COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON PUBLIC HEALTH AND

HUMAN SERVICES

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Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, November 18, 2008
1:20 p.m.

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PRESENT:
COUNCILWOMAN MARIAN B. TASCO, CHAIR
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN JAMES F. KENNEY
COUNCILWOMAN DONNA REED MILLER
COUNCILWOMAN BLONDELL REYNOLDS BROWN

RESOLUTION 080729 - Resolution authorizing the Council Committee on Public Health and Human Services to hold hearings regarding reverse mortgages.

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COUNCILWOMAN TASCO: Good afternoon, everyone. My name is Marian Tasco and I chair the Committee on Public Health and Human Services, and I'd like to call this meeting to order and ask our Clerk to please read the resolution.

THE CLERK: Resolution 080729, authorizing the Council Committee on Public Health and Human Services to hold hearings regarding reverse mortgages.

COUNCILWOMAN TASCO: Thank you very much.

I'd like to recognize Councilwoman Donna Reed Miller, Councilman Jim Kenney, but other Councilmembers are on their way. This is a resolution where we do fact finding, so we do not need a quorum to begin the discussion. We do have a stenographer here who will record the proceedings of today's hearing.

I'd also like to state that this is the beginning of a dialogue around this issue of reverse mortgages.

As some of you know -- and I see Ian here from ACORN -- about eight years ago, this Council and this Committee had public hearings on the issue of predatory lending, and as a result of the hearing, we formed a planning group or, I guess, a legislative group made up of various entities throughout the City to draft legislation to address the issue of predatory lending. And as you may also know, the bill that we passed, which was quite comprehensive, it would have protected a lot of our citizens in this city who are now in foreclosure from losing their homes, and for a number of reasons, not so much through new purchases but because of many of these homeowners had equity in their homes and they were, I guess, tricked or cajoled into or talked into refinancing their homes and not being able to make the payments after the new loans were acquired.

So our bill had many facets

that would have helped these homeowners, and, of course, the State preempted the legislation and said that the City Council does not have jurisdiction over banks.

As a result of that, our hearing and our legislation, there were other cities that attempted to pass the legislation. Most of them did. It was Ohio, Cleveland and someplace in Nevada, Arizona -- no; Nevada and then in Oakland, California. And as I understand it now, all of the cases are in court, because they were challenged by the Mortgage Bankers Association.

But we're not going to be -- we're not going to stop. As you can see, now we're in a financial crisis in this country and in this world, and certainly a lot of it is due to the greed of Wall Street and also the lack of control of those individuals who preyed upon home buyers as well as people who have home equity loans, and they are now finding themselves in foreclosure.

Being a senior citizen, I receive two or three times a week a mailing from some entity or company asking me to consider doing a reverse mortgage. For some homeowners -- we're not here to blast the idea of such a program, but in every program that I've come across as long as I've been working in this business, there's always some hidden line or hidden paragraph that the homeowner doesn't read or understand that usually puts them into trouble down the line. And I have a number of senior citizens in my district, a number of homeowners who are -- we all moved up in my community 30 years ago and now our homes are being paid for. A lot of us have children who are not with us. It sounds like it might be a good idea, and it could be, but what we want to begin is the dialogue to see what pitfalls may come about as a result of some of the sellers of these programs and/or some of the contracts that are being signed.

So that's why we're here today, just to have a beginning dialogue. And then we will -- we won't adjourn the Committee. We will recess the Committee, because that will keep the record open, and we can come back after we've sat down, kind of reviewed the testimony and talked to other organizations about what's going on, maybe come back, or if we have to try and draft some protective ordinance, we will do that, too.

So I just wanted to go on the record to let you know what we're doing here today. We do not have legislation that we are passing. We don't have a bill. We do have just a resolution that allows us to begin the dialogue around this issue. And we thank you for coming out this afternoon to share information with us, give us ideas and/or share with us any problems you might have had in this arena.

So now I'd like to first call

on Mr. Kenneth McDougald.

Mr. McDougald, are you here?

MR. McDOUGALD: Yes.

COUNCILWOMAN TASCO: Would you come forth, please.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Please have a seat, sir, and would you identify yourself for the record and you may proceed with your testimony.

MR. McDOUGALD: Good afternoon, members of Council and others. My name is Kenneth McDougald and my interest in this matter, when I read that there was going to be a hearing in the paper, I became interested in attending because I had reason to inquire about reverse mortgages.

I have a small row home in North Philadelphia and I have no heirs, so I thought a reverse mortgage would be something that I could use to have the equity out of my home and a little bit of additional income. However, after reading the forms that were sent to me and after a telephone interview with a lending counselor, I became a little bit put off, because all of what was being said wasn't totally true and some of it -- some of the money that I would be getting would not be all mine, because of fees, service charges, various things.

Specifically, the first thing they tell you is that you continue to own your own home. This may be true, but like any other loan, you don't own it until it's paid off. So whoever you leave your house to would either pay it off, you would pay it off before you become deceased or it would reverse to whoever gives the loan. So that's the first thing that people should know.

Secondly, out of a $50,000 loan, you would only be getting $38,000 because before that occurs, before you get the loan, you have to pay an application fee, it has to be inspected, you have to have an appraisal. And you have to use their people for all of these things. And the reason why I underline "their people" is because I said, Well, I have my own appraiser who could do this. And my appraiser once told me that, How much do you want your house to be worth rather than how much is it worth. He said, I could make it worth whatever you want it to be worth. So all of those people, all of those fees would come out of the loan ahead of that.

Then they ask you if you want to take a lump sum or monthly payments. I was interested in a lump sum and put the money in my own bank and whatever way I wanted to distribute it. However, they stressed taking monthly payments. Now, in taking monthly payments, there is a service charge that they tack on to the amount of money you get.

Now, also when I mentioned that I could get greater interest from my own personal account than they were giving, they told me that their interest was a better deal. However, their interest was going to be eaten up by the monthly service charge, which was something I didn't anticipate whatsoever paying a service charge to them for handling my money. Okay? I know that's maybe an ordinary thing in some cases such as with a checking account and so forth, but they tell you this after the long process. And that service charge would have eaten up any interest I would have gotten on the account.

So all I am saying is that anyone who is interested in a reverse mortgage should read up on it. There were companies I applied to who said that they didn't handle homes under $100,000. There were others that weren't interested in the neighborhood that I lived in. We all know that there are certain neighborhoods that some lending agencies don't want to give loans to. And that in reading everything and learning everything about it, if it's all right for you, fine. I'm not knocking it, but I'm just here to relay my experience with it.

Thank you.

COUNCILWOMAN TASCO: And we certainly appreciate that. Were the companies local companies or were they companies you received solicitation through the mail or by phone?

MR. McDOUGALD: No. These were companies that I read about in the paper. Two of them were in New Jersey. Another one was in suburban Philadelphia. And all of them did business over the telephone until, I guess, at the point that it was time to make whatever settlement there was, then you would meet with whoever was giving the loan.

And just one more thing, if I may, that I forgot to mention. I also became interested in this hearing because when I was going around town to various senior centers and places to -- you know, you apply for the HEAP and things like that. When I was going to these agencies -- and these are agencies that people go to, senior citizens and so forth. The ones that I go to were the people who are all on fixed income, and not a lot of fixed income. And so they had notices if you are in foreclosure or certain -- if you're having trouble paying your monthly mortgage, why not consider a reverse mortgage. And to me, I thought that that was maybe pandering toward a group of people who might not read everything and become fully aware of what they would be getting into.

COUNCILWOMAN TASCO: Thank you very much.

Any questions?

(No response.)

COUNCILWOMAN TASCO: Let me recognize Councilwoman Blondell Reynolds Brown.

MR. McDOUGALD: Thank you.

COUNCILWOMAN TASCO: We

certainly thank you for your testimony. I hope you will stay, if you can, because it will probably not be a long afternoon. We only have about five to six witnesses, and you may hear some information, and we may want to call you back and ask you some questions, too.

MR. McDOUGALD: Okay.

COUNCILWOMAN TASCO: Thank you so much. We appreciate your coming out.

MR. McDOUGALD: You're welcome.

COUNCILWOMAN TASCO: Ian Phillips, ACORN.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good afternoon. How are you?

MR. PHILLIPS: Good. How are you guys?

COUNCILWOMAN TASCO: Good.

MR. PHILLIPS: I just want to start by thanking you again for giving ACORN the opportunity to testify on the issue of reverse mortgages, as this is a financial product that is sure to grow as our nation and our city ages and subprime refinance loans, which you have identified the perils of them, will become more rare and already have been.

ACORN is especially grateful for the opportunity to discuss this topic in recognition of Council's visionary approach to a number of financial sector issues. In 2001 when adjustable rate mortgages were just a bit more than some scribbled notes on a Wall Street boardroom, this city passed what was at the time the most comprehensive piece of anti-predatory legislation in the country. This Council recognized the perils of equity stripping repeat financing, which at the time were fixed rate mortgages, but they kept recycling these loans and stripping the equity in fees and different things, that unscrupulous financial service companies were taking the place of banks in too many of our neighborhoods.

Again, just six months ago, this Council set Philadelphia down a path that led to the innovative and nationally recognized Residential Foreclosure Diversion Pilot Program, which is being seen today as the most successful foreclosure prevention program in the country. We sit together today now focused on the next frontier of an increasingly complex mortgage industry.

Reverse mortgages, as I said, are set to become the next big financial product to define mortgage lending. They have the potential to help many of the City's seniors, but also the potential to squeeze wealth built up over generations to be drained from our neighborhoods and also the potential to lead to increased vacancy.

Reverse mortgages, or home equity conversion mortgages as they are officially known, are loans that allow homeowners to convert their home's value into cash. For a senior on a fixed income, with no heirs or with heirs, this can mean a single lump sum, a regular monthly cash advance, a line of credit or any combination of the three. The loan does not need to be paid back until the homeowner passes away or moves out of the home.

The amount paid to the homeowner is dependent on both the age of the homeowner and the amount of equity in the home. Other factors include, as the previous testifier put so well, include the financing of the closing fees, the taxes and insurance. Some of these monthly surcharges are also tacked in.

To offer a couple of examples courtesy of the AARP, which has released a lot of documents that have studied this issue, a 65-year-old homeowner with 150,000 in home equity offered a six percent interest rate would be offered a lump sum or any mix of those products totalling $74,325. If the same homeowner is offered an eight percent interest, though, that payment drops to $47,000. That's with $150,000 in equity in the home. So you're getting about a third of that equity.

If an 80-year-old homeowner with $150,000 in equity is offered a six percent interest rate, the payment is $97,930. With an eight percent interest rate, the payment becomes $79,000. And that's without some of these additional surcharges and without some of the taxes and insurance being included in the financing of the mortgage. So those are still taken out of that lump on top of that.

And this isn't in my testimony, but really what the banks are looking to do is create a cushion for them, so that when the homeowner passes away and they have to make a quick sale of the home, either to the heirs or someone else, that they aren't having any potential to lose money. So they're giving just a certain percentage of the loan. And because they -- they're charging you interest based on how long they anticipate you're going to continue to live in the home. So that's why you get more when you're older, because they think they're only going to be charging you for a few years and then they're going to recoup the costs when you pass and move out and more interest when you're younger.

The simple way and not so simple way to think about a reverse mortgage payout amount is the home's equity minus the interest the lender estimates to charge over the life of the loan and the fees, taxes and insurance. And there's kind of a little equation that I put in here just so we can see it all. But really the simpler way to think about it is, you need a housing counselor. Most people need a housing counselor to engage in this.

HUD has in the last two years begun certifying housing counselors, non-profit housing counselors, as reverse mortgage specialists. And while they cannot recommend a company -- and I think there's significant peril if they start doing that and they shouldn't recommend the company -- they can guide a borrower from considering reverse mortgage to closing on a reverse mortgage if the homeowner qualifies.

Reverse mortgages are perhaps the most complicated of all loan products still on the market, and in those weeds of complexity lies the potential for an unscrupulous broker to deceive Philadelphia's seniors. Seniors considering a reverse mortgage should contact a HUD-approved reverse mortgage specialist at a non-profit housing counseling agency before seeking out any offers.

I've heard Irv Ackelsberg testify a million times with Derek holding hearings in different audiences, and I think the quote that I always hear from him that I think really applies is,

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If money is chasing you, you should run away. That is a good rule of thumb.

There are obvious benefits to seniors with little income and increasing expenses. With the right circumstances and loan product, a reverse mortgage can help a homeowner through his or her golden years. The largest drawback is the fact that in most cases, the home will not be able to be passed on to the next generation.

Passing on a home to the next generation is low- and moderate-income families' most common method of building wealth. The implications for en masse reverse mortgages are dire even if the loans are drawn up fairly. A giant sucking sound would be an all too kind description for the equity and wealth being stripped out of low-income families' balance sheets and their surrounding communities if reverse mortgages became commonplace rather than the exception.

Applying for a reverse mortgage should be, in many ways, a family decision, assuming the person has heirs, met upon with the help of a HUD-certified housing counselor. A family decision, because when the homeowner passes away, the heirs to the property will themselves have to take a mortgage in most cases out if they hope to keep that home in the family. A senior struggling on a fixed income would often be better served by relying on those they would hope to pass the home along to in their waning years, only to take a reverse mortgage as an absolute last resort.

Policymakers, however, would serve their neighborhoods well to see that reverse mortgages do not become seniors' last resort, as the implications in neighborhood destabilization and sapping of low income wealth are great. If too many seniors feel like they have no other option, Philadelphia's pride in being a city of homeowners could shortly be brought low.

COUNCILWOMAN TASCO: Thank you very much.

Have you all helped any seniors with the issue of home equity loans and have you had any senior citizens come to you for assistance when they might want to consider it?

MR. PHILLIPS: We have one counselor in our office that is certified as a reverse mortgage specialist, and we've walked a few people through the process and I think closed on a couple, the homeowners closed on a couple.

You know, mainly we advocated in a case where people don't have heirs or someone that they don't want to pass it on or they're struggling, really struggling, and this absolutely is a last resort. The cases that I know of that we actually have brought through fruition have been in the suburbs, though, not in Philadelphia. As the previous gentleman mentioned, the equity -- you have to have substantial equity built up in the homes. So folks that are struggling paying a mortgage and already have a debt, the reverse mortgage has to be in first position on the loan. So you really have to pay off all that debt up front and then still look at the amount of equity.

In my testimony, I mention a homeowner who has $150,000 in equity. That's not many low- and moderate-income seniors that have that in Philadelphia, have that much equity in their home. So when you draw that down to $60,000, $70,000 in equity that a row home has in equity and then sap out those fees and that cushion that the lenders built in to the sale of the home, a lot of times a reverse mortgage doesn't make sense and folks don't qualify. That's what we found a lot of times looking at Philadelphia's homeowners.

People are looking for a way out because they're struggling, but then they come in and realize, I don't have enough equity to make this work or I'm 62 and there's no way that this $20,000 that they're going to give me is going to last me through my senior years. They just turned 62. They think they qualify for a reverse mortgage now and it just doesn't work out.

COUNCILWOMAN TASCO: Okay. Any questions?

Councilwoman Brown.

COUNCILWOMAN BROWN: Good afternoon.

MR. PHILLIPS: Good afternoon.

COUNCILWOMAN BROWN: Thank you for your testimony.

So am I hearing that before they get to you, there are no safeguards, no cushions, no red flags, no antennas that comes to their attention so that they understand that a reverse mortgage is not in their best interest? Is that what I'm hearing from you?

MR. PHILLIPS: I mean, there are disclosures like there are in a lot of mortgages, but there aren't like a certification of the lender so you can say, I'm a good lender. AARP I think is starting to do some of that.

COUNCILWOMAN BROWN: AARP?

MR. PHILLIPS: AARP is starting to do some of that, but there isn't any red flags that a homeowner would get. Like Councilwoman Tasco said, there's seniors, as soon as they turn 62, are getting inundated with mail and sometimes phone calls with these offers.

COUNCILWOMAN BROWN: So is there any role government can play, city government, municipal government, to if not protect, to alert them of the downside of reverse mortgages?

MR. PHILLIPS: I think there is a role in alerting the seniors, and some of these community meetings are definitely helpful. Legislatively the State has done a lot to preempt what the City can do and the amount --

COUNCILWOMAN BROWN: Such as?

Help me out. Such as what?

MR. PHILLIPS: In the same way that -- the same law that preempts the City from acting on banking matters would preempt them in this matter as well.

I think that there's maybe some certifications that could be given or seek out a City-approved agency or a City-approved reverse mortgage counselor in the same way HUD is doing it, and then making sure that pointing seniors to those counselors before they sign any documents, that might be an outlet.

But we definitely are excited to be part of this discussion, because I don't think any other cities are looking at this in a concerted way and thinking about what we can do before --

COUNCILWOMAN BROWN: Strategically to protect the seniors.

MR. PHILLIPS: Yeah.

COUNCILWOMAN BROWN: So in your opinion, what City agency does it make sense to become intimately involved in some of these strategic moves to arm seniors? What City agency do you think makes sense?

MR. PHILLIPS: It probably makes sense through OHCD, which supervises and sees over many of the City's housing counseling agencies. That probably makes the most logical point. As you guys know, they have their hands full dealing with this foreclosure crisis that we're in the midst of, but I think there's definitely a role for some oversight in this.

COUNCILWOMAN BROWN: Thank you for your important testimony.

MR. PHILLIPS: Thank you.

COUNCILWOMAN TASCO: Thank you.

Councilman Jones.

COUNCILMAN JONES: Thank you, Madam Chairman.

During the hearings for the predatory lending bill, which led to the moratorium on Sheriff's sales, which led to the diversion program, there was at one point a discussion as an option the certification of lenders in the City of Philadelphia, meaning that someone offering a mortgage product would have to get a certificate here at the City of Philadelphia where there would be a screening of their viability.

And I don't know if in fact the Law Department would allow us or the State department, Madam Chair, would allow us to do that, but that is something I think at least warrants consideration, a registry here in the City of Philadelphia that you are a lender or a mortgage underwriter so that we could almost put them through a --

COUNCILWOMAN BROWN: Screening?

COUNCILMAN JONES: --

screening, if you would, and if nothing more, for their practices and making sure that there weren't complaints lodged against them, that I think maybe at that critical juncture, we might be able to insert some City exposure to these people so that we at least know who is operating in our municipality, know what kinds of products that they're putting out. And, of course, there's the whole "let the buyer beware" piece, but I do think this might be a small window of opportunity for us to kind of put a check and a balance in that.

COUNCILWOMAN BROWN: Question on that, Philadelphia Corporation of Aging, are they involved in this debate, this discussion, this concern at all at any level? If nothing more, in terms of awareness to seniors about the downside of reverse mortgages; do you know?

MR. PHILLIPS: I don't know personally what their take on this is yet, no. I'm sorry. I think there's a lot of different agencies that deal with the City seniors that could be bringing this up more often.

I do think that this is a good idea. Act 6, which preempted our initial piece of anti-predatory legislation,

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wouldn't allow you to say, you know, not allow a reverse mortgage broker to act, but I think that brokers who are acting on the up-and-up -- and there are lots of them. I think we're going to hear from some today -- I think would welcome a seal of approval from the City that they could point to and say, See, I am one of these approved reverse mortgage brokers and I am acting -- I'm not charging exorbitant fees, et cetera.

COUNCILWOMAN BROWN: So if not a City agent like the Law Department for any number of reasons, another entity that has the same kind of reach as the Law Department and is in the business of being an advocate for seniors?

MR. PHILLIPS: Absolutely.

COUNCILWOMAN TASCO: Who are the reverse mortgage brokers? Are they insurance companies? Are they realtors? Or just who they are? Can I be a reverse mortgage broker?

MR. PHILLIPS: Yeah. You know,

there aren't any specific certifications that I'm aware of. In the same way that there's independent mortgage brokers, most of the folks that make these loans are independent, they own their own businesses, they don't operate exclusively with one bank or another. Eventually that mortgage is going to have to be placed with a bank, because the money is coming out. But most of these loans are originated, and then the banks are found during that origination process.

I think in the resolution that set up this hearing, I think that there's a lot of truth to the statement that the other parts of the mortgage industry have dried up, especially the subprime part of the industry, and there's definitely I think a shift from those who still want to remain in the industry to shift to doing reverse mortgages and getting a bit of equity and making loans off of folks who have paid off their home or are close to. And that's a peril when you think about some of the folks that got us into this mess are also going to suddenly move into this business. Not all of them are like that, but people who made these bad loans, they didn't all disappear overnight, and they're going to find the next best thing, and reverse mortgages just might be it for them.

COUNCILWOMAN TASCO: State Representative Curtis Thomas passed legislation on the state level to require mortgage brokers to register. I don't know the specifics of that legislation. We'll look at it to see if it would cover the whole issue of reverse mortgage brokers, because his covered -- they had to get a license, I believe, with the State in order to do subprime lending.

MR. PHILLIPS: Right. Yeah. I mean, those passed earlier this year, and they were mainly licensing bills. I don't think reverse mortgage lending was mentioned specifically by name, but I think that they do fall into the umbrella of the Department of Banking. I don't think that they'll necessarily be licensed as reverse mortgage brokers. They'll just be licensed as loan originators. There was other good provisions in that bill as well.

COUNCILWOMAN TASCO: We'll have to take a look at that.

Thank you so much for your testimony.

MR. PHILLIPS: Thank you.

COUNCILWOMAN TASCO: Any other -- Councilwoman Miller.

COUNCILWOMAN MILLER: Hi. Good afternoon, and thank you for coming.

MR. PHILLIPS: Good afternoon.

COUNCILWOMAN MILLER: When you're home during the day, you see lots of TV commercials advertising about the reverse mortgage, and I guess at some point, there needs to be some type of public information that let's people know they need to take this slowly, because the commercial makes it seem really, really good. And I image there are some good companies and there's some not so good companies. So I guess at some point we just need to publicize the fact that they need to go to a housing counseling agency and find out more about reverse mortgages.

I called one day and I told them that I was calling for my aunt, because at the time, you had to be a certain age to get the information. So I don't think I ever really received it. But it was something that was new to me. I didn't know a lot about it, and I'm sure there's like plenty of people that don't know much about this. But if we don't somehow publicize that it could be good, that it could be bad, then we're just going to have a lot of people fall into the trap. And that's what we have to do, is begin to tell people, but I guess we have to understand the full side, whether it's good, whether it's bad, before we can publicly tell people to just walk with caution, move with caution. Because when people need financial resources, they need help, then sometimes you're not thinking as clearly as you should.

So I guess for me, I mean, I'm really learning today at this hearing, because I don't know a lot about reverse mortgages, and I've read some of the testimony and some say it's good and others say it's not so good. But I'm just glad to be here so I can learn more and we can spread the word. I have a family of elderly residents who need to know.

MR. PHILLIPS: Yeah. Absolutely.

COUNCILWOMAN MILLER: Okay. Thank you.

MR. PHILLIPS: Thank you.

COUNCILWOMAN TASCO: Thank you so much. We appreciate your testimony.

Lance Haver, Mayor's Office of

Consumer Affairs.

(Witness approached witness table.)

MR. HAVER: Good afternoon.

COUNCILWOMAN TASCO: Good afternoon.

MR. HAVER: My name is Lance Haver. I am the Director of the Office of Consumer Affairs. Thank you very much for this opportunity to testify on Resolution No. 080729, an investigation into what's commonly referred to as a reverse mortgage.

I'm sure it would be easier for everyone if one can unequivocally say either reverse mortgages are good and everyone should get them or reverse mortgages are bad and everyone should avoid them. Unfortunately, in my opinion, that simply isn't true.

Reverse mortgages, when entered into by the right homeowners, where the fees are reasonable and the type of payout fits the homeowner's need, are great. Older and elderly homeowners who have spent a lifetime building equity in their home have a way of using that equity to allow them to stay in the home as long as they want or can.

But reverse mortgages where the fees are so high and necessary repairs so great that the equity left in the home is not enough to allow the homeowner to pay taxes, utility and expenses with a monthly check is like quicksand to seniors and their families, who sink further and further into a situation where there are no viable options. For those seniors, the reverse mortgage was a trap that should have been avoided.

I want to be clear. I fully support giving homeowners with proper counseling the right to enter into a reverse mortgage, but I also want to point out the societal dangers of reverse mortgages that usually go unmentioned, and then proceed with some suggestions of how we can offer the greatest possible protection and the greatest possible choice for homeowners.

Reverse mortgages are a solution to a societal problem that has been created by a federal government and society that has changed its compact with its citizens. From the days of FDR to 1980s, America's government and society had a compact with ourselves. If you work hard until your retirement, you will be able to live out your remaining years in some level of comfort. They were named the golden years. Workers who had a part in creating America's wealth were entitled to enjoy it after they reached retirement. Social Security, the laws protecting pensions like ERISAs and the Federal Pension Guarantee Benefit Corporation were in place to ensure it would happen.

And the wealth that one generation built in their savings, which included the equity in their home, was passed on to the next, allowing the next generation to be better off. Sometimes that wealth was used for material comfort, a bigger house, newer cars, but more often it was used to fund college for grandchildren and start-up business for entrepreneurs. This provided long discriminated against Americans a way to build up family wealth.

The last few years have seen this compact broken. Pension plans have been bankrupted, wealthy companies like Verizon have eliminated pensions, and many American workers for the first time since the Great Depression are facing retirement without pensions.

I do not believe that we should allow reverse mortgages to take the place of a societal compact. We as a society should continue to advocate for a wealth distribution that is equitable enough that seniors who have worked their full lives should be able to have a few golden years at the end. And the succeeding generation should be able to share in the wealth that was created. Much like food stamps should not take the place of a fight for a livable wage, reverse mortgages should not take the place of a societal compact that rewards people for working all their lives.

But as America continues to perfect the promise of America, we need programs such as food stamps and reverse mortgages to ensure that we do everything we can to alleviate poverty and suffering.

To protect consumers from the most common problems that arise from home mortgages, I would suggest that the City place a cap on fees that a mortgage company can charge; that no reverse mortgage be offered unless the homeowners can show how they can pay the taxes, utilities and other living expenses with the income they have; and that every Philadelphia housing counselor have a survey test they give to a homeowner to allow homeowners to know if they really understand what they are doing before they borrow against their future. I would hope that this could be enforced by having the Records Department refuse to accept liens or mortgages for reverse mortgages unless it was accompanied by a filled-out survey form and a list of the acceptable fees and prices.

As I said before, there is nothing inherently wrong with a reverse mortgage. For some it is a great solution to the problems they face. We must do what we can to limit the fees to a reasonable level, the best we can to inform consumers of the pros and cons, and then allow people to choose for themselves.

Again, thank you for this chance to testify.

COUNCILWOMAN TASCO: Thank you for your testimony.

Councilwoman Brown asked about the City's involvement with educating our senior citizens. Do we still have the

Department of Aging?

MR. HAVER: We do. We have the Mayor's Commission on Aging, yes.

COUNCILWOMAN TASCO: Is that something that they could or that you know that they have listed as one of their areas of concern?

MR. HAVER: Well, I would hope so, but I would think that, again, as ACORN has stated, that the best way to do this is through the housing counseling, and I think that if we were to look at it in a more global sense, we would want to help the mortgage brokers and the mortgage companies make sure they make use of the counseling, and that's by having the Records Department refuse to accept any lien or any mortgage unless it's accompanied by a certificate that someone came to the housing counselor, went through the fees, the normal fees that the City can state, and took a survey so they understand.

Some homeowners really do

understand it and it is a great option for them. Other homeowners, as you've heard, really don't understand what's going on and really don't understand exactly what's going to be required for them. Many homeowners don't recognize that the mortgage company has a right to demand that certain repairs be made and that the equity in their home is what's left after the mortgage company says what percentage of the value you're going to give minus the fees and minus the repairs, and they often end up with far less than what they thought they would get.

So if we have a housing counselor that can go through that and a deeds department that says we're not going to accept liens or mortgages unless it's accompanied with that filing, I think we have some built-in protection and have some incentives for the mortgage brokers and the mortgage companies who, again, for some people are solving a very real need to help us make sure that only informed consumers make this choice.

COUNCILWOMAN TASCO: Okay. Thank you very much for your testimony.

MR. HAVER: You're welcome. Thank you.

COUNCILWOMAN TASCO: Okay. Moving right along, Patricia Hasson, Consumer Credit Counseling Service of Delaware Valley.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good afternoon.

MS. HASSON: Good afternoon. I'm Patricia Hasson, President of Consumer Credit Counseling Service of Delaware valley.

First, I would like to thank Councilwoman Tasco for holding these important hearings at such a critical time. I would also like to thank the Committee on Public Health and Human Services for allowing me the opportunity to present here before you.

Consumer Credit Counseling Service of Delaware Valley has been serving the Greater Philadelphia region for over 40 years. The current national economic crisis that our country is experiencing has greatly affected CCCS. The number of people who have needed our services has never been greater.

Year to date through October, CCCS has logged 70,857 calls to our main customer service number and most recently is logging an average of 2,000 calls per week. Last week alone; in fact, in one day, over 500 calls came in seeking our assistance. This year we have already held 14,637 counseling sessions through October of 2008, 2,000 more than conducted in all of 2007. By the end of the year, we expect this number to rise to 18,000 appointments, a 50 percent increase from last year and an average of 1,500 sessions each month.

In order to meet this demand,

we now employ 30 full-time certified credit and housing counselors, with six counselors having passed the HECM, which is Home Equity Conversion Mortgage test, and ten additional who will have completed it by year end. The HECM test for counselors is based on training protocol established by AARP and HUD. After a few months of comprehensive and rigorous self-study and mentoring, the counselor conducts the test via an impartial third-party testing site. A counselor must achieve 80 percent to achieve certification. This training and testing provides for all possible aspects of a homeowner's circumstance and the extensive financial calculations of the HECM loan. To name a few of the areas of training outlined in the session, the counselor must explain all loan fees, both origination and ongoing, types of HECM loans and options for loan disbursements.

As part of our counseling

protocol, CCCS also reviews prospective use of funds and conducts a full budget session with each HECM counseling client to ensure all options are evaluated in their best financial interest. Additionally, we encourage the homeowners to have family members participate in the session so that the family is also aware of what is involved and the financial aspects of a HECM.

Of the 18,000 anticipated appointments, as you can imagine, we've seen the most dramatic increase in housing appointments. We've doubled our housing counseling appointments, and in October alone, we held a record 716 individual housing counseling sessions.

One reason for the rise in housing counseling appointments has been a demand for reverse mortgage counseling. When we started this type of counseling in 2003, we conducted an average of ten appointments a month. In 2006 alone, we did 935 appointments. Adding in anticipated volume in the next two months, we anticipate by year end we'll have completed 1,321 reverse mortgage counseling sessions. For this reason, I plan to focus the majority of my comments today on the counseling piece.

As you may already be aware, legislation was passed in July, and this legislation focused on quality through the following factors: Standards, accountability, independence, no steering and no conflict of interest. More specifically from the counseling agency perspective, a lender cannot pay for counseling as of 10/1/2008. Agencies can choose to only be paid up front because of the administrative burden placed on agencies that collect at settlement. Counseling agencies must remain independent and cannot be directly associated with a lender. No person in the reverse mortgage lending industry can provide counseling. HUD is soon expected to provide a new ruling allowing only trained and tested counselors who follow uniform protocols to be permitted to provide HECM counseling, and the anticipated effective date of that is April 1st of '09.

One area of concern as you think about Philadelphia residents, particularly in the low- to moderate-income category, is that agencies can choose to only be paid up front. Where will those individuals come up with that up-front fee of $125? Will an additional burden be placed on local housing agencies to provide this service without that fee and limited HUD funding? We already know HUD funding is not sufficient to fill the gaps. The lender cannot pay for it. In one sense, that's a positive, because it does remove the conflict of interest. In another sense, though, it will put the burden on the individual, as more agencies will go to charging for the session up front. Because delaying the charge causes an additional administrative issue for the agencies, some loans will not close, so you will never collect the payment, and title agencies are not following the instructions on the certificates to direct the payment.

On a positive note, new counseling standards are being developed, including standardized testing and training, webinars, mystery shopping, software is being developed, counselor training programs and tests, along with coaching.

With all of these changes, a very open question still remains from the housing counseling perspective. Should agencies withhold certificates for clients who they believe do not understand what they are doing and the counselor is unable to reach out to a trusted advisor to the family. Effectively we are asking should the counseling agencies be the gatekeeper? How does the agency make the determination that the individual does not fully understand? Agencies take the role as counselor very seriously and work to give the best advice and show the client all of the options. In many instances, this is in opposition to some lenders wanting us to simply fulfill the minimum protocol requirements. We cannot make the determination of the best option for the client, and this fine line is going to create more and more tension in this industry as demand for this product continues to grow.

I'm going to end my comments briefly touching on additional areas of concern as you think about this product, particularly within the Philadelphia metro context. Fees have been adjusted and the minimum origination fee is $2,000, or two percent up to 200,000. Obviously most Philadelphia homeowners will be paying the minimum fee of $2,000. So while the costs can be financed on a 60,000 reverse mortgage, for example, a minimum fee translates to a three percent origination fee. For a 40,000 reverse mortgage, it translates to a five percent fee. This origination fee burden is being carried at a greater percent for a larger number of homeowners in this city.

There's also an additional risk management that needs to be addressed going forward in reverse mortgages. Counselors need to know how clients can access their funds. We have already heard anecdotally that predator brokers have had clients sign proceeds over to them. We are also hearing more about bundled products. In other words, we've heard some instances and are seeing more where lenders are encouraging these seniors to obtain a reverse mortgage to obtain an annuity, an insurance product, risky investments, home improvements and living trust. On the one hand, individuals do have the ability to use their reverse mortgage for whatever they want, and in some cases home improvements could be critical. However, if we think back to the predatory lenders and their ability to tie poor home improvement projects to bad loan products, we have already seen the results. So it will be critical as reverse mortgages become more popular we figure out a way to mitigate this risk.

Thank you for allowing me the opportunity to talk to you about our experience at Consumer Credit Counseling Service of Delaware Valley. I'm happy to answer any of your questions.

COUNCILWOMAN TASCO: Thank you so much for coming out and testifying. We appreciate it.

In looking at your increase in customer service calls, are a number of them -- have you identified some of them as reverse mortgage calls?

MS. HASSON: Yes. We definitely are -- the rise in the reverse mortgage clients is increasing for our agency.

COUNCILWOMAN TASCO: What are the clients looking for? Are they looking for advice whether to take out a reverse mortgage or is it some complaint about the reverse mortgage they took out?

MS. HASSON: Most of what we're seeing now is individuals who have gone to a counselor in most cases already -- I mean to a broker and they're coming in for the counseling itself.

COUNCILWOMAN TASCO: You have down here on Page 2 -- oh, this is from your counseling agency perspective where you cannot pay for counseling. Explain that to me.

MS. HASSON: The counseling right now? What's happening is, in the past, lenders could pay for the counseling in some instances. HUD does make available funding through AARP -- well, it used to be AARP. Now it is through HUD, where you are compensated through HUD for those counseling sessions. What's happening now is, the individual can be charged. In many counseling agencies, especially those at the national level, are doing it and charging up front that $125. And so we've heard of instances even where if your loan doesn't close in 60 days, they're asking you for a credit card and they'll charge a credit card 60 days later.

So, I mean, I think the reality is -- and AARP in fact issued a report at the end of '07 that talks about that the government needs to step up and provide proper funding for the counseling for this so it can truly remain objective and keep it out of the lenders' hands and not have the counseling agency who is working, especially in this environment with the housing crisis, have the funds to be able to provide that counseling session.

COUNCILWOMAN TASCO: Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you.

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Do you have any interface currently with the Philadelphia Corporation of Aging or any organizations in the City in the business of serving seniors?

MS. HASSON: Yes, we do. We are seeing definitely more interest. We've done some workshops and especially at senior fairs, et cetera. We have developed a workshop that talks about understanding the basics of a reverse mortgage. So we would -- we think others should be offering this workshop, and it's something that could be encouraged.

COUNCILWOMAN BROWN: So it's just a matter of requesting your agency for the availability of a staff person who will come to a senior gathering, if you will?

MS. HASSON: Yes. We would be happy to do that.

COUNCILWOMAN BROWN: And your counseling services under normal circumstances -- and "normal" is relative -- is there a fee for the services you offer at all?

MS. HASSON: Not for the housing counseling. For the reverse mortgage, it depends, again, on the individual circumstances.

COUNCILWOMAN BROWN: Okay. Thank you for your testimony.

MS. HASSON: You're welcome.

COUNCILWOMAN TASCO: Do you see anything that this Committee should take action on or look at in the future that might be helpful to you and/or the homeowner?

MS. HASSON: Well, there is -- again, AARP issued at the end of '07 and I think there's something that we as a city may want to consider, in that one of their recommendations is that state and localities should initiate low-cost public reverse mortgages to defer payment of property taxes and finance home repairs and modifications for older homeowners.

Again, I think we've heard a lot today about the cost of a reverse mortgage, and when you think about the City of Philadelphia and the value of homes in the City, the burden is going to be placed for those higher fees, and I think we could look at -- it is a great alternative for the right individual and I think if we can think about ways to help with the cost of it, it may be an option for others in this city.

COUNCILWOMAN TASCO: Are there standard fees, or fees can be charged as the lender sees fit?

MS. HASSON: The fees -- the competitive environment -- and I think the two mortgage individuals can talk more to that. I think as it gets more competitive, you'll see more varying in the fees and in the interest rates. I think right now, from my understanding, the fees are pretty standard, and they are set in some instances.

COUNCILWOMAN TASCO: I think

Ian mentioned the interest rate. Would you explain that to me? If I'm getting a reverse mortgage, I have to pay interest?

MS. HASSON: You're paying it, but it's accumulating on the -- how do I explain this?

Don, do you want to step in? It's hard to explain.

MR. HAVER: Can I try, Councilwoman?

COUNCILWOMAN TASCO: Sure.

MS. HASSON: Thank you.

COUNCILWOMAN TASCO: Just identify yourself. Just explain to me how it works.

MR. HAVER: Lance Haver.

If you borrow $50,000 -- let's make it easier. If you borrow $100,000 at five percent, the interest would be $5,000. So the next year you would owe 105,000. And then the next year you would owe five percent of 105,000. And next year you'd owe five percent of 110,000. And every year until you either sell the house, pass on or pay off the loan, the interest accumulates against the equity in your house. So there are a couple of things that happens. One, if you're in a neighborhood where the housing prices are going up very quickly, you may not be losing any equity. For some people that was the case, that's no longer the case anymore. Home prices, at least in Philadelphia, while are relatively stable because of many of the political decisions Council has made and we're doing much better than other places, housing prices are not going up that dramatically.

So when you borrow the money, if it's a home equity loan, every year you have to pay more to bring down the mortgage. If it's a home equity loan, you don't pay anything if you don't want to, and every year you owe more than what you borrowed.

COUNCILWOMAN TASCO: So it accumulates. Because my understanding of a reverse mortgage was that you get the money and you don't have to pay it back until you -- so this is a paper transaction, not necessarily I'm paying the money out each month.

MR. HAVER: Right. You don't pay anything -- again, just to make it very easy, if your house is worth $100,000, a certain percentage of that will be offered to you, and you can take it in cash, you can take it in monthly payments for a certain number of months or you can take it in monthly payments for as long as you reside in the house, and that allows people who don't want to move on and would prefer to pass on in the house to stay there. But every month that you're in the house, you owe more than what you borrowed. Every year that you're in the house, you owe more than what you borrowed.

Some of that additional cost is offset by the appreciation, by how much the value of your house goes up. And so over time if your interest rate is very low and the price of your home goes up very high, your may actually -- your heirs may actually inherit that value of the house. But more than likely what will end up happening, if you're fortunate enough to live a long life after the reverse mortgage, is, most of the equity in your home will be eaten up, where you will have taken some cash and then the interest on that cash loan will accumulate, and then when you do pass on, the value of the house minus what you borrowed, minus the interest on what you borrowed is what the equity is that will be left.

COUNCILWOMAN TASCO: Councilwoman Miller.

MR. HAVER: If you have no heirs, it sometimes --

COUNCILWOMAN TASCO: It doesn't matter.

MR. HAVER: Or if you have heirs that don't want to keep the home.

MS. HASSON: And there are instances where people have used it to pay taxes and fees to stay in their home. And as Lance said, though, if that's your only solution for that, at some point it could catch up with you.

MR. HAVER: Right. If you can't afford to stay in the home after you've taken out the loan, then you've lost your greatest asset and the greatest ability to move on, and it becomes a trap.

COUNCILWOMAN MILLER: What about if you can pay, say, the five percent yearly so the loan stays at 100,000?

MR. HAVER: Yes.

COUNCILWOMAN MILLER: And also suppose 20 years, 30 years from now you're still living. I mean, it's sort of like you outlived the life of the loan?

MR. HAVER: Right. That's the risk to the mortgage company. That's why the mortgage company won't give you a full value loan to your home. They're going to use an actuarial table. And we're going to hope, Councilwoman, that you outlive the expectations of your life. We all hope for that. But unfortunately, we all go at some point. And so the mortgage company looks at an actuarial table and says, At your age we expect you to live this many years and we expect the house to be worth X number of dollars then. So we're not going to be put in a position where we're going to purposely lose money.

Now, if you live well past the expected point and the value of your home for whatever reason in your neighborhood goes down, you're still safe. You still get to stay there, but the mortgage company doesn't recover their full costs.

COUNCILWOMAN MILLER: Okay. Thank you.

COUNCILWOMAN TASCO: Okay. Thank you very much. Thank you for taking time to come out today.

Mr. Donald Graves.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good afternoon. How are you?

MR. GRAVES: Wonderfully blessed. Thank you.

COUNCILWOMAN TASCO: Good. Would you state your name, please, for the record and begin your testimony.

MR. GRAVES: My name is Donald E. Graves for the record and it is an honor and a privilege to be here.

I'm a Philadelphia resident. I live in the East Oak Lane section of Philadelphia. I'm a Philadelphia business owner. My offices are at 44th and Chestnut. I'm an active member of the Philadelphia faith community, being ordained by the Nazarene Baptist Church at Germantown and Lycoming Avenue. I'm a member of the community development society here in Philadelphia, having served five years as the CEO of Habitat for Humanity. Simply stated, I'm an active and engaged Philadelphian.

For the last nine years, I have given myself to providing emotional relief to Philadelphia seniors through the Federal Reverse Mortgage Program. I have originated more of these loans than any other person in Philadelphia, now crossing the 1,000 mark. Through the radio broadcast, I have engaged in excess of 9,000 people talking about the reverse mortgage. I've worked with Community Legal Services, the Philadelphia Unemployment Project, Consumer Credit Counseling Services and most OHCD-approved housing counseling agencies to provide training, resources and services.

Recently I was selected to be Chair of the Senior Committee by Senator Vincent Hughes for his Economic Summit.

I was asked to testify to this Committee regarding the use of the reverse mortgage, something I'm more than happy to oblige.

I'd like to share three actual stories about Philadelphia seniors. Though the names have been changed, the stories are true.

Ethel Minor is a 63-year-old woman who lives near 17th and Erie Avenue. She is in foreclosure to American General, as well as owing back taxes to the City of Philadelphia from 2003 to 2008. She is in collection with several other agencies, including Philadelphia Gas Works. She found us through one of our long-term partners, Community Legal Services, with whom we've worked with for the last five years no less than seven of their community attorneys, settling over 25 cases together. Through the help of one of their attorneys, we were able to negotiate a reduction in the American General loan and back taxes, PGW and other collections to totally eliminate all of her debts. Were it not for the Federal Reverse Mortgage Program being leveraged as a funding source, none of this would have been possible.

Louella Mason is an 89-year-old female living in a $90,000 home in West Oak Lane. She is in foreclosure. Her son contacted us and asked if we could help. He said, My mother owes City Water in excess of $6,000, PGW in excess of $8,000 and Countrywide Mortgage of $68,000. Through the help of our partners, we were able, first of all, to stay the foreclosure of her property to give us time to negotiate the Sheriff's sale. But even with the reverse mortgage program and negotiating the other liens, it still came up short. This is where family help and intervention comes in. Her family, together with the reverse mortgage, provided the funds needed to make Ms. Mason happy and comfortable to live in her home.

And, finally, and my favorite,

Mrs. Sarah Washington, 92-year-old female, lived in a $60,000 home near 52nd and Race Streets. Mrs. Washington was working with a local social worker and a pro bono attorney from Cozen and O'Connor. They called us, and together we were able to negotiate or eliminate three mortgages she had totalling $57,000, two judgments, back taxes, water arrearages, two municipal liens and a $4,200 PGW delinquency. Using the reverse mortgage as a funding source, we were able to negotiate or settle those liens and even leave $4,000 left over for her to make repairs.

Though these stories may seem incredible, they are absolutely a weekly occurrence coming into our practice. And you can see from these examples that the reverse mortgage was a lifesaver to these Philadelphia seniors, but it can only be a lifesaver if they know how to access it.

So what is a reverse mortgage?

I've heard a lot of definitions and testimonies regarding the reverse mortgage in the last hour. A reverse mortgage is a federally insured loan that allows senior homeowners the opportunity to convert a portion of the equity in their home and turn that into tax-free income without giving up ownership of the home, without income or credit qualification and without having to make any monthly payments.

The loan gets repaid when the last surviving borrower permanently departs the house, moves or deceases. At that time, they owe whatever money had actually been advanced to them, plus the interest and finance fees and costs, but under no circumstance will they ever owe more than the value of the home, because it's federally insured.

Now, as good as a reverse mortgage may seem to a lot of people, it is not appropriate for everyone. In my nine years -- and my assistant, Tiffany

Mickens is here, has worked with me. My wife is here. Can they identify themselves? That's Tiffany and my wife is behind Tiffany and my two children, who are having a lesson in civics today.

As good as a reverse mortgage is for many, it is not for everybody. There are three primary reasons I discourage seniors from taking advantage or considering a reverse mortgage. Number one, you're not planning to stay in your home. Simply stated, if you are not planning to stay, the fees and costs associated with the reverse mortgage do not make sense.

Number two, they don't have a need for the money a reverse mortgage is making available. Don't consider a reverse mortgage if all you want to do is stare at the money. Have a plan, have a strategy or have a need.

And, thirdly, under no circumstance should a senior consider a reverse mortgage if they have a better alternative. Alternative such as what? Sell your home and move, move into a senior center, move in with your children. Another alternative, cash in other resources, CDs, money markets, mutual funds, investments, whole life insurance. Another alternative, using the Philadelphia Corporation of Aging, who has been a long-term partner with me, using their services for weatherization or repair or some of the other things or taking out or considering a home equity loan or home equity line of credit.

I don't know many Philadelphia seniors who want to make a monthly mortgage payment. So when we look at the alternatives, go back to work, take in a roommate, eight alternatives that we give to seniors, if one of those alternatives works, then we say, You should not consider a reverse mortgage. But if you want to stay in the home, if you have a need for the money and if the alternatives don't work for you, certainly a reverse mortgage must be and should be carefully examined.

Where do we go from here? What's the way forward? For nine years I have done this, and I have championed this idea to Philadelphia homeowners. My background is in advocacy. My background is advocating for the marginalized, the poor and disenfranchised. Before I got involved in this program, it took me one year to research it to make sure that when I spoke, I could look a person in the eye and speak with absolute integrity.

I champion the cause that before a senior citizen in Philadelphia ever goes to Sheriff's sale, they should be encouraged, I dare use the words mandated, to look at the provisions that a reverse mortgage may make available to them. I can save 97 percent of all seniors who are going to lose their home to Sheriff's sale for back taxes. I can save their home, but only if they know how to access it.

No senior should lose their home to foreclosure without first being able to look at a reverse mortgage. Daily -- I don't know what the numbers that the Sheriff is doing daily, but seniors are losing their homes. You have Patty Hasson. You have other counseling agencies that make this resource available.

I suggest what I've called the Senior Citizen Tax and Foreclosure Prevention Act that I would hope someone would champion within this great Council to say this: Before the Sheriff allows any senior to go to Sheriff's sale, they must have shown proof that they've received the education and understanding of what a reverse mortgage may be able to do for them. It's simple to implement, because we already have OHCD-approved counseling agencies doing something similar. They just need the resources.

There's no doubt that

Philadelphia is sustained and identified by our senior homeowner population, and we're in desperate trouble and troubling economic times as we go ahead. I would love to see this city provide a reasonable, safe strategy to help out our most treasured citizenry. The reverse mortgage, through a credible partner, will leave a lasting legacy for our country and for this city.

Thank you.

COUNCILWOMAN TASCO: Thank you very much for that compassionate testimony. Let me just ask you a question.

The gentleman, Mr. McDougald, talked about the investigation he made to get a 50,000 -- I think he just said $50,000 reverse mortgage, but at the end of the day by the time they took out the fees, he only got $38,000. Why would the fees be so high?

MR. GRAVES: Well, the fees aren't that high, and I appreciate

Mr. McDougald's testimony, and I would be happy and the Council, Derek or Sharon or anyone else, to go through because there was -- it seems to be some misunderstanding or some misrepresentation perhaps of what was stated to him.

A reverse mortgage is going to make available to a senior homeowner a portion of the equity that's in their home based on three things. Number one, the amount of money a senior is going to get is going to be based on their age. The older they are, the more money they're eligible to receive. So if you're 96, whom we served a few years ago, versus 66, I can give the 96-year-old more money because she's not going to have that money as long.

Number two, it's based off the value of your property. Obviously if you've got a $500,000 home, you can borrow more from it versus a $50,000 home.

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And it's based off the current interest rate, which today is 2.99 percent. The interest rate is set every Tuesday, and every lender who does reverse mortgages in the country must abide by that interest rate. They're not flexible. They're not negotiable.

Mr. Phillips had mentioned that he wanted some sort of certification process for reverse mortgage lenders. There is a certification process. Every person who issues a reverse mortgage in the country is already certified by FHA. The reverse mortgage has no brokers allowed. So if you're a mortgage broker, you are not allowed to originate reverse mortgages, only FHA lenders, which means FHA approval, background checks, criminal checks, fingerprints, audit, certification and all of these other things. So that's already happening in the City.

So the man who testified -- so a person who lives -- let's just use round numbers -- in a $100,000 home and they're 75 years of age, I am only going to be able to loan them a portion of the equity in their home, right? So let's say in that case it's 60 percent. So they're available for $60,000. There are three fees associated with the reverse mortgage program. Only three. The first one is federally mandated mortgage insurance premium. That's two percent of the appraised value of the house. So that's $2,000. The second fee is origination, how the lender gets paid. Patty explained that. It's two percent of the appraised value of your house or $2,000, whichever is greater. So that's the second fee. And the third are standard closing costs, title insurance, notary, document prep, appraisals, X, Y and Z. So let's just make that $2,000. So 2,000 to the government, 2,000 to the lender, 2,000 to the title company. That's $6,000. Those are the only fees associated with the reverse mortgage.

So when we quote a person to say Mr. So-and-So, you have a $100,000 house, you're eligible for $110,000. When we quote it, we give them the net number. If we gave them the gross number, they would be eligible for $116,000, minus $6,000 in fees and costs. So this is across the board. If you have a $300,000 home, it's going to be two percent goes to the government, $6,000; two percent to the lender, $6,000; and the title company on a home like that may be $2,500. So it's not based on whether it's this neighborhood or this neighborhood, you're my cousin, aunt or uncle. That's not how it's based. It's equitable across the board.

And so the fees and costs are prescribed, and most of us who are legitimate lenders, Dr. Price who will come after me, will abide by these rules and these regulations. It has been so since the program started as a federal program in 1988, as a private program in

1961. So we're in our 21st year of doing the reverse mortgage program. It's not new by any means, but it is necessary.

COUNCILWOMAN TASCO: Let me stop you right there. You said --

MR. GRAVES: Yes, ma'am. I'm a preacher, so forgive me.

COUNCILWOMAN TASCO: -- as a federal program. Then you said as a private program.

MR. GRAVES: 1961 it started as a private program.

COUNCILWOMAN TASCO: Now separate those two for me. What are the guidelines for lending --

MR. GRAVES: Well, the private programs are like the Wild West, and Portland, Maine is where the first reverse mortgage was originated, and it was Deerfield Savings and Loan originated it. And they had the idea how do we help seniors who need money who don't want to incur a monthly mortgage payment. So a lot of private banks, savings and loans, even insurance companies came in and they began to develop their own reverse mortgage program. Well, it was the Wild West and there were none of the safeguards. So through AARP, through the Wharton School here at the University of Pennsylvania, they began to present it to the Federal Housing Administration, and in February 1988, it began to be insured by the federal government. That's where we got the three fees and costs associated with the program. That's where we got the guidelines.

COUNCILWOMAN TASCO: So the private entities also have to abide by the federal guidelines.

MR. GRAVES: The private entities have gone away. Pretty much right now the only reverse mortgage programs available in the United States are the federal reverse mortgage programs.

COUNCILWOMAN TASCO: Well, if he was going to get $50,000 and they were going to charge him 12 and it was two percent, ten, ten, three --

MR. GRAVES: Well, if he was getting $50,000, two percent goes to the company, so that's $1,000. Two thousand dollars goes to the lender, so that's $3,000. And there's another, let's say, 1,500 in closing costs. So $4,500, somewhere around there, he would have been charged in fees and costs for the reverse mortgage. So his total package would have been $4,500. And so he said he was eligible for $38,000. That's what the person is eligible for. And he made the statement that they're charging a service charge as if to say that in this $38,000, the lender is taking out $35 a month out of his $38,000. That's not accurate. So that information may have been misstated to him.

But if that $38,000 is available to him, that's available. That's not going to change, and particularly if it's left in a line of credit. It's only going to grow in his favor.

COUNCILWOMAN TASCO: So maybe I misunderstood him. Maybe he said his house was worth 50,000.

MR. GRAVES: I believe that's what he said.

COUNCILWOMAN TASCO: And he was going to get 38.

MR. GRAVES: I believe that's what he said.

COUNCILWOMAN TASCO: I was assuming that he applied for 50 and they were going to give him 38,000 and the $12,000 were for costs. That's what I understood.

MR. GRAVES: And he can correct his own testimony. I believe his house was worth $50,000 and the lender was making 38,000 available; is that right?

MR. McDOUGALD: Yes. What about -- I'm sorry. What about the housing appraisal and all? You don't do that in your line?

MR. GRAVES: That brings up a good point.

He said that the lender who he spoke with wanted to use their people, I believe was the term he used. And why is that? Well, first of all, because it's a federal loan, the lender doesn't have any of their people. The lender only has access to the FHA-approved appraisal list. So it's a blind selection. So we have to choose an appraiser from a blind list to avoid conflict.

The reason he couldn't use his cousin or his uncle is precisely because it is a conflict of interest. The reason I can't a choose a person of my desire, it's a conflict. It's a federal program. So I don't know what appraiser is going to go to his house, because it's a blind selection to avoid any type of conflict. That's the only required inspection that I know of. So I don't know if when they said they had their people. All I know is the federal list -- and it's not my people. It's just a list of any number of FHA-approved appraisers in the Philadelphia area.

COUNCILWOMAN TASCO: Okay. Well, any other questions?

(No response.)

COUNCILWOMAN TASCO: Well, thank you very much. That's quite enlightening and --

MR. GRAVES: Can I say two things that just came up? I was chomping at the bit. Please forgive me. I hope I clarified what Mr. Phillips said, is that there is already a certification process that is rigorous.

Secondly, someone had suggested that these outrageous fees and we ought to get a handle on the fees. The fees, as Patty suggested, I just gave you the three fees. They're not outrageous fees. The lender can't just arbitrarily charge whatever.

And, third, someone suggested, Well, before we file a lien at the City

Records Department, that we ought to insure. As Patty said, counseling for the reverse mortgage program is not suggested, it's mandatory. So there's not a senior who has ever gotten a reverse mortgage within the City of Philadelphia who did not first receive mandatory reverse mortgage counseling and got a certificate that said Secretary of the United States Department of Housing. So it is already mandated.

What the Council must look at is, there are sharks in the water, to be certain. There are unscrupulous lenders who will misstate and twist the truth and get people to make bad decisions. What Council has to look at is making sure that you know folk like Dr. Price, a man of stature, a man of integrity, certainly to know Don Graves, who is a Philadelphia resident, business owner, church member and is committed to that, and you allow the seniors to get information. If we don't -- I had a Councilperson say to me, Well, Don, I can't make a recommendation for a senior to go to a reverse mortgage company.

I said, That is a horrible mistake. I said, There are too many sharks in the water for you to engage in some sort of benign neglect. You must recommend them to go to someone whom you vetted, whom you understand and whom you know their process for determining that this is a suitable and appropriate resource. May I suggest Dr. Price and may I suggest myself as two of those type of people.

Thank you so much.

COUNCILWOMAN TASCO: Thank you very much for your testimony.

Patty?

MS. HASSON: I have something --

COUNCILWOMAN TASCO: Come back to the table here.

MS. HASSON: Patty Hasson again.

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I just wanted to address something on the counseling. The counseling is done on what a reverse mortgage product is and all of, as Don Graves just explained, all of the information within it. It is not necessarily a full budget analysis and what is the best option for you. Our agency goes through a budget analysis, and I can tell you for a fact we've had lenders call us and say, What are you doing that budget for? We've had clients say, I don't need a budget. I'm here, I want to get my reverse mortgage.

We do that full budget analysis so that we can give consumers all of their options and talk about all of their options, and I think that is a very important difference, that while there is mandated counseling, there are counseling agencies that do work closely with lenders -- and I'm not saying either one of these gentlemen at all -- throughout the country, though, that call and they're only going to be counseled on here's what a reverse mortgage is, do you understand these terms, do you understand these fees. They're not going to go to the next step of saying, Let's just talk about make sure it's the right option for you.

COUNCILWOMAN TASCO: Right. Thank you very much.

Mr. Gaines.

(Witness approached witness table.)

MR. GAINES: Good afternoon.

COUNCILWOMAN TASCO: Good afternoon. Thank you.

MR. GAINES: Councilwoman Marian Tasco, I am indeed pleased to be here today to provide some information that I have experienced over the past few years about the reverse mortgage program. And before I get into my testimony, I just want to show an illustration.

You see, I was in the real estate business for almost 40 years and then I retired from the real estate business and looked at the reverse mortgage program, and, of course, one of the mortgage brokers that used to come into my office in Germantown and Mount Airy and Blue Bell said, Fred, this would be a natural for you. You sold so many houses in Mount Airy, Germantown, South Jersey and Montgomery County, all you got to do is get on the phone and call some of your old customers who are now in their senior years. That's what I started doing.

Now, when it comes to the costs involved in getting a reverse mortgage, as has been highlighted in previous testimony, I mean, many of the houses that I sold back in the '60s and even as early as the '50s in Germantown and Mount Airy, I sold for $10,000 and $20,000. I sold houses on Lincoln Drive to my friend Judge Robert N.C. Nix, Jr. for about $25,000. Houses are selling today for $500,000 and $600,000.

So when you look at it -- we had a client on Hortter Street up in 300 block -- no; 100 block of Hortter Street. Bought the house for $12,000. We got an appraisal a couple months ago for $300,000. We want to give him a check for $210,000. Now, he only paid $14,000 for the house. He's getting a profit that he can take out right now up to $210,000. Why should he fiddle and worry and bitch and complain about paying $2,000 or $3,000 in fees? And, of course, all of it is not fees. Some of it is set aside.

My friend and preacher friend, Don Graves, talked about his commitment to use this program to help seniors. And, of course, I started in the real estate business. My dad wanted me to go into the ministry where he was, but I saw it as discrimination in housing and I said to myself, Breaking down the racial barriers in housing is going to be my ministry, and I set out to integrate all the suburban counties in and around Philadelphia, with the help of C. Delores Tucker, our close friend. When she was Secretary of State, she demanded that Governor Shapp appoint me as Real Estate Commissioner for the State of Pennsylvania. Delores had been in the real estate business with us for many years, and that was one of her goals, to break down the racial barriers in the State of Pennsylvania. And we surely miss her, because she did a fantastic job.

Now, I did a lot of work in this matter in the community. I served on the -- I was one of the founding members of West Mount Airy Neighbors, served as one of the early Vice-Presidents to break down racial barriers.

The laws preventing discrimination in housing were on the books. I think about ten years before Governor Shapp took office, Delores and I was able to include in the real estate licensing law penalties for brokers discriminating against African Americans and other minorities in buying houses, but nobody ever enforced it. So one of the reasons Delores was so committed to getting somebody on the Real Estate Commission that could take disciplinary action against brokers and real estate salespeople who discriminated against African Americans.

The federally insured reverse mortgage program is a wonderful opportunity for senior citizens to use the equity in their homes to improve the quality of their life in their senior years. Some people say that the reverse mortgage program is too good to be true, because the mortgage company pays the homeowner instead of the homeowner paying the mortgage company. They can get their money out in a line of credit, lump sum or they can get a monthly check each month.

In recent years, the Federal Housing Administration has constantly improved the mortgage features of this program. One of the biggest problems in the marketing of this program in urban communities is the fact that there's so much misinformation, and I think by holding these hearings and hearing people testify about their experiences, you can find out that they were misinformed, not only by friends and neighbors, but even by attorneys who do not specialize in elder law. Because many people say, I'm going to call my attorney. And in one case, we had a senior citizen whose daughter was an attorney, and instead of calling in an elder law attorney to represent her father, she tried to do it on her own, tried to research it as she was giving services.

During my really early years in the real estate business, I enjoyed being able to move minority families into better housing in the City and the suburbs and seeing the joy in their eyes as we turned the keys over to them. In addition, we encouraged white families from the suburbs to move back into West Mount Airy and to Center City to maintain integrated communities. Of course, white folks have abused it now. All of them are moving back into the urban areas, not only in Philadelphia, in Baltimore, Washington and everywhere else and running the prices of housing up so high that African Americans can't hardly afford to buy them this day and time.

In the past few years, it has been truly amazing how many homeowners are living in their houses, having little or no mortgages and don't have enough income to pay for their real estate taxes or to purchase homeowners insurance. We see it every day. People with a $100,000, $200,000 house and they can't buy homeowners insurance. If they had a fire, they would be without anything, no assets whatever.

Using the reverse mortgage program can be a help to homeowners not only to eliminate this problem, but to remove the fear of seniors being evicted because they can't make their mortgage payment.

We are also in the process of bringing together organizations and churches and senior centers, and hopefully we can get legislators involved in this so that people can get good information. In other words, one of the solutions to our problems -- I recently met and connected with 150 churches in the DC/Maryland area, and they have banded together so that lenders don't come into their churches unless they are approved by the organization.

Now, when we were experiencing panic selling in West Mount Airy, we stopped those brokers who were creating the panic by telling white folks, Your property values are going to go down when black folks move in. We didn't allow them to even list properties in our community. And as faith would have it, of course, I served on the Real Estate Practices Committee of the West Mount Airy Neighbors and, of course, I later was appointed Real Estate Commissioner in the State of Pennsylvania, and I didn't allow -- once we got complaints, I didn't go through the normal process. I would get the broker on the phone telling him to stop it or we're going to run you out of business.

So we had a very effective mechanism to keep lenders who are destroying our community from doing business. And we got to do the same thing with these mortgage lenders. We got to keep them out of our community. As Don said, you got to be selective. We work very carefully with -- back in the, I guess it was, in the '70s when they redlined all the black communities, wouldn't give a mortgage in North Philadelphia or West Philadelphia, and we banded together with Senator Freeman Hankins, Paul McKinney and Herbert Arlene, two of whom were on the Senate Banking Committee. And, of course, the banks, they wanted to, First Pennsylvania and Girard Trust, they wanted to open branches all upstate in Harrisburg and all throughout the state, and we held up statewide banking for almost five years before they came up with a Philadelphia plan. And, of course, they were tricking the public officials. Senator Hankins would call me and said, Look, I got a call from Girard Trust. They said they're making loans in my neighborhood. Check it out, Fred.

I would check it out. No change in policy. They were still redlining.

So that's why we got to work together as people that are committed and in the business and legislators and Councilpeople throughout these urban communities. We got to stay in touch.

One of the advantages -- Delores Tucker always said, We will work together with the legislators, and that way, we were able to effect an effective program to eliminate almost entirely redlining. Of course, now the banks are running into our communities and giving subprime loans. We don't need that, but if we stay informed, stay in touch, continue to network and you will know who the quality people, who the committed people are who want to help your constituents, who want to help members of their minister's churches. So we're bringing together. We're not just limiting it to Philadelphia, but the tristate area, Pennsylvania, New Jersey, New York and Maryland. We are working together to bring information to the people.

The other thing we have to do is encourage the newspapers and the television stations to give good information to our people, not just because their company can pay $10,000, $20,000 for an advertisement, put it on radio or television, you know. And then the unfortunate part as I listened to all this testimony during this mortgage and foreclosure crisis, that in Washington the worst culprits from some of these lenders were down there testifying to the congressional hearings on these foreclosures, and they were the biggest culprits of this predatory lending.

So we have to stay informed, we have to stay in touch, and hopefully as a result of this invitation, we might be able to do that this time.

COUNCILWOMAN TASCO: Well, they were saying they weren't responsible, it wasn't their fault, because they were required through the CRA to make these loans. I mean, you know. Go ahead. I appreciate all you're saying, because you're bringing back a lot of history and you're really highlighting the contributions that Senator Arlene and

Senator Hankins, Senator McKinney made. And I do know how hard you and Delores worked to stop the discrimination, and certainly appreciate knowing that you were part of the West Mount Airy Neighbors, because I remember when you all stopped the block busting in West Mount Airy.

MR. GAINES: Thank you very much. We want to work together as much as possible. I live in Horsham now, but we do a lot of business in Philadelphia and in the surrounding counties, because I'm a firm believer in integration, integrated communities, integrated churches. That has been my ministry over the years. So anything that I can do to be of help.

And, of course, I just want to mention briefly, Beacon Hill, it's a community in Boston, Massachusetts, similar to like West Mount Airy, and they are using the reverse mortgage program for senior citizens not only just to get equity out of their house, but they can have in an inner city community all of the amenities that you would have in an Ann's Choice community. You can have community activities, bus trips, medical services. As long as a person can live in their house and maybe fix breakfast, they don't have to worry about moving. As long as they can get up in the morning, put their clothes on and fix breakfast, they have everything in their community that you would have in a retirement community right living in their own home. It's a fantastic program, and if you get an opportunity, it might be good to investigate that website. It's called the Beacon Hill in Boston, Massachusetts.

If you have any other questions, I'd be delighted to answer for you.

COUNCILWOMAN TASCO: Well, I don't have any questions, but I certainly hope that if you and Mr. Gaines and certainly Patty, who have been working and serving this community with the services you provide, to let us know. Because I'm always suspicious of any new program that gets started where people have access to capital, and I just want to make sure that senior citizens don't get -- are not preyed upon with a service like this. And I appreciate your coming in to share with us.

So if there's anything you see that may be causing a problem, because you have the direct hands-on, you let us know so that we can figure out what action we need to take to protect the citizens. I heard Mr. Graves talk about the bad guys, and I just need to know at some point in time how we identify the bad guys and how we stop the bad guys.

MR. GAINES: Just call us, we'll tell you.

COUNCILWOMAN TASCO: We got to be able to tell the people who the bad guys are.

MR. GAINES: We know who they are. Okay?

COUNCILWOMAN TASCO: Well, I guess what I really want to know is, what are they doing so that we can stop them from being the bad guys. How do we stop the bad guys?

MR. GAINES: Well, the thing about it is, as Don says, most of them who are doing reverse mortgages are connected with HUD, and if we know who they are, we can help citizens file a complaint with HUD and, of course, hearings in Washington --

COUNCILWOMAN TASCO: But if they are under the FHA and if they have to abide by the standards set by FHA, what is it that they do to get around the rules?

MR. GAINES: Well, if FHA knows what they're doing, they will cut off their authority to give reverse mortgages.

COUNCILWOMAN TASCO: And I

understand that, but how do we know what they're doing? How do we prevent them from taking advantage of a senior citizen or someone who wants to get a reverse mortgage? What is it that they do?

MR. GRAVES: I think one of the things is that seniors don't know where to look to go for safety in the sense. I work -- most of my time is spent with 160 -- I'm a member of the Pennsylvania Association of Community Bankers, so I spend most of my time. And when I go to banks, they say, Well, Don, we don't know anybody who needs a reverse mortgage.

I said, That's because they don't know to look to you. They're going to look to Robert Wagner on TV or Pat Boone or one of these folks.

So one of the major end roads into our communities has been through the Robert Wagner television commercial. That's what seniors watch when they're home. It's prevalent.

Now, Robert Wagner is not

associated with any lenders associated with one of two or three hundred. The man who testified today said he had two people who were from New Jersey. Most of the complaints that are coming now is because the seniors will say, Oh, I want the free video. And they'll get the information and they'll get a phone call and/or a package, and in that package they may ask them, Sign these three or four things that we can do some more research, or something like that. And so they're signing certain things that they don't know about, because they think, Oh, I had to do that to get research. And that was a line for a long time lenders to pull what's called a HUD case number and even begin initiating an appraisal prior to counseling. Well, that was found out, so a lot of that has been squashed and dismissed.

But there are a lot of things where people will say, I'm from the federal government, Mrs. Jones, and I'd like to come and sit with you and talk about this program. And so they're doing a lot of things. But the more we know about it, the more Fred and I will certainly call HUD, but here's what's important I think for this discussion: If a senior knows that my Council representative knows the good guys and then you send out a statement or you send out something, your newsletter, I receive it, that says if you have a question about reverse mortgages, because every senior in your councilmanic district has gotten a letter, postcard, phone call or seen a commercial, if you were able to say something like if you had a question about reverse mortgages or you've seen something you don't understand, call my office. If that were communicated, you'd begin to hear all the stories that Fred and I don't have. And maybe instead of making a list of the bad guys, you keep a short list of the good guys.

Fred and I don't work together,

but I know he's a good guy and he's a coach and a mentor and a friend to me, and we know the other good guys. So we could say, Here are the good guys, and you could keep a short list. And that would accomplish a lot of what Mr. Phillips said or the other fellow that says we're not certified good guys, but we're at least vetted by Council to know that if you put that on there and you had folk and in your office, your assistants and legislators will say, Tell us the story, and we have a short list of good guys, or even if you said, Here's an informative package that we could give you, that would eliminate -- if they knew before they even talked to Fred. I wouldn't be offended if they said, Well, I want to call my Councilperson first. I think that's good wisdom. We want that.

So that's just a safeguard. You're not going to find out all the bad guys. Keep a short list of the good guys. Because they're really out there and they're very aggressive. So that's what I want to say.

MR. GAINES: Yeah. You get a list of the good guys and you don't have to worry, you know. And we're going to be doing a better job working with particularly church organizations. And I have a lot of church connections. I've been trying to get my buddy over here to work with me on the church connections. We may come together one of these days.

COUNCILWOMAN TASCO: Well, we appreciate that and certainly hope that you will educate the faith community about what the issues are and the good guys, because a lot of the mortgage brokers came out of the churches. Okay? They were the ones selling those subprime loans.

MR. GAINES: Yeah, I know.

COUNCILWOMAN TASCO: Thank you.

Anyone else here to testify on this bill?

(No response.)

COUNCILWOMAN TASCO: This has been very informative. We really appreciate your taking your time to come down. It's good to see you, Fred. I haven't seen you in many, many years. You used to be a neighbor and you moved up to the suburbs. You should come back to the City. But it's good to see you, and thank you for your testimony and thank you for reminding us of the old days.

MR. GAINES: Well, I'm very active. As I said, we're bringing these churches together, so that brings me back into the City.

COUNCILWOMAN TASCO: Okay.

MR. GAINES: Working with black churches and white churches.

COUNCILWOMAN TASCO: That's great. That's very good.

Thank you very much. You might want to sit down and talk to Ian, both of you, because we talk to them a lot and they see a lot of constituents.

Thank you all very much. Appreciate it. Thanks.

MR. GAINES: Thank you for inviting us.

COUNCILWOMAN TASCO: This Committee is adjourned until the call of the Chair.

(Committee on Public Health and Human Services adjourned at 3:10 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on November 18, 2008, and that this is a true and correct transcript of same.

____

MICHELE L. MURPHY
RPR-Notary Public

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