

Written Testimony of

**Joel Schiffman, Senior Vice President, General Counsel
Financial Freedom Senior Funding Corporation**

Before the

Special Committee on Aging

December 12, 2007

Madame Chairman, on behalf of Financial Freedom, I am pleased to share with the Committee our views about reverse mortgages and the potential for abuse in the use of reverse mortgage loan proceeds for non-suitable financial or insurance products or services.

Currently, I serve as Senior Vice President and General Counsel of Financial Freedom, the nation's largest reverse mortgage lender, based in Irvine, CA. Since 1991, Financial Freedom has been dedicated to a single mission: enhancing the lives of seniors by providing financial security and independence. We recognize the special needs of seniors and have been instrumental in developing best practices, policies and consumer safeguards to protect seniors and establish the reverse mortgage as a credible financial planning tool.

Today, my remarks will focus on Financial Freedom's concerns for seniors as the reverse mortgage industry continues its explosive growth, our recommendations for how to continue to protect seniors from unscrupulous financial services providers and an explanation of some of the business practices, and steps we have already taken.

Financial Freedom's Consumer-Oriented History

Financial Freedom has a long history with reverse mortgages and our experience enables us to provide what we believe is a very valuable perspective on the growth of the industry and effective policy that can protect seniors.

As the oldest and largest reverse mortgage lender and servicer in the industry, more seniors have chosen Financial Freedom than *any* other lender for their reverse mortgages. Last year for example, more than 76,000 seniors took out a reverse mortgage – more than half of those seniors obtained their reverse mortgage through Financial Freedom. Since 1991, Financial Freedom has grown from a handful of pioneering employees to a major corporation boasting more than 1,200 employees with a presence in all 50 states and the District of Columbia.

Founding of NRMLA and Development of Safeguards

In 1997, Jim Mahoney then CEO and now the Chairman of Financial Freedom, was instrumental in founding, The National Reverse Mortgage Lender's Association ("NRMLA"), the industry's trade group, of which our current President, Bart Johnson is Co- Chairman. Jim recognized that, as an audience, unscrupulous companies, especially within financial services, had exploited seniors in the past. In addition, reverse mortgages were a new and misunderstood financial management tool.

Through its participation in NRMLA, Financial Freedom facilitated the establishment of Best Practices and a Code of Conduct that help ensure reverse mortgage originators and lenders treat seniors respectfully. The company also worked with AARP, NRMLA and governmental agencies to establish critical safeguards for the Home Equity Conversion Mortgage (HECM), the dominant product in the market, to protect seniors.

The general product list of safeguards includes:

- The borrower retains title to the home and cannot be forced to leave as long as real property taxes are paid and property insurance is maintained;
- The borrower cannot owe more than the value of the home upon repayment of the loan (this protects the borrower's heirs as well);
- HECM product is FHA insured;
- There are limits on fees;
- Mandatory independent counseling helps ensure that a reverse mortgage is suitable for the borrower's circumstances;
- Tenure payments continue as long as the borrower is alive;
- The loan does not have to be repaid until borrower permanently leaves the home;
- Reverse mortgage proceeds are tax free, can be received as a lump sum, line of credit, life payments or any combination.

In addition, Financial Freedom has incorporated these additional consumer safeguards into our standard business practices:

1. Our Reverse Mortgage Specialists provide each senior borrower with a side by side illustration of three different reverse mortgage products, as well as the benefits and options available, created by Financial Freedom's innovative, proprietary software program, Reverse Mortgage Analyzer (RMA).
2. We encourage all of the senior borrowers' advisors, both personal and professional, to meet with our loan representatives to review the needs and options available to that senior.
3. We use HUD approved, specially trained counselors to provide the senior borrower with an objective review of the product prior to processing an application or the borrower incurring any costs.
4. Our underwriting center conducts a review of the loan submission, program and product selection.

5. After the closing, an independent customer satisfaction survey is mailed to each senior borrower to obtain an opinion and comments on the loan process.
6. Proceeds from the initial disbursement of all reverse mortgages may only be paid (i) to discharge any existing liens on the property, (ii) to pay contractors for any repairs performed as a condition of closing, (iii) to pay the initial mortgage insurance premium (if applicable), (iv) pay fees the lender is authorized to collect, and (v) directly to the borrower or the borrower's representative.
7. Financial Freedom does not offer, endorse, or recommend the purchase of any other financial or insurance product or service. We make it very clear to all customers that they do not need to purchase any other product or service in order to obtain a reverse mortgage.
8. All Financial Freedom employees are W-2 employees that have no other employment with real estate, financial services, and insurance or securities firms and annually attest in writing that this is the case.

These practices are intended to assure that senior borrowers and their advisors are provided with objective, complete, and honest information to assist them in selecting the right reverse mortgage program and product options. They are also designed to create a clear separation in the senior's mind between their reverse mortgage transaction and any other product or service they might consider purchasing with proceeds from their reverse mortgage loan. Our goal is to ensure that the correct solution (loan) is matched to the borrower's needs. As a result, our borrowers are well informed of their options when they take out a reverse mortgage from Financial Freedom and know that they are in control of their financial situation.

Education

Along with NRMLA, Financial Freedom has been a leader in education. From the beginning we have focused on educating consumers about reverse mortgages, training lenders to be sensitive to the needs of older Americans, reaching out to the media with accurate information, and developing proprietary products that addressed needs in the marketplace that could not be met by the government sponsored programs. Some examples include:

- Annuity Disclosure – Financial Freedom recognized there was a void of information regarding reverse mortgages and annuities. In response, we developed a specific annuity disclosure that provides objective information on combining reverse mortgages and annuities. A copy of this consumer friendly, but informative piece has been attached as Appendix “A” to my written testimony
- Is a Reverse Mortgage Right for You? – This core piece of collateral educates consumers on the costs and fees, payment options, and implications of using a reverse mortgage. It also advises seniors on alternative options and resources they should consider before making a decision. A copy of this brochure has been attached as Appendix “B” to my written testimony.

- Financial Freedom's Website – Our website provides detailed information, FAQ's and tools such as our reverse mortgage calculator. All of which is designed to educate consumers so they can make informed decisions.

Product Innovator

Throughout our history, we have been a product innovator, bringing products to market that provided seniors with more choice and flexibility while identifying ways to lower the overall cost to the borrower. This year alone, we introduced two HECMs that have the potential to lower overall costs, a fixed rate HECM, and most recently in October a LIBOR index based HECM, which historically has generated a lower overall interest cost compared to CMT based HECMs.

As early as 2001, Financial Freedom developed the first ever jumbo reverse mortgage for seniors with higher value homes as well as the first no-fee reverse mortgage.

Deep Understanding of the Reverse Mortgage Industry and Seniors' Needs

Financial Freedom specializes in reverse mortgages and doesn't sell or promote any other financial products. This commitment has resulted in a level of experience and expertise that no other company can match.

In addition, Financial Freedom has conducted its own research studies of older Americans to help gain a better understanding of the issues that are important to seniors. The data from our annual Senior Sentiment Surveys, focus groups and other research provide us with a continuous flow of information that helps us develop meaningful products, policies and processes.

Effects of Industry Growth

No doubt you are familiar with the rapid growth of the reverse mortgage industry. The industry has grown from a total annual loan volume of around 7,000 loans 4-5 years ago to over 76,000 loans in 2006 and is expected to grow to over 100,000 loans in 2007. This growth has brought many positive changes, but as in any situation of rapid growth, there are concerns to address as well.

The industry's growth has attracted many major financial institutions who are now participating as investors, as lenders, as originators and product providers. The result has been strongly positive for consumers. Additional participants bring consumers more providers from which to choose; a wider range of product options, and greater attention to reverse mortgages, which is important from an education perspective.

Perhaps the most exciting development this year was the first significant reduction in overall loan costs for consumers. The industry growth attracted the interest of many Wall Street firms which in turn fostered the development of a broader secondary

market. This lowered lenders' overall origination cost which has promoted greater pricing competition, resulting in greater costs savings to the borrower.

Other highly respected financial firms, such as Genworth and MetLife, are also taking an interest in reverse mortgages. We expect this will bring new products to market for seniors in the coming years that create even more options and solutions for seniors' retirement needs.

Concerns

Naturally, anytime an industry experiences rapid growth, it needs to be vigilant to maintain the integrity of the products, service and sales process. This is especially true for our industry for several reasons.

First, our primary audience is seniors who have traditionally been more vulnerable and are typically not in a position to readily recover from financial setbacks and losses. We have a responsibility as an industry to continue to develop policy and safeguards that protect seniors.

Second, a number of lending professionals without reverse mortgage expertise are entering the reverse mortgage market. The concern here, of course, is that seniors may be approached by poorly trained and inexperienced originators.

In addition, while we are proud of the strides we taken over the last 5-7 years to educate consumers, professionals and the media, there is still more work to be done. For example, our recent survey of seniors 62-75, found that only 40% had heard of reverse mortgages. While that's a significant increase since 2001, it illustrates the information void.

We are also concerned that the rapid increase in the number of lenders and product options combined with the inherent complexity of these products can be difficult to navigate for anyone.

Product Distribution

As is standard practice within the mortgage industry, reverse mortgage products are distributed through both retail and wholesale channels. Financial Freedom distributes its products through both channels and has developed specialized training for the independent loan originators and lenders who participate in our wholesale channel.

Financial Freedom has an extensive training program for reverse mortgage originators and stringent policies and procedures to evaluate originators before they are approved to sell our products. We have also terminated selling agreements with originators who violate our policies. Our due diligence process includes:

- We run MARI checks on every individual who will be originating loans. This is a typical industry practice. MARI [Mortgage Asset Research Institute] identifies any complaints brought against a broker/lender;
- We research the company/reverse mortgage sales rep as far back as possible to uncover any red flags from lawsuits to judgments and liens to driving violations;
- We require annual re-certification of originators and loan officers ;
- We check HUD neighborhood watch to ensure they are active, approved and in good standing with FHA;
- We check all government web sites and state licensing departments to check for red flags;
- We check industry references.

Annuities and other Financial Products

Of course, there are no limitations on how borrowers may choose to spend their reverse mortgage proceeds. Outside of the loan transaction itself, borrowers can use the proceeds they receive from a reverse mortgage to fund other financial instruments, such as annuities, long term-care insurance and various life insurance products. Use of such products adds a layer of fees but, depending upon how they are structured, might not offer the senior materially greater benefit than the reverse mortgage itself.

However, there are situations when an annuity or other product can add value and better suit the senior's needs. Unlike a reverse mortgage, where a senior's access to loan proceeds is dependent upon staying in their home, an annuity offers a stream of payments that is completely portable and available to the senior irrespective of his/her residence. In addition, certain combinations of reverse mortgages and annuities could potentially offer higher lifetime payments to the senior than are available through the reverse mortgage alone. For this reason, it is important that we not paint with too broad a brush in characterizing the risks of combining a reverse mortgage with the sale of other financial services and insurance products.

Perhaps most challenging, these decisions are inherently subjective. The value placed upon having a secure and portable lifetime payment may vary not only by one's individual financial circumstances, but also by one's lifetime experience and sentiments.

For this reason, we do not recommend any course of action or proposed solution that restricts a senior's choices or takes away his or her ability to make their own decision. We are very focused on protecting seniors from a perception, or a prejudice, that they are incapable of making these kinds of decisions for themselves.

To the contrary, by emphasizing education and putting seniors in a position to make informed decisions, we believe we can better empower them, provide them with greater independence and ultimately help them improve their quality of life. That's why we have created educational materials, such as our annuity disclosure, and always encourage seniors to have their trusted advisors, including their children and professional

advisors, to meet with our loan representatives to review the needs and options available to that senior.

Recommendations

Our goal is to ensure that seniors are receiving the best reverse mortgage advice in every situation, the best product appropriately suited to their needs, and objective information so they can make an informed decision. We believe that we do a good job in this respect, but appreciate that purveyors of other financial, insurance or investment products need to be as vigilant as we are in order to help seniors make an informed decision with respect to how they use proceeds from a reverse mortgage. Each of these parties is typically subject to their own licensing and oversight by governmental agencies and has independent obligations to the consumer. We encourage those parties to help seniors make an informed decision on the financial or insurance products they may choose to purchase with, or without, the proceeds from a reverse mortgage.

Nonetheless, as an industry, it is important that we continue to strive toward mitigating, as much as possible, the potential that seniors might be inappropriately steered to use the proceeds from their reverse mortgage to purchase a non-suitable financial or insurance product. For that reason we must once again emphasize education as the solution.

Enhance Independent Counseling

Required counseling is a consumer safeguard of which our industry is especially proud. Even when not otherwise required by law or regulation for its proprietary products, Financial Freedom insists that all reverse mortgage borrowers receive counseling. I can think of no other industry that has embraced a process, following the point of sale, which incorporates an independent third party who is charged with protecting the consumer's interests. Our industry has done precisely this and has done so in recognition of the special population we serve.

We recommend bolstering the HECM Counseling Protocol to better address the use of annuities, in a manner similar to what Financial Freedom has done by providing its customers with the annuity disclosure mentioned earlier. By enhancing the counseling content and process, we can allow seniors to retain a full range of choices while addressing an area of potential abuse.

Collaboration

A spirit of collaboration is essential to addressing the issue that is before us now as lenders, regulators, community leaders and borrowers. As stakeholders and beneficiaries of the reverse mortgage market, we all share an interest in working together to implement solutions that maintain an environment that promotes access to responsible credit.

Most importantly, we all have a responsibility to our nations' seniors to provide the financial products and services that empower them to lead independent, financially secure and fulfilling lives.

Appendix A

Important Information Regarding Annuities

Appendix B

Is a Reverse Mortgage Right for You?