

# MOVING FORWARD IN REVERSE

The Growing Demand for Reverse Mortgages



By JAMES HENNESSY

**T**he reverse mortgage is not only a product whose time has come—it's a product whose time will continue arriving for a long time. Reverse mortgages solve a real and vexing problem for seniors, especially those on a fixed income. Starting at age 62 they can take the equity out of their homes in a variety of ways, never make a mortgage payment, and never have to worry about paying the loan back. They are not taxed on this income, since it isn't really income in the taxable sense, it is home equity. For many seniors, this product is the answer to a prayer. For many originators, it could be the very same thing.

Consider the demographics. Last month, the very first baby boomer turned 62. Her name, by the way, is Kathleen Casey-Kirshling, and she was born moments after the clock struck twelve on January 1, 1946. She is the first of 75 million turning 62 over the next 20 years, which comes to over 10,000 people every day becoming eligible for this loan. Check out the Web sites listed in this article for the ins and outs on this remarkable product and you'll get a feel for the potential it offers.

Enough euphoria for the moment. Age 62 is less than ideal for a reverse mortgage, since the younger the borrower, the lower the benefits. The sweet spot for this loan is probably when borrowers reach their 70's, but there are plenty of those out there and lots more on the way. Interestingly, it can readily be argued that boomers are more likely to want a reverse mortgage for several reasons, chief among them being that life is more expensive now, pensions are more scarce, and Social Security is not going to keep their lifestyles where boomers want them. We are talking about the "Me Generation" here, whose members may be less concerned about leaving grand inheritances to their progeny and more interested in spending it on themselves.

Barry Habib, CEO of Mortgage Market Guide, is bullish on the origination possibilities for reverses. "A great

entrepreneur will always pay attention to demographics," he says. "As an originator myself, I understand why retirement tools are essential for dealing with baby boomers."

Peter Bell, the president of the National Reverse Mortgage Lenders Association, had cause to be giddy at the 2007 NRMLA Annual Meeting held in San Diego last November. "Aging is the dot-com of this decade," he said at the meeting, referring to the dot-com successes and not the busts. "If we make thoughtful choices and treat our customers with respect, the reverse mortgage industry will succeed and grow."

There are a few clouds on the horizon. The U.S. Senate is looking into reverse mortgages, implying a preemptive stance on the part of lawmakers against potential future abuses. Senator Claire McCaskill, D-Mo., questioned experts and government officials in hearings about measures needed to protect seniors, such as financial counseling. (Apparently Sen. McCaskill wasn't aware that seniors are already required to go through a counseling session conducted by a disinterested third party to acquaint them with the product.) Industry legal experts, by the way, strongly recommend that originators not do anything with borrowers on reverses until presented with a certificate from counseling, as not doing so may come back to haunt them later.

David Peskin is the CEO of Lender Lead Solutions, which develops qualified leads for originators from its Senior Lending Network subsidiary. "I never thought of it as a product," he said, "It's more of an opportunity to do something important." But that doesn't come without some pitfalls. "Seniors can be difficult to deal with," he observed, "and it can be a complicated product, so it often takes more than one sitting to explain it properly." There were also a lot of misconceptions in the early years that led to consumer reluctance. Borrowers were confused as to whether they kept title to the property, had to pay the loan back or how things worked in the estate when they passed away. Peskin decided a celebrity spokesperson would instill confidence in the product and he approached Robert Wagner, a fixture in television and films.

## REVERSE RESOURCES

Check out the following Web sites to learn more about the ins and outs of reverse mortgages:

- [www.reversemortgage.org/](http://www.reversemortgage.org/)
- [www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm](http://www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm)
- [www.aarp.org/money/revmort/](http://www.aarp.org/money/revmort/)
- [www.aoa.gov/prof/notes/Docs/Reverse\\_Mortgages.pdf](http://www.aoa.gov/prof/notes/Docs/Reverse_Mortgages.pdf)
- [www.fanniemae.com/homebuyers/findamortgage/reverse/index.jhtml](http://www.fanniemae.com/homebuyers/findamortgage/reverse/index.jhtml)
- [www.ReverseMortgageGuides.org](http://www.ReverseMortgageGuides.org)
- [www.ftc.gov/bcp/edu/pubs/consumer/homes/rea13.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/homes/rea13.shtm)
- [www.seniorlendingnetwork.com](http://www.seniorlendingnetwork.com)
- [www.lenderleadsolutions.com/](http://www.lenderleadsolutions.com/)
- [www.ibisrmo.com](http://www.ibisrmo.com)
- [www.generationmortgage.com](http://www.generationmortgage.com)

"I'm in the people business," Wagner said. "I've entertained them for years, but now I'm in a position to help them change their lives for the better, and that's as satisfying as anything I've ever done. I've had people come up to me in airports and say that before the reverse mortgage they had to choose between medicine and food, and that now they are living better than they have in years," he said, obviously moved. "I can't tell you how that makes me feel."

This is powerful stuff to take to the market as an originator: a loan product that can change peoples' lives for the better while delivering a significant income opportunity to the originator, and which serves a market that is growing exponentially. The mainstream lending industry is sitting up and taking notice. Jonathan Corr, Ellie Mae's chief strategy officer, says the product is getting on radar screens around the industry in a hurry. "Reverse mortgages are growing at 100 percent per year and they will become a much larger component of the market over the next several years," he said. "They also provide lower risk for lenders because of the low LTV's and occupancy requirements." He added that private sector reverse mortgage offerings are already gathering a lot of steam, with greater loan amounts, higher LTV's and even lower ages to qualify. One example is the jumbo offering from Atlanta's Generation Mortgage. "There's a lot of sizzle and pop around the product right now," said Generation CEO Joe Morris. "We haven't even scratched the surface yet on the demand." Generation markets a jumbo reverse up to \$4 million, which offers some significant income opportunities to originators.


One of the first nationwide branch networks to announce a reverse mortgage division was Fairway Independent Mortgage of Sun Prairie, Wis., which is rolling the product out to its 100 branches in 40 states around the country. "We knew we needed to address this market," said Gary Nelson, Fairway's vice president of national sales. "We're establishing a program to provide standardized delivery of reverse mortgages, so obtaining one will be just as consistent, convenient and straightforward as getting a traditional mortgage." Training is a big issue in reverse mortgages, he added, because seniors will jump all over misstatements made about terms, conditions, payments and every sort of detail.

It's a long way from the early days of the reverse mortgage. The very first FHA reverse was made by Robert Evans, Jr., vice president of the James B. Nutter Company in 1989. "The first loan was a challenge," Evans said at the NRMLA conference, "but today it is much different. The process is friendlier to both borrower and the originator." Nutter's Web site is full of reverse mortgage information, making the product highly accessible to borrowers and an excellent way to source business.

Another FHA originator who was an early adopter of reverse mortgages is Bill Granger, president of Granger Mortgage in Bradenton, Fla. "We actually had a senior ask us if we would do this loan in 1995," he said. "We looked into the program and realized its merits, so it be-

came a regular part of our business. It is our main product now—we've evolved from general lending to reverse mortgages over the years." Their borrowers belong to one of two main categories: seniors in financial need or those not needy but who want to improve the lifestyle of their retirement. "Either way, they benefit," he said. He finds a mixed approach works best in his marketing efforts. "Today, we market to seniors using direct mail in combination with seminars and to some degree lead generation companies," he explained. "We find it's best to do a mix of all the above to get them to contact us or come to our seminars. Seminars can get up to 70-80 people," he said, "especially if there is food involved." The seminars explain the program's ins and outs, and encourage seniors to take the counseling step, which actually helps the originator get the senior's buy-in on the program by coming from a third party. There are various calculating softwares to be had that will assist the originator in giving the senior the amount of monthly income to expect. They use one from Ibis, a pioneer in reverse mortgage software.

For originators, the bottom line will continue to be about what they can do to keep their borrowers happy and coming back to them, while making a reasonable return on their efforts. The reverse mortgage has evolved rapidly over the last two years from a product that earned them comparatively little and was highly restrictive, to a product that can earn them three points or more and is opening up new markets.

Originators who have done a great job in keeping borrowers loyal now have a tool to offer their borrowers' parents this year, and the nation's baby boomers for the next 20 or 30 years. 

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