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Keeping The Mortgage Professional Informed

Reverse Psychology

By Martin Taylor

The reverse mortgage market is hot right now—red hot, in fact.

Thanks to wider consumer acceptance and awareness, rising costs of healthcare, growing support from lawmakers and an upsurge of positive press, more and more seniors are realizing the benefits of leveraging the equity in their homes.

Though the product was first introduced in 1961, it did not gain mainstream acceptance until nearly 30 years later, when Home Equity Conversion Mortgages became available through the U.S. Department of Housing and Urban Development (HUD). Today, reverse mortgages have been a boon to senior homeowners and the industry as a whole. The sector grew by 77 percent in the last year, and there are no signs of it slowing down.

According to the Reverse Mortgage Market Index, Americans age 62 and older hold an estimated $4.3 trillion of home equity. And yet, just more than 300,000 reverse mortgages have been originated in the past 46 years. That's just one percent market penetration! What's more, there are an estimated 20 million seniors in the United States who currently qualify for a reverse loan, with each household eligible to borrow an average of $72,128. And with millions of baby boomers about to reach retirement age, that number is expected to more than double in the next 10 years.

With so much ripe, low-hanging fruit available, new players are entering the reverse mortgage market in droves. To echo the words of National Reverse Mortgage Lender Association (NRMLA) President Peter Bell, "There is plenty of business to go around in this field. The only thing that can hamper our growth is a negative perception that our business is unprofessional and untrustworthy."

The call to action

To carry out Bell's call, we need to ensure our approach to the business remains ethical and above board. We don't want to end up like the lamenters of the sub-prime sector—those unfortunate ones who sing a sigh of, "Those were the days … "

Offsetting the chances of becoming another casualty of war, reverse mortgage providers must call for stricter guidelines for new entrants to the market. We must learn from history, so as not to repeat it. The tsunami that wiped out sub-prime providers wasn't just a matter of loose lending conditions, but rather too many inexperienced loan officers who, in some cases, took advantage of consumers who didn't need the loans or did not fully understand the ramifications of the loans.

The reverse sector is not immune to this disease. To illustrate the point, consider the confusing nature of the line of credit available to seniors through this loan. Time and again, inexperienced or uneducated loan officers mistakenly (unwittingly or otherwise) lead prospective borrowers to believe that the line of credit inflation will pay out interest, rather than simply be a means to increase the amount of money available to the borrower. Reverse homeowners do not get a return on their investment, as some egregiously portray.

Get your feet wet before you jump in

The mystifying process of obtaining Federal Housing Administration (FHA) licensing, a requirement for entry into the world of reverses, can be a very big deterrent when traditional forward brokers are looking to dive in. Provided a company is lucky, acquiring an FHA license can take six to eight weeks. Unfortunately, for most companies, it is more like a four- to six-month ordeal, because of the myriad of minutiae HUD needs thoroughly and accurately completed before granting the license. There is a laundry list of requirements a company must meet before crossing the threshold. What new entrants can look forward to is a lengthy revision and review process, at best. The line of credit example is just one of the many confusing nuances associated with providing reverse mortgages.

Should you choose not to engage in the FHA rigmarole, be prepared to turn away potential reverse mortgage borrowers to approved reverse mortgage brokers and lenders. However, thanks to a much-improved program and market, there is still a way for you to capitalize on these leads without bearing the burden of a license or taking unnecessary financial risks.

There is an easier alternative gaining popularity that allows the traditional forward mortgage broker to provide reverse mortgage without obtaining licensing or taking any risks. This attractive "education referral" type of program offered by reverse mortgage industry leaders is most commonly known as an advisor program. This innovative program provides those new to the sector with low-risk exposure to the ins and outs of these niche products. Instead of turning away prospects who are best fitted for a reverse mortgage and losing any possible revenue, they stay engaged with the customer during the "upstream" part of the reverse mortgage education process.

Generally, these advisor programs provide trainings that arm traditional forward brokers with sufficient knowledge that will help them determine when a reverse mortgage is appropriate for their clients and how to accurately explain the features of the loan. Provided brokers satisfy the appropriate requirements, 25 percent of the origination fee can be paid via escrow, with the client's signed verification authorizing the payment and confirming services rendered.

The benefits of trying your hand at reverses through an advisor are many:

- Extensive sales training;
- No need to monkey around with the complicated FHA approval process;
- No upfront investment (however, some brokers do spend some money in marketing to grow their advisor program);
- All processing (from application to funding) is generally handled internally by the reverse provider; and
- Extra revenue without a lot of extra work.

Perhaps most importantly, the advisor program extends the necessary education to groom up-and-coming, professional and competent reverse providers. Once again reiterating the sound advice of Bell, "Quality and integrity are essential to the growth of the reverse mortgage industry." To achieve this, he challenged members of the reverse mortgage community to go about business "by projecting the right attitude, the right image and the right behavior."

Part and parcel to that is knowledge-sharing and mentoring. Without such available programs and networks, there is too much opportunity for unskilled loan officers to hazardously fan the flames of the market, potentially leaving the rest of us (and our vulnerable clients) burned.

Martin Taylor is the owner of Bellevue, Wash.-based Stay In Home Reverse Mortgage Inc. He may be reached at (800) 963-8011.