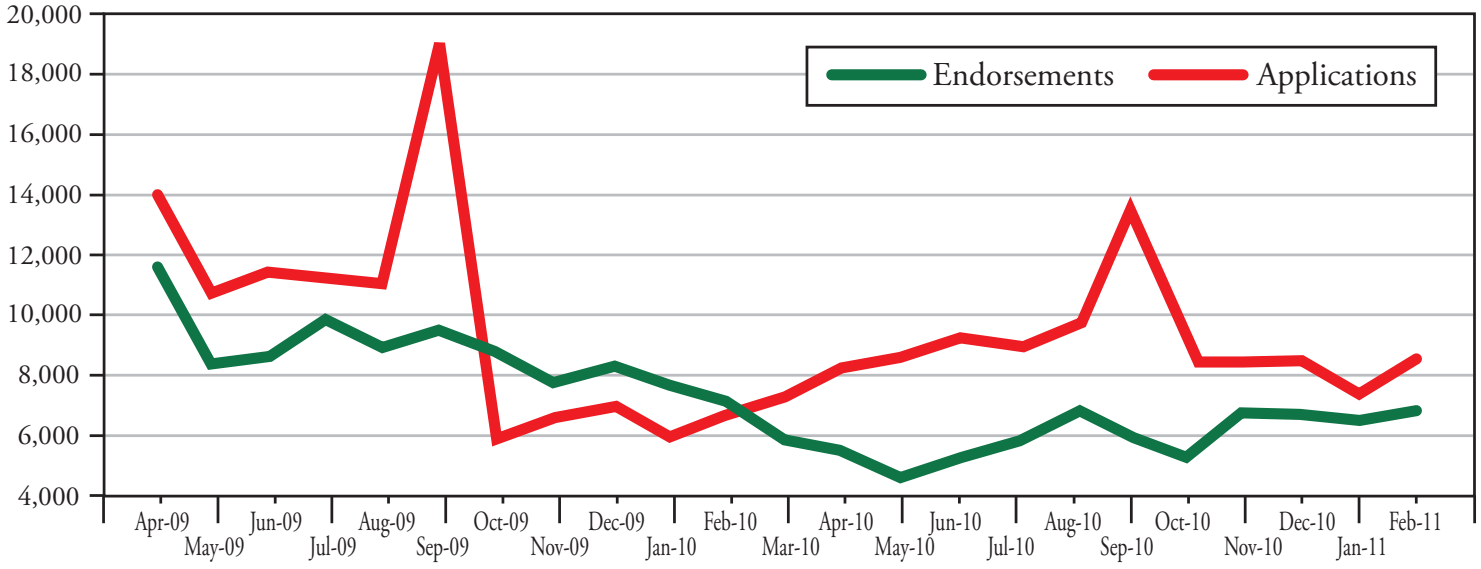
HECM Volume Trends

Below is a graph of HECM activity by volume from April, 2009, through February 28, 2011.



Source: Reverse Mortgage Insight (www.rminsight.net)

The Nation's 20 Largest HECM States

Below is a ranking of HECM activity by state from January 1, 2011, through February 28, 2011.

RANK	RANK CHANGE	STATE	LOANS ISSUED	Y-o-Y % CHANGE	MAX. CLAIM AMOUNTS	MARKET-SHARE
1	0	California	1,910	-10.0%	$810,696,823	14.3%
2	1	Texas	1,143	0.3%	$184,738,169	8.6%
3	-1	Florida	946	-36.4%	$191,939,043	7.1%
4	0	New York	798	-0.7%	$290,516,930	6.0%
5	4	Pennsylvania	603	27.2%	$112,006,050	4.5%
6	1	New Jersey	554	3.4%	$168,605,855	4.2%
7	1	Virginia	549	4.8%	$133,707,194	4.1%
8	-3	Maryland	451	-38.5%	$116,294,540	3.4%
9	1	Washington	361	-16.4%	$105,989,300	2.7%
10	6	North Carolina	352	40.8%	$74,082,303	2.6%
11	0	Georgia	351	-10.7%	$66,920,977	2.6%
12	-6	Illinois	346	-37.3%	$67,377,915	2.6%
13	0	Massachusetts	293	-16.0%	$96,260,500	2.2%
14	5	Puerto Rico	274	19.7%	$48,645,450	2.1%
15	-1	Arizona	260	-9.4%	$55,226,778	1.9%
16	-4	Oregon	255	-29.0%	$67,355,200	1.9%
17	3	Colorado	248	10.7%	$72,733,676	1.9%
18	0	Tennessee	232	-0.4%	$40,754,250	1.7%
19	7	South Carolina	226	24.9%	$44,854,925	1.7%
20	2	Ohio	209	4.5%	$27,250,800	1.6%

Source: Reverse Mortgage Insight (www.rminsight.net)

The Nation's top 100 HECM Lenders

RANK	LENDER	Loans Issued	Y-o-Y % change	Max. Claim Amounts*	Market-share
1	Wells Fargo Bank NA	3,319	29.7	872.6	24.9%
2	Bank Of America NA Charlotte	1,607	32.4	438.6	12.0%
3	Metlife Bank	894	134.0	227.2	6.7%
4	One Reverse Mortgage LLC	617	90.4	110.6	4.6%
5	Generation Mortage Company	261	-19.2	55.1	2.0%
6	American Advisors Group	218	142.2	46.8	1.6%
7	1ST AAA Reverse Mortgage	172	-24.9	26.0	1.3%
8	Genworth Financial	167	145.6	39.5	1.3%
9	Guardian First Funding Group	162	-32.5	41.5	1.2%
10	Urban Financial Group	151	-49.8	21.6	1.1%
11	PNC Reverse Mortgage LLC	140	97.2	32.5	1.0%
12	M&T Bank	116	39.8	20.1	0.9%
13	Financial Freedom Acquisition	114	-62.6	40.5	0.9%
14	Security One Lending	111	-14.0	36.0	0.8%
15	Net Equity Financial Inc.	105	-39.3	28.8	0.8%
16	Senior Mortgage Bankers Inc.	102	22.9	16.4	0.8%
17	The First National Bank Layton	90	2150.0	34.6	0.7%
17	Money House Inc.	90	87.5	15.9	0.7%
19	New Day Financial LLC	84	-58.6	16.0	0.6%
20	Ireverse Home Loans LLC	78	129.4	21.8	0.6%
21	Midcontinent Financial Center	76	55.1	17.0	0.6%
22	Great Oak Lending	64	-57.9	14.1	0.5%
23	Suntrust Mortgage Inc.	62	31.9	12.4	0.5%
24	Mortgageshop LLC	52	40.5	10.0	0.4%
25	Equipoint Financial Network Inc.	50	-49.5	13.0	0.4%
26	Stay In Home Mortgage Inc.	49	-16.9	8.4	0.4%
27	Senior American Funding Inc.	48	-40.0	17.0	0.4%
28	United Southwest Mortgage Corp.	44	266.7	17.5	0.3%
29	All Financial Services Inc.	43	72.0	5.7	0.3%
30	Seniors Reverse Mortgage	41	-43.8	8.7	0.3%
31	MAS Associates	37	54.2	10.1	0.3%
31	Primelending A Plainscapital Corp.	37	164.3	8.6	0.3%
33	Royal United Mortgage LLC	35	59.1	9.1	0.3%
34	Upstate Capital Inc.	34	-22.7	6.6	0.3%
34	Tripoint Mortgage Group Inc.	34	240.0	17.7	0.3%
36	Open Mortgage LLC	32	-27.3	11.7	0.2%
36	First Mariner Bank	32	-77.6	7.5	0.2%
36	Aspire Financial Inc.	32	-44.8	4.0	0.2%
39	Trinity Reverse Mortgage Inc.	31	72.2	14.5	0.2%
40	Nationwide Equities Corp.	30	25.0	11.7	0.2%
40	Approval First Home Loans Inc.	30	172.7	10.2	0.2%
40	Allied Home Mortgage Capital	30	-21.1	6.4	0.2%
40	Christensen Financial Inc.	30	57.9	5.0	0.2%
44	Cherry Creek Mortgage Co. Inc.	28	27.3	9.2	0.2%
45	Amtec Funding Group LLC	27	-25.0	8.2	0.2%
45	Reverse Mortgage Solutions Inc.	27	-	6.3	0.2%
47	Integrity 1st Mortgage Inc.	26	-56.7	3.2	0.2%
48	Webster Bank	24	0.0	6.4	0.2%
48	Traditional Home Mortgage Inc.	24	-52.9	7.2	0.2%
48	Academy Mortgage LLC	24	-50.0	6.3	0.2%
48	Sun American Mortgage Co.	24	166.7	5.2	0.2%
52	Universal Lending Corp.	23	64.3	5.2	0.2%
52	Franklin Advantage Inc.	23	-	10.4	0.2%
54	Fulton Bank National Assoc.	22	10.0	4.7	0.2%
54	Axis Financial Group Inc.	22	-	2.3	0.2%
54	Marshall And Ilsley	22	-48.8	3.7	0.2%
54	Metamerica Mortgage Bankers Inc.	22	-66.7	3.3	0.2%
58	Network Funding LP	21	-16.0	5.0	0.2%
58	American Pacific Mortgage	21	-34.4	7.0	0.2%
58	Gateway Reverse Mortgage Group	21	-43.2	1.7	0.2%
61	New Castle Mortgage LLC	20	81.8	2.9	0.1%
61	Gateway Funding Diversified MT	20	-20.0	4.0	0.1%
61	Retirement Life Funding LLC	20	42.9	6.8	0.1%
61	Health One Credit Union	20	100.0	8.0	0.1%
65	Guild Mortgage Co.	19	-26.9	5.8	0.1%
66	Harvard Home Mortgage Inc.	18	-57.1	3.0	0.1%
66	Residential Equity Funding Corp.	18	-10.0	7.4	0.1%
66	Priority Mortgage Corp.	18	-64.0	2.8	0.1%
66	Home Savings of America	18	38.5	4.7	0.1%
66	AA Mortgage Group LLC	18	-56.1	3.2	0.1%
66	The Senior Equity Group Inc.	18	20.0	9.7	0.1%
66	VIG Mortgage Corp.	18	-	3.9	0.1%
66	McGowin King Mortgage LLC	18	-14.3	2.9	0.1%
66	Village Capital & Investment LLC	18	1700.0	5.4	0.1%
66	The Mortgage Group Ltd.	18	100.0	5.8	0.1%
66	Prosperity Mortgage Co.	18	38.5	6.5	0.1%
77	Urban Housing Mortgage & RE	17	-41.4	2.3	0.1%
77	United Northern Mortgage Bank	17	30.8	6.8	0.1%
77	Envoy Mortgage Ltd.	17	70.0	4.6	0.1%
77	Augusta Mortgage Inc.	17	-	4.7	0.1%
77	Master Mortgage Corp.	17	-19.0	2.1	0.1%
77	Primary Residential Mortgage	17	-39.3	4.2	0.1%
77	Montgometry Mortgage Inc.	17	-48.5	3.1	0.1%
84	Oceanfirst Bank	16	100.0	2.6	0.1%
84	GMFS LLC	16	-46.7	2.7	0.1%
84	Senior Equity Financial Inc.	16	45.5	5.3	0.1%
84	Guaranteed Home MTG Co.	16	0.0	7.2	0.1%
84	Pinnacle Capital Mortgage Corp.	16	77.8	4.5	0.1%
84	Rockland Trust Co.	16	6.7	4.8	0.1%
84	Atlantic Bay Mortgage Group LLC	16	77.8	3.6	0.1%
84	Brian A Cole & Associates Ltd.	16	-83.5	1.7	0.1%
92	Security National Mortgage Co.	15	-31.8	3.1	0.1%
92	Wilmington Savings FD Society	15	-50.0	4.0	0.1%
92	Senior Funding Associates	15	-37.5	6.8	0.1%
92	Aramco Mortgage Inc.	15	87.5	6.8	0.1%
92	Watermark Capital Inc.	15	-37.5	5.4	0.1%
92	Seniors First Mortgage Company	15	-37.5	2.6	0.1%
98	Sidus Financial LLC	14	-30.0	3.1	0.1%
98	LHN Financial Services Inc.	14	250.0	4.6	0.1%
98	1st Source Funding Inc.	14	-53.3	6.8	0.1%

**In Millions*
From January 1, 2011 through February 28, 2011
Source: Reverse Market Insight (www.rminsight.net)

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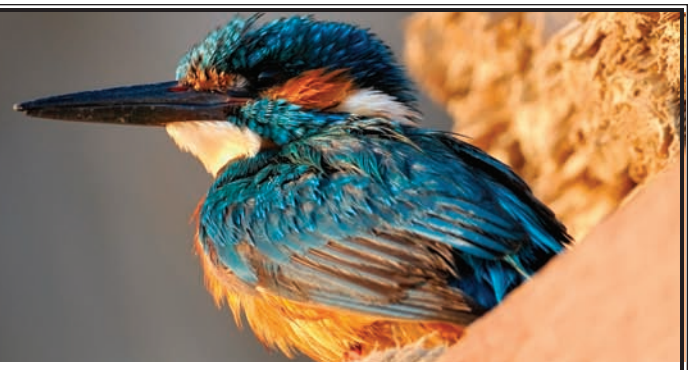
Nest Egg

Class or No Class

By Marty Bell



Long term health care insurance is the adze in the retirement tool box—a tool, yes, but not frequently utilized. While over 250 million Americans have some form of health insurance, only about 7 million have long term care, according to Howard Gleckman of the Urban Institute. The Obama Administration is intent on boosting that number significantly with the passage of the Community Living Assistance Service and Support Act (The CLASS Act), which is a component of the health care reform legislation. But, in a Washington routine becoming as familiar as tweeting, a few members of Congress have proposed a bill to repeal the measure before it is even implemented.

In looking to lower national healthcare costs, the administration views long term care as a means to help people remain in their homes instead of relocating to health facilities. At a NRMLA Philadelphia Road Show last year, Ray Prushnok, Deputy Secretary in Pennsylvania's Department of Aging, reported healthcare facilities cost three to four times what in-home care costs. Long term care provides funds for help with everyday tasks that aging people are no longer able to perform themselves — dressing, bathing, getting out of bed. Though this is not something people who do not need it want to think much about, the eventual need for it is startling—two-thirds of all seniors eventually require some form of it, according to *New York Times* reporter Paula Span.

Private long term care insurance is available, but it is exclusionary and expensive. People with pre-existing conditions can rarely qualify and, if they do, the price soars. While a policy for someone young and healthy can run in the area of $3000 per year, the *Times* recently reported on a 41 year old woman with cerebral palsy and arthritis who was quoted $1700 per month. The American Association for Long Term Care Insurance reports that among applicants 50 to 59, only 46% qualify; among applicants 60-69, only 38% qualify; and among applicants 70 to 79, only 24% qualify.

Most people in need of such care depend on Medicaid, which is funded jointly by the Federal government (53%) and the states (47%). The Federal government currently spends $100 billion a year on Medicaid—one third of it for long term care. The Congressional Budget Office projects that one-sixth of all tax revenues will go towards Medicaid by 2050, unless we can find an alternative.

The CLASS Act is a voluntary income deduction program, similar to a 401-K. Voluntary is the operative word here, unlike Social Security (FICA) which is mandatory. Employers would deduct a set amount from employees' paychecks. The Act directed the Department of Health and Human Services to do the math and create a self-sustaining program, like the FHA insurance fund. That process is now in the works with a scheduled delivery date of late 2012, though current predictions are that implementation will be delayed into 2013.

Modeling done for the bill estimated costs for an individual purchaser would run about $123 per month. Students and the poor would be able to pay as little as $5 per month.

With most private long term care programs, immediately after purchase, after a 30-60 day waiting period after care commences, you can receive benefits of up to $200 per day — but for a limit of three to four years.

Under the CLASS Act, after you make five years of payments, you can receive benefits estimated at $75 per day—but for the remainder of life. In both programs, qualification for benefits requires proving you cannot do two daily tasks without help. The CLASS Act payment requires no invoices and would be in cash so that a senior could use it to hire a professional caregiver or even give it to a child if they perform the necessary services. (An enlightened aspect of CLASS is that children often have to give up work to provide care for their parents and this is a way to provide them with some income—and also produce some tax revenue.)

One of the unique features of CLASS is that rather than being an opt-in program such as 401-Ks, it is an opt-out program. If an employee does not inform an employer they wish to opt out, the deduction is automatically made. At NRMLA's Washington Policy Conference last June, J. Mark Iwry, formerly a fellow at the Brookings Institution studying retirement saving and now a special advisor to Treasury Secretary Timothy Geithner and the retirement expert on the White House Middle Class Task Force, reported that since IRAs are opt in, only about 15% of those eligible utilize them, while a program that was opt-out would have over 80% participation.

The CBO estimates CLASS will save the government $1 billion in Medicaid costs over the first nine years. Since it requires five years of payments before any benefits are paid out, if it is implemented in 2013, the first benefits would not be issued until approximately 2018.

The Long Term Care Insurance Association, the industry's trade association, has criticized the plans on behalf of its insurance company members.. At the same time, these insurance companies are reported to be designing "wraparound" programs as enhancements to CLASS Act benefits.

The CLASS Act is one more creative tool to add to the retirement toolbox, along with social welfare programs, savings programs and reverse mortgages, all of which we will need to get our society across the retirement funding abyss.

RM