

Oakland Tribune

August 24, 2006

Support state Senate Bill 1609 to prevent mortgage lending fraud

MRS. SALLY SCOTT is 66 years old. Social Security and pension checks aren't enough. She saw an ad for a "reverse" mortgage allowing seniors 62 or older to receive cash by borrowing against their homes and does not require repayment as long as they live there. Interested, she spoke to a mortgage broker about a \$100,000 reverse mortgage.

The loan papers, however, said that the loan amount was \$200,000. The broker promised he'd change the figure, insisting that she sign the paperwork first. Mrs. Scott signed. A week later she received a check for \$200,000. She immediately notified the broker who apologized for the mistake and instructed her to wire the money back. The account that Mrs. Scott returned the money to belonged to the broker. He disappeared, leaving her with a mortgage in default and no way to repay the loan.

Mandatory mortgage counseling, like that required in state Sen. Joe Simitian's Senate Bill 1609, could have helped Mrs. Scott avoid falling victim to this fraud.

**Shirley HOCHHAUSEN
& Shirley KROHN**

Reverse mortgages are popular among seniors in California, and gaining popularity nationwide. One in every four reverses in the country are sold in California. While helpful for many seniors, reverses are complex, expensive, and can be confusing. Unfortunately, they can spell financial disaster for seniors who don't understand the fine print. Worse yet, seniors like Mrs. Scott may fall prey to unscrupulous lenders and brokers who don't think twice about ripping off elders.

SB1609 will protect California seniors by ensuring they get the information they need about reverses and other financial options before signing. The bill does three important things for seniors.

First, it requires that all seniors considering a reverse receive financial counseling. Counseling has proven to be

the more effective tool for ensuring that borrowers get accurate and impartial information before they proceed.

Secondly, if a lender negotiates a reverse in a language other than English (for example, in Spanish, Korean, Vietnamese, Tagalog, or Chinese), they would then be required to provide a copy of the loan documents and federally-mandated disclosures in that language.

Finally, SB 1609 prohibits lenders from requiring the purchase of an annuity, by providing a three-day "cooling-off period." Seniors are not obligated to purchase. The annuity company take a sum of money from the purchaser and agrees to pay it back, with interest, in periodic payments starting immediately or in the future. Future payments could accrue after the senior has passed away, leaving the funds in the salesperson's pocket.

Mrs. Scott is a victim of elder financial abuse. She is in danger of foreclosure; forced out of her home of 30

years. She's not alone. Often, seniors lack the information they need to make informed choices and succumb to high-pressure sales tactics. Many pay unreasonable fees, buy unnecessary financial products, and are even swindled out of their homes.

SB 1609 creates protections that give seniors information and time to make financial choices offering protection from the financial abuse that may come with a reverse. A reverse mortgage could be the biggest, most complicated and final transaction of a senior's life. They need to be informed by arming them with information and options. If a wolf comes knocking, Grandma will be ready.

Shirley Hochhausen is the founder and CEO of the Corporation for Fair Lending, teaches a course on predatory lending at USF Law School and is a volunteer attorney at Community Legal Services in East Palo Alto.

Shirley Krohn is the board chair of the Corporation for Fair Lending, board vice chair of the Elder Financial Protection Network, board chair of Spectrum Federal Credit Union and a member of the California Senior Legislature as a Senior Assembly Member (elect).

THE DAILY JOURNAL

Leading local news coverage in San Mateo County

September 6, 2006

Governor signs predatory lending bill

A bill seeking to protect the growing number of aging residents duped into risky reverse mortgages because they have valuable houses but little cash was signed by Gov. Arnold Schwarzenegger yesterday.

Senate Bill 1609, authored by state Sen. Joe Simitian, D-Palo Alto, puts tighter requirements on reverse mortgages, including mortgage financial counseling and a three-day grace period before a person must sign an annuity.

Reverse mortgages are a loan

against one's home and require no repayment as long as the person continues to live there. Only people 62 or older qualify. The loan can be delivered in a lump sum cash advance, serve as a credit line or a monthly payment. Since the loan doesn't require repayment, one's debt grows while the equity in his or her home gets smaller — thus the "reverse mortgage" name.

"Elder abuse is called the crime of the 21st century," Simitian said. "Reverse mortgages have seen tremendous growth in California."

The new law mandates independ-

ent counseling from a HUD-approved counseling agency for all reverse mortgage transactions. It also requires lenders to prepare loan documents in the language in which the reverse mortgage was negotiated and prohibits lenders from requiring a borrower to purchase an annuity as a condition of the loan.

The idea for the bill came from Simitian's annual "There Oughta Be a Law" contest in which constituents submit ideas for new legislation. The governor signed the bill at Avenidas Senior Center in Palo Alto.



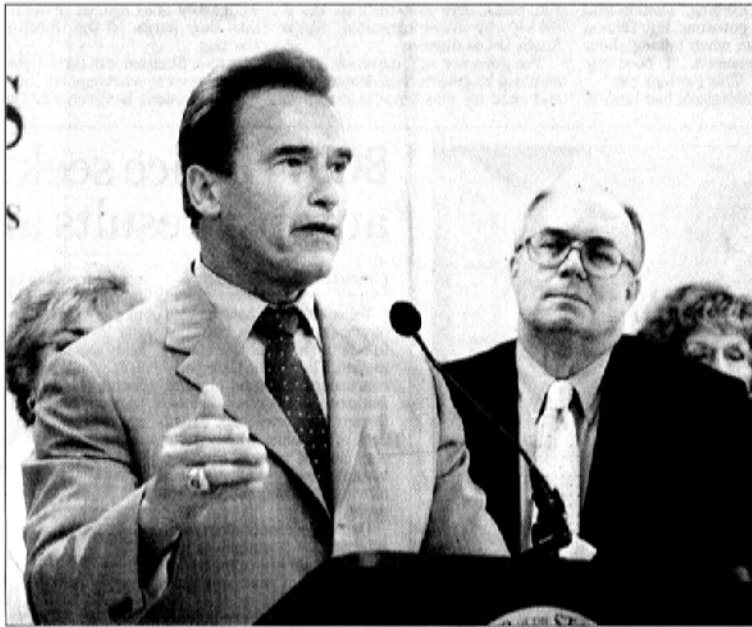
Gov. Arnold Schwarzenegger signed a bill by state Sen. Joe Simitian, D-Palo Alto, to protect the elderly from predatory lending into law Tuesday. SB 1609 puts tighter restrictions on reverse mortgages.

San Jose Mercury News

TWO BAY AREA WHISTLE-STOPS

September 6, 2006

Schwarzenegger, Angelides keep campaigns on track by making appearances in the region



Gov. Arnold Schwarzenegger takes questions from reporters after signing a bill by state Sen. Joe Simitian, right, to protect senior citizens from unscrupulous lenders offering reverse mortgages.

SCHWARZENEGGER SIGNS BILLS: GOVERNOR APPEARS IN PALO ALTO TO SIGN A LAW BY SEN. SIMITIAN TO PROTECT OLDER HOMEOWNERS

By Becky Bartindale
Mercury News

Gov. Arnold Schwarzenegger swept into Palo Alto on Tuesday to sign a bill that adds protections for vulnerable seniors from scam artists offering reverse mortgages, in which homeowners borrow against their equity to receive a line of credit or monthly payments.

"Getting a reverse mortgage can be very helpful to some people, but it's also a huge decision to be made," Schwarzenegger said before signing the law, which was sponsored by state Sen. Joe Simitian, D-Palo Alto. "I want to make sure that people have all the information they need before making any commitment."

The bill-signing ceremony took place at Avenidas, a non-profit agency serving seniors, who are the most common victims in reverse mortgage stings.

As real estate prices have skyrocketed, many Californians who bought their homes years ago at modest prices have become house rich but cash poor, Simitian said. Reverse mortgages allow borrowers to use their home equity to get loans that don't have to be repaid until the home is sold or passed to an heir.

But some unscrupulous dealers have taken advantage of the mortgages, making targets of the elderly and people with imperfect credit.

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The new law requires that before getting a reverse mortgage, people must receive independent advice about the pluses and minuses from a certified counseling agency that does not have a profit motive.

The law also requires that mortgage documents be translated into the language in which the loan was negotiated, ensuring that a borrower who doesn't speak English has full access to the complex financial information. And it blocks the questionable practice of requiring people to buy annuities they may not need.

The idea behind SB 1609 came from Shirley Hochhausen, managing attorney for Community Legal Services in East Palo Alto, as part of Simitian's annual "There Ought to be a Law" contest. Hochhausen proposed the measure after seeing many clients like Johnny Damon, 66, who is at risk for losing his East Palo Alto home of 34 years.

Damon, who worked as a cement

finisher for the city of Palo Alto, was sold a \$200,000 reverse mortgage last September. Damon bought his home for about \$50,000 in 1977, and it is now worth about \$700,000.

But according to a lawsuit filed last month, the brokerage company arranged a traditional mortgage, unbeknownst to Damon. So instead of receiving the income he was counting on, the suit alleges, Damon was stuck with monthly loan payments he cannot afford, and the president of the brokerage company absconded with \$190,000 in loan proceeds.

Damon's attorney, Aaron Myers of Palo Alto, said a criminal investigation is under way.

On Tuesday, Schwarzenegger presented Damon with a copy of the signed bill and wished him luck in his efforts to resolve his problem.

"It was very exciting," Damon said of meeting the governor. But Damon appeared shaken when talking about how he was cheated. "I need my house," he said. "This guy took me."

If a law like Simitian's had been in

place, it's very likely that Damon would not have been victimized, Hochhausen said.

There is no way to know how many people have been misled or defrauded in reverse mortgage schemes, said Shirley Krohn, chairwoman of the Corporation for Fair Lending, which Hochhausen founded. "People are mortified when they are taken advantage of" and may not report it, Krohn said.

Simitian's was one of three consumer protection bills the governor signed Tuesday. The others established mechanisms to punish mortgage brokers who mislead people about their qualifications.

Responding to questions after the bill signing, Schwarzenegger also defended his decision to veto legislation to create a single-payer, government-run health care system. The bill is SB 840, by Assemblywoman Sheila Kuehl, D-Los Angeles.

The governor said universal health care run by government doesn't work and cited his reluctance to create "a



THU HOANG LY — MERCURY NEWS

Gov. Arnold Schwarzenegger signs SB 1609 at Avenidas, a non-profit agency serving seniors, the most common victims in reverse mortgage stings.

bureaucratic empire." Drawing on his experience in Europe, he said, "I have seen it first hand, and health care there doesn't work as well as here."

Schwarzenegger also seemed committed to signing Simitian's controversial hands-free cell phone bill, which would levy fines against drivers who take their hands off the wheel while chatting.

It took Simitian less than a year to get the reverse mortgage bill into law, but the legislator has been pushing the

cell phone bill for six years.

Citing the rise in cell-phone related traffic accidents, Schwarzenegger said, "We have to do something." He said he'd threatened his daughter, who recently began driving, that if he catches her on the phone with her hands off the wheel, "the cell phone is gone."

Contact Becky Bartindale at bbartindale@mercurynews.com or (408) 920-5459.