



# Borrower Protection Systems:

At a recent staff meeting, one of our managers recounted this experience: a senior homeowner had contacted our Borrower Care department to confirm we had received his draw request for \$10,000. Our company’s borrower protection program calls for the borrower care associate, in that situation, to politely ask about the draw. Excitedly, the borrower said he’d just won the “Canadian lottery,” and officials had instructed him to send \$10,000; then, they would send him the winnings. “Isn’t that great?” the homeowner gushed.

What was great was our borrower care associate, trained in and committed to anti-fraud protection and detection, recognizing the makings of a scam in-progress. Disaster

was averted. Instead of one man “losing the winnings,” the real winnings were widespread: his assets and future were protected; our client’s investment and reputation were preserved; and the mortgage industry withstood another assault from wolves at the door.

What’s not so great is the wolves are breeding largely unchecked. Consider: the FBI reported \$1 billion lost in mortgage fraud in 2005. By year’s end (2008), that number is expected to top \$2.5 billion.

Depending on your position—as lender or investor, correspondent or government entity—your motivation for protecting borrowers may vary. From where we sit, and that



# Defense Against Our Natural Predators

by John LaRose

being a seat padded with reverse mortgage experience, there's no denying the ties (thus, motivations) that bind us to one another: obligations, money, risk and reputation. In other words, there are lots of reasons all of us should care about borrower protection, a lot at stake if and when we don't.

## The impact on each of us

Say you're a reverse mortgage company which typically sells loans to Fannie Mae, or to any of the other wholesale lenders or investors. On one level, you may say, "My obligation is to my shareholders, so why should I care if a loan I've already sold ends up going south for the borrower?"

Your rationale is—rational ... on that level. After all, your institution has its money and your company's income statement has improved. So what's the problem? In your case the answer is fundamentally important because long after you've sold that reverse mortgage, the senior homeowner still identifies you with that transaction. While you can update your balance sheet to reflect the loan's sale, you can't update your reputation as literally being where the borrower's problems "originated."

If you're an investor, simply correspond your reasons for caring about borrowers to the sub-prime meltdown. That "winner" of the Canadian Lottery isn't so much an account number as a megaphone for whether you should be more

regulated and whether the reverse mortgage punchbowl is being poisoned.

“Well, let’s just ride this out,” some might be inclined to say. “After all, we know consumers’ and politicians’ attention spans are notoriously short. So isn’t it likely that as the reverse mortgage product becomes more understood in the market place, borrowers will become more able to protect themselves?”

You could be dead-on right. Or, your investments—and borrowers (the entire reverse mortgage industry, in fact)—could become dead in the water. Just because a senior knows “something” or learns more about the risks in the reverse mortgage industry, there is no guarantee that his assets are safe. A somewhat more glib response is to ask whether we expect to improve our chance of survival in a pool of sharks if we improve our swimming skills!

And what if more and more sharks start chasing the blood—make that money? Case in point: Baby Boomers represent the reverse mortgage industry’s greatest potential growth sector, with more than 8,000 Boomers (76 million strong) becoming eligible for a reverse mortgage every day of the next 18 to 20 years. By 2011, when the youngest Baby

Boomers retire, it’s estimated the total home equity held by Americans 62 and older will top \$37 trillion.

*“There is one guarantee, though: at first blood, the sharks will come, and they’ll come in number. They won’t stop chewing on our borrowers and polluting our industry until their hunts stop being successful.”*

Try to imagine the coming decades—if reverse mortgages come to be viewed as a herd migration where the weakest or oldest get killed along the way or—best-case scenario, merely left behind to survive on their own. Well, overcoming that perception is likely to require really large increases in advertising budgets and attorneys’ fees. Consequently, the illogic of waiting for this to happen is obvious.

There is *one* guarantee, though: at first blood, the sharks will come, and they’ll come in number. They won’t stop chewing on our borrowers and polluting our industry until their hunts stop being successful. That’s not likely to happen if borrowers’ safety depends upon individuals monitoring fraud in our industry. It takes a comprehensive, sophisticated, and integrated Borrower Protection system from each lender and servicer.

So how do you tell a real Borrower Protection system—from the hyperbole of a marketing department?

**For starters, Borrower Protection cannot be summed up in a sales brochure.** A well-conceived Borrower Protection system is complex and integrated; if someone tells you otherwise, they may not know enough to know enough.

**Second, look at how much of a company’s resources are invested in Borrower Protection.** If the company is truly committed to aiding borrowers and clients, there will be obvious signs. If the company’s borrower protection resources are going to advertising, technology and/or sales—look deeper.

**Third, ask for evidence of both an established, defined Borrower Protection system, and evidence that it works.** Your reverse mortgage servicer should be as detailed in describing its borrower protection system—more so, in fact—than it is in describing the bells and whistles of its other functions—such as information technology or investor reporting. The company should be able to define and demonstrate how its personnel are trained, monitored, evaluated. There should be evidence

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of borrower care surveys and metrics, borrower response times, anti-fraud detection (systems and successes) already on record. And more ...

**Lastly, compare the Borrower Protection system of one provider / servicer to another.** Look for a system that is integrated and doesn't overly depend upon any one component. Experienced professionals know that no matter how much money is spent on technology, you simply cannot automate the “human touch” so critical to the proper servicing of reverse mortgages. Ask how long the company's Borrower Protection system has formally been in effect. Compare that to how old the company is. If formally “caring” about borrowers is a recent addition, this may tell you where the company's priorities really reside.

*“The result is the ability to chase off the sharks ... to protect every member of the herd. By doing so, it's not just the borrower we protect, but an entire industry.”*

#### Investing in Borrower Protection

Within our company, we've developed a proprietary Borrower Protection Program (BPP) grounded in almost four decades of experience. The process is formalized and based upon four cornerstones: highly trained people, comprehensive systems, broad-based communications, and innovative technologies. Remove any one, and the integrity of borrower protection is compromised; ignore one for the sake of another, and vulnerabilities become apparent. True commitment to the borrower—and, in turn, to the lender and investor—requires just as much attention to staff training as to systems integration, to continuous refinement of SOPs as to technology enhancements.

The result is the ability to chase off the sharks ... to protect every member of the herd. By doing so, it's not just the borrower we protect, but an entire industry.



*About John LaRose: John LaRose has worked tirelessly for more than 20 years to promote the obligation and need for ethics in the mortgage industry. Recognized throughout the reverse mortgage industry as a niche-marketing specialist, he is also frequently called upon for his advice and counsel.*

## What to look for in a Borrower Protection system

**Highly trained people, comprehensive systems, broad-based communications, and integrated technologies.** One without the other, and the Borrower Protection system is inadequate.

As an example, the best technology in the world could not have prevented the fraudulent payment of \$10,000 to “Canadian lottery officials” (see related article: Borrower Protection Systems: Defense Against Our Natural Predators). But people highly-trained in soft skills, anti-fraud detection, and borrower care protection can ... and did.

Make certain the Borrower Protection system is formalized and is broad-based, multi-level, and interactive ... and one that can't be explained away with a wave of the hand or in a “got-it-covered” summary. For example, at Celink, our SOPs include step-by-step definitions of how borrowers are to be protected—and every employee has to learn and understand those borrower protection procedures just as well as they know how to log in on their terminals.

#### So what should you ask?

Consider asking for evidence of borrower protection systems related to the following:

- Unauthorized account access and multi-level account verification: What are your steps, processes and built-in systems?
- Identity theft: What is your third-party verification process? What surveillance training does staff undergo?
- Technology hacking and fraud: What are your e-mail, electronic payment, and electronic funds transfer pre-verification processes and security measures?
- Mail fraud: What internal controls and verifications are you using?
- Telephone fraud: What multi-level call monitoring processes are in place? What triggers automatic call monitoring?
- Account manipulation and decision-making: When do multi-level communications occur with the borrower?
- Third party intimidation or coercion: What interaction, communication and verification occur with home improvement contractors and borrowers?
- Time and memory lapses: Does your record-keeping address the possibility of misunderstandings on the part of the borrower as what otherwise would appear to be attempted fraud by a third party?
- Identifiable sources of fraud: Describe your pattern and behavior analyses used; pre-fund disbursement and draw review procedures; and communications with government agencies.