

presented by:



The Journal For Mortgage Banking Professionals

in association with:



November 2007

Ethics Must Define The Reverse Mortgage Industry

By John LaRose

When August headlines out of Capitol Hill touted passage of an ethics overhaul bill, I have to admit I was unimpressed. Before it even came up for a vote, Congress was hailing the work as “a landmark ruling ... historic, momentous.” Ultimately, the bill passed the House, 435 to 11; the Senate, 83 to 14. Already last month came reports of members of Congress who have found ways to skirt the bill’s intent regarding travel expenses.

Well in advance of Congress’s initiative, Jeff Rundles, former editor for ColoradoBiz, said, “Legislating ethics is like capturing air in your fist.” I couldn’t agree more.

Yet, Rundles’ take on codes of ethics runs somewhat counter to mine. He says, “The ethical don’t need them, and the unethical won’t heed them.” On that, I disagree.

A code of ethics is a window into the soul of a company. It says that we value partnerships, but not at the cost of our values. It says: Our integrity is not for sale.

So what does Capitol Hill’s ethics bill have to do with us? Plenty, if we don’t want to risk having our industry’s ethics legislated.

What has happened in the subprime lending sector is all the warning we need. No one took seri-

ously enough the flashing “TILT” light that all but blinded us, until it short-circuited. The cost? More than \$300 billion to banks and other lenders ... 1.8 million distressed or displaced homeowners ... 20% of the mortgage industry workforce without jobs ... and a permanent stain to the industry.

Could something similar happen to the reverse mortgage sector? It not only could happen, but it will happen if we don’t do what it takes to protect and preserve our industry now. Each of us needs to ask ourselves - as if children were listening and our answers were broadcast on the evening news: Am I taking a stand against unscrupulous business practices? Am I willing to sacrifice profits for principle? Am I turning out the predatory and welcoming the principled?

If not, consider our landscape from this view:

- Reverse mortgages soared from 7,800 in 2001 to 107,500 in 2007.
- The 308,000 Americans who have taken out reverse mortgages since 1990 represent a mere 1% of the senior home market.
- Every day for the next 18-20 years, more than 8,000 of the estimated 76 million Baby Boomers will turn 62 and become eligible for a reverse mortgage.

- Adults 62 and older currently hold \$4.3 trillion in home equity; by 2030, when the youngest Boomers retire, the total will top \$37 trillion.

But look carefully for what else is on the horizon:

- 172 U.S. lending operations (and counting) have imploded in the subprime bust - filing bankruptcy, ceasing or limiting operations, or being acquired in a fire sale.

- 100,000-plus mortgage workers are jobless, according to the U.S. Bureau of Labor Statistics.

It follows that at least some out-of-work subprime mortgage brokers - some of the same people who preyed on at-risk borrowers - are now seeking a home and a paycheck in the reverse mortgage industry. It also follows that how and with whom we do business will determine how long we do business.

An FBI study found that 80% of all reported mortgage fraud losses come at the hands of “industry insiders” - people with the knowledge and wherewithal to fool the experts themselves. Not you? Not in your

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house? How can you be sure? Industry insiders turned the subprime home mortgage industry on its head.

It can happen anywhere: In 1999, I witnessed the fifth largest bank failure in FDIC history, brought about by fraudulent mortgage practices of the bank's chairman, CEO and CFO.

Simply agreeing in theory that ethics matter isn't enough. It matters

leader - not because a trade association issues a call for ethical standards. Not because a committee is charged with naming your ethics for you, not because you're compelled by competitive pressures to accede to professional upgrades, and not because it's the "in" thing to do. Such motivations are no different than saying you're committed to losing weight

Why? Because the more, the sooner and the louder we make clear what the "right thing" is, what we will tolerate and what we will not - as an industry, as industry leaders, as professionals and as individuals - the better and longer we can serve one another, our investors and our borrowers.

That's why Celinek recently formalized its code of ethics - because saying we're ethical isn't enough; we must be willing to put our ethics front and center so everyone knows who we are and how we do business. We must - and Celinek does - live our code of ethics day-in and day-out. And we leave no doubt about how much we value our values.

You don't need permission to do likewise. Nor do you need an act of Congress or a committee to formalize your own code of ethics. You only need an ongoing commitment from within to always do the right thing at the right time for the right reason. Individually and collectively, we must make integrity as much an attraction for like-minded clients and investors as it is a repellant to those who do not share similar values.

Some years ago, I spoke on the topic of ethics at an industry conference of subprime lenders. When I concluded, I was met with silence.

Perhaps the landscape has changed enough since then as to elicit some noise this time around. I encourage you to make a lot of noise throughout your companies and the industry on behalf of ethics, and to make certain integrity has a voice - the voice of a leader.

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what ethics look like in practice. Experts cite common preventive measures as among the best weapons against nefarious practitioners and ill-gotten gains: staying abreast of fraudulent practices, educating employees, implementing technological safeguards, and keeping the door closed to "unprofessionals." No less important, say those same experts, is having a company code of ethics.

Therein lies the opportunity for you to stand out as an industry

because the neighbors think it's a good idea.

How can you set yourself apart as an industry leader? By making ethics as visible throughout and beyond your institution as is your company logo. By being first in line to formalize your code of ethics and mandate it as inviolate corporate policy. By exacting high standards of insiders and outsiders alike. And by sounding the clarion at the first threat to the values your code represents.