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December 23, 2010

VIA OVERNIGHT MAIL, FACSIMILE TRANSMISSION: (202) 452-3819 & E-MAIL: REGS.COMMENTS@FEDERALRESERVE.GOV

Jennifer Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Docket No. R - 1390; Regulation Z; Truth-in-Lending

Dear Ms. Johnson:

This letter responds to the request by the Board of Governors of the Federal Reserve System (the "Board") for comments on the Board's proposal to revise its Regulation Z, which implements the Truth in Lending Act ("TILA"). This comment letter describes the views of a client of our firm that is a start-up company developing an innovative proprietary reverse mortgage product.

As you are aware, the home equity conversion market for U.S. senior homeowners is dramatically under-penetrated. There are currently 34 million Americans aged 65 or older that own an estimated $3.5 trillion in home equity. By 2030, that number is expected to more than double, to 71 million seniors, or 21% of the population. Yet, in the last 20 years, only about 600,000 reverse mortgage loans have been made to homeowners age 62 and older.

Retired homeowners have few options for liquidity. The U.S. population is living longer, health care costs have risen, lending requirements are more restrictive, retirement accounts have dropped in value since 2007, savings rates are low, and fixed income returns remain meager. Home equity release appears to be an important source of supplemental income for older Americans.

The reverse mortgage market is presently built upon a single product - the FHA Home Equity Conversion Mortgage (HECM). Last year, more than 95% of all reverse mortgage transactions closed were HECMs. Due to the lack of product alternatives serving this large and diverse demographic, the reverse mortgage market is only 2% penetrated. Making matters worse, to keep the HECM program viable the principal limit factors underpinning the HECM program have been progressively revised to reduce loan-to-value ratios and, beginning in fiscal year 2011, annual mortgage insurance premiums were increased from 0.50% to 1.25%.

In short, seniors have few options beyond the HECM product, and the HECM is becoming more expensive, harder to qualify for, and offers a lower loan-to-value benefit. As a result, unit volume for HECMs dropped approximately 40% in 2010.

Additional programs are needed to serve this market, including a proprietary product that resolves the conflicting needs of senior homeowners desiring a high loan-to-value ratios, and investors who require a more secure investment return. To fill this void, the private sector, as exemplified by our client, is exploring new reverse mortgage products.

In developing alternative proprietary products, our client notes that the definition of a reverse mortgage under Section 226.33, provides that a reverse mortgage is a consumer credit transaction that does not carry any repayment of principal, interest or shared appreciation or equity to be due and payable (other than in the case of default) until after the consumer's death, transfer of the dwelling, or the consumer ceasing to occupy the dwelling as a principal dwelling. The development of proprietary product alternatives to the HECM would be greatly encouraged by the Board's clarification, through its commentary, that a consumer credit transaction continues to meet the definition of a reverse mortgage under Regulation Z if the creditor offers, but does not require, the consumer an option to make payments, provided the consumer retains the choice of not making such payments under the terms of the loan. Such optional payments might include interest-only payments, on a monthly, quarterly, annual or other periodic basis.

We respectfully request that the Board clarify that a consumer credit transaction continues to meet the definition of a reverse mortgage under Regulation Z if the creditor offers, but does not require, the consumer an option to make periodic payments, as long as the consumer retains the choice of not making such payments under the terms of the loan.

We appreciate the Board's consideration of these comments with respect to this important proposal. Should questions about these comments arise, or additional information be helpful, please do not hesitate to contact the undersigned, at 949.754.3010 or at schiffman@wbsk.com.

Very truly yours,

Joel A. Schiffman