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GRANDMA'S LIVING LARGE: HER REVERSE MORTGAGE – SAVING GRACE OR TERRIFIC WASTE?

An Ethics Case Study

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I. THE CASE STUDY[1]

A. The Story

Cole McMichaels straightened his tie and prepared to step in to the recreation room at the Saint Matthew Senior Center in Santa Monica, California[2]. A few weeks earlier, Cole had approached

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[1] This case study is primarily fictitious but is based in small part on true facts. Any real identities have been changed. The bank involved is fictitious.

[2] According to one web site, St. Matthew is the patron saint of money managers. See, *The Catholic Saint Index* at http://www.catholicpatronsaint.com/saintindex.html

Judith Niles, the activity director at the center, if she would like him to give a free seminar on financial planning for the elderly. Judith was delighted at the offer and publicized the event to all of the senior center's volunteers and visitors. From the amount of murmuring and chattering behind the door, Cole guessed that there was a large crowd. As he opened the door, he was not disappointed. Approximately 45 seniors, ranging in age from the late 60's to the early 90's, sat in the wing back chairs and waited for him to dazzle them with his financial planning expertise.

Judith introduced Cole to the crowd and Cole began:

> Good afternoon ladies and gentlemen. My name is Cole McMichaels and I am here to discuss financial planning with you. I work at Second State Bank as a financial planner and am happy to be here. Judith told me that you all are retired. Hopefully you all have prepared for this time of your life and are enjoying yourself. As you enter your later years, there are a number of tools that exist to help you enjoy life even more. Today I am going to talk about a couple of those: home equity loans, deferred annuities and one of the best planning tools for people in your stage of life: the reverse mortgage.

During his presentation, Cole spoke in detail about the lengthening life span of the American population. He spoke about the impending retirement of the Baby Boomers and the future strains on the Social Security system. The seniors questioned Cole who stated that he could give them some unofficial advice, but that they should talk to their own financial planners, or make an appointment to see him later for individual counseling. Cole said, "There are a number of financial tools that can help you maintain a comfortable retirement. My favorite is the reverse mortgage. If you own a home, you can take a reverse mortgage where you take cash out of your equity to use now – it is not a home equity loan where you get a lump sum now and pay it back over time, but is a reverse mortgage. You will get the money in monthly installments and when you sell the house or pass away, some of the proceeds will go to pay back the reverse mortgage. You get the cash now." Two of the women in the presentation, Caroline and Lois, scheduled appointments to meet with him.

B. The Parties

COLE MCMICHAELS

Cole McMichaels was a 25 year old, fresh out of his MBA program. Cole had earned a degree in Finance from a mid-tier regional university. He was an ambitious and dedicated student. His grades were high and he was recognized as a leader on campus. His academic performance, combined with outstanding faculty recommendations, opened the door for an MBA from a top tier school. During his MBA program he focused on Finance but also took a number of personal sales courses. He excelled in all of his course work, was popular with classmates and faculty and was highly recruited by a number of financial institutions.

After interviewing with large and small financial institutions, Cole accepted a position as a loan officer with a small, regional bank: Second State Bank. Not only was the bank located in a beautiful location which reminded Cole of the mid-sized western town in which he was raised, but the bank also had a reputation for rewarding "go-getters." Cole was determined to be a big fish in that pond. He much preferred to make his mark early and climb that ladder than to spend a number of years as a low-level grunt at a huge institution in a huge city.

CAROLINE

At one of his first seminars, Cole met Caroline, an 87 year-old widow with a history of kidney cancer and skin cancer who volunteered at the senior center. Throughout her life, Caroline invested money in stocks and annuities and considered herself a savvy investor. She held stock investments worth nearly $50,000 that paid out dividends regularly. She held a number of annuities and received a monthly check. Caroline owned a home in the community with a current value of approximately $900,000. She had multiple bank accounts with a combined value of $280,000.

Caroline collected Social Security and a monthly pension from her career as well as her deceased husband. Her monthly income was approximately $2,140. She had a number of life insurance policies that generated interest that she had chosen to reinvest in those polices rather than collect, but that she could have collected if necessary.

Caroline had almost no expenses – only homeowners insurance, dental insurance, utilities and food. She did not drive so she had no car insurance. Her health insurance was paid through Medicare. Her health was not the best and near the end of her life she needed a caregiver which she hired for $8.75/hour. Exhibit 1 shows Caroline's monthly income and expenses and the current value of her assets:

EXHIBIT 1: SUMMARY OF CAROLINE'S INCOME, ASSETS AND LIABILITIES

Income	Per		Assets	Current		Expenses	Per

	month			Value			month
Social Security	$1,640[3]		Stocks	$50,000		Utilities	$200
Pensions	$500		Home	$900,000[4]		Homeowners Insurance	$90
Total	**$2,140**		Bank Accounts	$280,000		Dental insurance	$30
			Total	**$1,230,000**		Medicaid	$97[5]
						Property Taxes	$750[6]
						Food	$200
						Total	**$1367**

[3] This amount was determined using the Social Security Administration calculator found online at http://www.ssa.gov/OACT/anypia/index.html. Using the quick calculator and a spouse born in 1924 who retired at age 65 making $70,000 and is now deceased, the surviving spouse amount was calculated in 2010 dollars at $1629.

[4] A search on realtor.com on August 16, 2010 shows that the average cost for 3 bedroom, 2 bathroom homes on the market on that day ranges from $649,000 to $1.9 million.

[5] https://questions.medicare.gov/app/answers/detail/a_id/2260/~/medicare-premiums-and-coinsurance-rates-for-2010

[6] Based on an estimate of 1% of the value of the property.

LOIS

At that same seminar, Cole met Lois. Lois was a 78 year old widow in good health. Lois's husband was a struggling artist and left her no retirement income. Lois herself did not work outside the home. She collected approximately $1,550 in Social Security each month. In addition, she owned a condominium in a small building worth $350,000. Lois's monthly expenses included a $200 car payment (for a modest car she purchased when her previous car expired). In addition, she has some minor medical problems that preclude her from lifting heavy items so she pays another $150 per month to have someone clean the house and perform the yard work. She eats lunch at the senior center mostly out of necessity. Exhibit 2 shows Lois's monthly income and expenses and the current value of her assets:

Income	**Per month**		**Assets**	**Current Value**		**Expenses**	**Per month**
Social Security	$1,550		Home	$350,000		Utilities	$200
Total	**$1,550**[7]		Bank Accounts	$10,000		Homeowners	$90
			Total	**$360,000**		Dental insurance	$30
						Food	$200

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[7] This amount was determined using the Social Security Administration calculator found online at http://www.ssa.gov/OACT/anypia/index.html. Using the quick calculator for a person who was born in 1932 and retired at age 65 making $35,000, with the amount calculated in 2010 dollars.

						Home/Yard care	$150
						Medicaid	$97[8]
						Car expenses (includes fuel)	$250
						Property Taxes	300
						Total	**$1267**

SECOND STATE BANK

Second State Bank was a regional bank in a mid-sized town. The bank offered a full-menu of financial planning tools, from checking and savings accounts to mortgages, auto loans and home equity loans. The bank's motto was: We Care. The mission statement of the bank was "to achieve the highest standard for excellence in financial service products and their delivery, with benefit to our Shareholders, Employees and Clients."[9]

In typical fashion, the bank compensated its loan officers, including Cole, on the number of loans (or similar financial planning tools) he or she originated.[10] Innovation and creativity were highly recognized in terms of promotion, even if they did not result in higher loan originations. Cole's supervisors were thrilled when they heard about his plan to present a series of financial planning seminars at senior centers around the region. The management suspected that these seminars

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[8] https://questions.medicare.gov/app/answers/detail/a_id/2260/~/medicare-premiums-and-coinsurance-rates-for-2010

[9] Modified from the mission statement of Monroe Bank. http://www.monroebank.com/about/mission.html. Please note that this case study is otherwise unrelated to Monroe Bank.

[10] Bureau of Labor Statistics, Occupational Outlook Handbook, 2010-11 edition, found online at http://www.bls.gov/oco/ocos018.htm

would increase originations of a financial planning tool called the reverse mortgage, a tool intended to improve the quality of life for senior citizens.

C. The Financial Instrument

REVERSE MORTGAGES

Reverse mortgages are a financial planning tool available to people who are over 62 years of age and who own a home with essentially no mortgage attached to it. The homeowner must apply for the reverse mortgage and complete some pre-loan counseling. Reverse mortgages generally are “non-recourse, home-secured loans that provide one or more cash advances to borrowers and require no repayments until a future time.”[11] No payments are due on the money until the homeowner dies or until the residence is no longer his or her primary residence. At that point, the mortgage must be paid off, typically through the sale of the home. Heirs are not liable for any amount owed above and beyond the value of the home, though there is risk to the lender that the home’s value may decline below the loan amount. Should the heirs wish to keep the home, the reverse mortgage must be paid off in full.

[11] 74 Fed. Reg. 66652-66660, 66656 (Dec. 16, 2009).

Reverse mortgages are fairly complex. Major news media have reported on the inherent problems with reverse mortgages.[12] Fees and costs can be quite high and may include origination fees, counseling fees, closing costs, mortgage insurance and loan servicing fees.[13] Though some fee maximums are capped by statute, one website estimates approximately 11% of the loan amount can be used in fees and servicing set-asides (to minimize future out of pocket expenses).[14] In addition, there is a general impression that potential clients are not told all of the necessary details before signing up for a reverse mortgage.[15] In fact, the Federal Financial Institutions Examination Council noted that as the population of eligible consumers grows, the number of consumers taking out reverse mortgages without adequate information also may grow.[16] In particular, the Council noted concerns related to lack of disclosures by lenders, inadequate counseling prior to issuance of a reverse mortgage, and conflicts of interest by lenders encouraging reinvestment of reverse mortgage proceeds in to investments sold by the lender.[17]

As such, the Council sought feedback in late 2009 and early 2010 for a series of new regulations related to the reverse mortgage.[18] According to this organization of federal agencies, reverse

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[12] See, e.g., Dugas, Christine, *Reverse Mortgages Aren't for Everyone*, USA TODAY, January 17, 2008, online at

http://www.usatoday.com/money/ferfi/retirement/2008-01-17-boomer-reverse -mortgages_N.htm

[13] http://reversemortgage.bankofamerica.com/details/how-reverse-mortgages-work/reverse-mortgage-fees.aspx (last visited October 5, 2010).

[14] See http://www.hud.gov/offices/hsg/sfh/hecm/hecmabou.cfm for a description of some of the caps on fees and http://www.newretirement.com/Services/Reverse_Mortgage_Fees.aspx for the example mentioned in the text.

[15] See *supra*, note 11.

[16] Id.

[17] Id.

[18] Id.

mortgages already are subject to Section 5 of the Federal Trade Commission Act which prohibits unfair or deceptive acts or practices.[19] Acts may be considered deceptive if there is any representation, omission act or practice that is likely to mislead consumers; if a reasonable consumer would find an act or practice deceptive; and if the act, omission, representation or practice is considered material.[20] An act may be unfair if it causes consumer injury, if the injury is not outweighed by benefits to competition or to the consumer and if the injury caused is not otherwise avoidable by a reasonable consumer.[21] In addition, consumers must receive all the disclosures, including the right to rescind, that are required by Regulation Z of the Truth in Lending Act.[22] Several other laws, including the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act and the National Flood Insurance Act also must be followed.[23]

D. The Transactions

Caroline liked the idea of the reverse mortgage. She scheduled an appointment with Cole and went to the bank. She participated in a brief, 5 minute counseling session where a number of other tools were identified to her in a cursory manner – merely to compare the proceeds to the reverse mortgage. Caroline filled out paperwork for a reverse mortgage and was granted a reverse mortgage up to $450,000 (based on her age and health, the appraisal value of the home

[19] 74 Fed. Reg. at 66656.

[20] Id.

[21] Id. at 66657

[22] Id.

[23] Id.

[capped at $625,000 by law] and current interest rates).[24] Her initial fees and set-asides were approximately $24,000 (comprised of $6,000 for the origination fee that is capped by law, closing costs and a $5,000 set aside for servicing the loan). Caroline opted to take the mortgage as a monthly payout of $3900.[25] Caroline lived for another 8 years. She did need the caregiver during the last year of her life. Upon her death, the bank notified her family that the balance on the reverse mortgage was approximately $ 441,400, consisting of $374,400 in principal and $67,000 in interest and servicing fees not covered in the original set-aside.[26] That money was due to the bank within 90 days or the bank would foreclose. Because the family needed some of Caroline's cash to pay for funeral expenses and associated costs, they were forced to sell the house for approximately 85% of the market value in order to get the money to pay the bank.

Like Caroline, Lois thought the reverse mortgage sounded like a tool that would help her. She went to the bank and received the same pre-loan counseling. She went through the application process and was approved to receive up to $222,000, with a monthly payout of approximately $1300 per month.[27] Her initial fees and set-asides were approximately $12,000. Lois lived for 5 years. At the time of her death, the balance on her reverse mortgage was 88,000, consisting of $78,000 in principal and $10,000 in interest and fees. When she passed away, the family sold her house and paid the bank. Because of market conditions and the requirement that the reverse mortgage be paid off within 90 days of death, the family sold the home for $290,000, leaving them with under $200,000 for distribution to the heirs (after home sales expenses).

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[24] See http://reversemortgage.bankofamerica.com/tour/step-4-how-much-will-you-get.aspx.
[25] See http://rmc.ibisreverse.com/rmc_pages/rmc_aarp/aarp_estimates.aspx#amount (AARP reverse mortgage calculator)
[26] Using 4% interest.
[27] http://rmc.ibisreverse.com/rmc_pages/rmc_aarp/aarp_estimates.aspx

II. Teaching Note

This teaching note uses the COVER model of ethical decision making, as developed by Professors Mitchell and Yordy of Northern Arizona University.[28] Under the COVER model, students are asked to perform some due diligence: analyze the facts, determine the ethical issue, brainstorm alternatives and discuss the stakeholders to the decision.[29] Once that is completed, they are asked to perform a philosophical analysis using a number of different theories: legal analysis, utilitarianism, values-based analysis, publicity effect and Kant's categorical imperative.[30] Students should have some exposure to the philosophical theories to be used and should have read the Mitchell/Yordy article prior to discussion of this case should the instructor choose to use this teaching note.

This case study can be used as an in class exercise or an out of class assignment. For use in class, this teaching note includes supplemental information that faculty members can share as appropriate.

A. Intended Courses

This case is appropriate for use in undergraduate business ethics courses, legal environment of business courses, business law courses, or undergraduate/graduate finance or marketing courses.

[28] Jennifer Mitchell & Eric Yordy, *COVER It: A Comprehensive Framework for Guiding Students through Ethical Dilemmas*, 27 J. LEG. STUD. EDUC., 35-59 (2010).

[29] Id.

[30] Id.

B. Teaching Objectives and Topic Guide

This case study is intended to assist students in developing critical thinking skills, decision-making skills and ethical analysis skills. At the completion of this case study, students should

1) Apply numerous philosophical constructs to an ethical dilemma.
2) Analyze a variety of alternatives and articulate the reasons for and against selecting each alternative.
3) Identify key topics related to an ethical dilemma and ask relevant questions to aid in determining appropriate alternatives.

C. The COVER model

a. Due Diligence

The Due Diligence section of the model contains the preliminary information for the assignment. Students should refrain from making any value judgments but should instead focus on the four areas of data collection. The four steps of the due diligence section are not linear and students should work through them prior to doing any case write-up as new information may come to light or new issues may arise.

b. Facts

Students should be able at this point to review the general facts of the situation. More importantly, students should be thinking about what sort of information they would want in addition to the given facts.

Additional information that can be shared with students should this be an in-class exercise could include: By the end of 2010, over 25% of the Baby Boomer generation will have turned 60 years old.[31] As a result of this aging population, the Congressional Budget Office (CBO) has predicted that Social Security payments will exceed revenues in 2019.[32] In his 2005 State of the Union address, President George W. Bush stated, "Thirteen years from now, in 2018, Social Security will be paying out more than it takes in. And every year afterward will bring a new shortfall, bigger than the year before. For example, in the year 2027, the Government will somehow have to come up with an extra $200 billion to keep the system afloat, and by 2033, the annual shortfall would be more than $300 billion. By the year 2042, the entire system would be exhausted and bankrupt. If steps are not taken to avert that outcome, the only solutions would be dramatically higher taxes, massive new borrowing, or sudden and severe cuts in Social Security benefits or other Government programs."[33] Any decrease in benefits could leave the many Baby Boomers looking for income and one source of income for home owners that is out there is the reverse mortgage.

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[31] http://www.census.gov/Press-Release/www/releases/archives/facts_for_features_special_editions/006105.html

[32] http://www.cbo.gov/doc.cfm?index=5530&type=0&sequence=2

[33] President Bush, February 4, 2005. http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2005_presidential_documents&docid=pd07fe05_txt-9

In addition, for the purposes of this case study, both women are middle class women able to make ends meet without the reverse mortgage. An interesting class discussion revolves around reverse mortgages for those who are not able to pay their bills with their income. Due to the different federal and state programs to assist those in need, this case study does not address this situation.

c. Issue

At this stage of the analysis, the students should frame an ethical issue for discussion. The issue may be framed by completing the sentence, “was it ethical to. . .” This case study has three ethical issues that could be explored:

- Was it ethical for Cole to go to senior centers to generally promote a product that may not have been appropriate for anyone in the room?
- Was it ethical for the bank to issue a reverse mortgage to Caroline, a sick elderly woman who did not need the additional financial resources?
- Was it ethical for the bank to issue a reverse mortgage to Lois, a healthy widow who has the income to cover her expenses?

d. Alternatives

At this stage, the students should be looking for alternate courses of action. With regard to ethical issue 1: Cole’s promotion of the reverse mortgage, what could he have done differently? The first alternative would be to do as he did – go to the senior center and give a summary overview and sales pitch on the reverse mortgage. Alternative 2 could be to market passively by leaving brochures about his services in the senior center with an invitation to make an appointment. Alternative 3 could be to pitch the product but be much more up front about when a reverse mortgage is appropriate. Alternative 4 is to not go to senior centers at all.

With regard to ethical issues 2 and 3, the alternatives seem to be dichotomous in that students can answer yes or no. Students should be thoughtful about other courses of action. Could the bank have recommended a second opinion from the two women's financial advisors? Could the bank have explored in more detail with the women other options?

e. Stakeholders

In the stakeholder analysis, the student should list and prioritize any person or entity that has an interest in the decision. In this situation, the stakeholders would include Caroline, other seniors, their families, the bank management, the bank's shareholders, and the government (as it could impact demand on government services). In order to prioritize the stakeholders, the student should look to the mission statement of the company which states that they care about the interest of shareholders, employees and clients. If taken in order, the shareholders would be the top priority stakeholder.

D. Philosophical Analysis

During the philosophical analysis, the student will apply a number of ethical theories to the situation.

a. Code analysis

For the Code analysis, the laws that relate to the reverse mortgages apply to all three ethical issues. In addition to the following, for issues 2 and 3, students should be sensitive to age discrimination statutes.

For introductory material, faculty members could share that in December 2007, members of the United States Senate convened a hearing entitled, "Reverse Mortgages: Polishing Not Tarnishing the Golden Years."[34] Senator Herb Kohl, chair of the Special Committee on Aging, noted in his opening remarks that the number of reverse mortgages taken by seniors increased 41% between fiscal year 2006 and fiscal year 2007.[35] He then stated, "American consumers see and hear advertisements for reverse mortgages all the time. Agents are targeting seniors aggressively in ways that this Committee has seen before, like through direct mail, celebrity endorsements, and free lunch seminars. Marketers often gloss over the risks of a reverse mortgage, but they convey the payoff quite clearly."[36]

The discussion around reverse mortgages continues. In light of a growing elderly population, the members of the Federal Financial Institutions Examination Council (FFIEC), which include the Board of the Federal Reserve, The National Credit Union Association, the Federal Deposit Insurance Corporation and three other governmental and private financial organizations, recognize the complexity of the reverse mortgage as well as the potential benefits of the instruments.[37] On December 16, 2009, the FFIEC published a request for comment on proposed

[34] S. HRG. 110–427 (2007). Senate Hearing

[35] Id. at 1.

[36] Id.

[37] See *supra*, note 3 at 66652-66660.

guidelines for financial institutions issuing reverse mortgages.[38] The title of the guidelines is, "Reverse Mortgage Products: Guidance for Managing Compliance and Reputation Risks"[39] and contains guidance on advertising, conflicts of interest and how credit counseling. Comments were due by February 16, 2010 and approximately 21 comments were received.[40]

Some states also have begun to regulate reverse mortgages.[41] In Arizona, for example, Governor Jan Brewer signed legislation on April 23, 2010, creating an oversight board and requiring credit counseling for all reverse mortgages, including reverse mortgages that are not covered by the federal laws and regulations.[42] Florida, Nebraska and Pennsylvania also have legislation either pending or signed.[43] Missouri has enacted a law that limits the fees that may be charged and requires certain disclosures on documentation.[44]

For a deeper discussion, or to integrate multiple areas of law, faculty members can relate the reverse mortgage industry to the securities industry and talk about the application or imposition of the Rule 2310 suitability requirement for securities dealers to those who sell reverser mortgages. Rule 2310 imposes a suitability requirement on securities brokers and dealers.[45] The rule specifically requires that broker-dealers have a reasonable belief that a recommendation to

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[38] Id.

[39] Id.

[40] http://www.mortgagecadence.com/index.asp?item_ID=1091

[41] Id.

[42] http://www.azleg.gov/FormatDocument.asp?inDoc=/legtext/49leg/2R/laws/0127.htm

[43] http://www.mortgagecadence.com/index.asp?item_ID=1091

[44] MO. REV. STAT. § 443.903 (2009).

[45] Financial Industry Regulatory Authority, Regulatory Notice 10-22, April 2010 at 4.

buy or sell securities is suitable for the client.[46] Broker-dealers must consider the client's financial goals, total portfolio of holdings, status as an accredited investor (or not), financial experience and knowledge of the financial industries and exchanges.[47] This rule has not been imposed on reverse mortgage brokers to this point.

Students should review the information related to the laws referred to in the text of the case. Students may be required to do some research and reading on their own (in upper division courses) or may be allowed to analyze the legal implications based on the information in the case.

b. Outcome Analysis

For issue number 1, the following cost/benefit analysis is a good place to start.

Alternative	Pros	Cons
Go to the senior center and give a summary overview and sales pitch on the reverse mortgage.	May make good sales	May get bad publicity for taking advantage of elderly May have unqualified guests who want the product
Market passively by leaving brochures about his services	May make some sales Less likely to get negative	Passive is less effective than in person

[46] Id.

[47] *See,* Financial Industry Regulatory Authority, Regulatory Notice 10-22, April 2010 at 4, and Frederick Mark Gedicks, Suitability Claims and Purchases of Unrecommended Securities: An Agency Theory of Broker-Dealer Liability, 37 Ariz.St.L.J. 535, 547 (2005).

in the senior center with an invitation to make an appointment.	publicity about pressuring seniors	No ability to answer questions at the center
Pitch the product but be much more up front about when a reverse mortgage is appropriate.	May build trust among the seniors and increase sales	May not make as many sales
Not go to senior centers at all.	No risk of bad PR	No sales

For issues 2 and three, the following is appropriate

Alternative	Pro	Con
Issue the reverse mortgage	See case study for outcomes	Either or both women may not have needed the mortgage and their heirs would have had more inheritance
Recommend second opinion before issuing mortgage	It would be clear that these women understood the risks of the reverse mortgage	It is less likely that a loan will close as the women will have to get the opinion and return
Increase counseling and investigate other options	It is likely that some financial planning tool will be sold and that the women will have a	The women may become even more confused by too many options and tools

	full understanding of what they are getting	It is likely that any tool selected over the mortgage would have lower fees or interest
Do not issue the reverse mortgage	The women may not need them No risk of bad PR	The women may actually need them.

c. Values Analysis

Under the Values analysis, students should apply the mission statement and vision to the alternatives. As a reminder, the bank's motto was: We Care. The mission statement of the bank was "to achieve the highest standard for excellence in financial service products and their delivery, with benefit to our Shareholders, Employees and Clients."[48]

ISSUE 1

For the first alternative - go to the senior center and give a summary overview and sales pitch on the reverse mortgage – there is some risk that this would be against the motto and the mission. A cursory sales pitch to a potentially vulnerable market does not indicate caring or attention to

[48] Modified from the mission statement of Monroe Bank. http://www.monroebank.com/about/mission.html. Please note that this case study is otherwise unrelated to Monroe Bank.

benefit of the customers. On the other hand, the mission statement lists shareholders as the first stakeholder and increased sales from the visits may very well be in line with the ultimate goal of the company.

Applying the mission and motto to alternative 2 - market passively by leaving brochures about services in the senior center with an invitation to make an appointment – seniors may feel that the provision of information shows that this company cares about their ability to end their lives in comfort. In addition, the lack of pressure seems more caring than a sales pitch. While the profits may not be as high as alternative 1, there is still an opportunity to benefit the shareholders.

Alternative 3 could be to pitch the product but be much more detailed about when a reverse mortgage is appropriate. This alternative definitely indicates caring to the client. In addition, it has the potential to increase profit for the shareholders as people who take out the reverse mortgage better understand it and are more likely to successfully complete the contract.

Alternative 4 is to not go to senior centers at all. While this may seem to be caring toward the elderly, it does not give them any options for financial planning that some of them may legitimately need.

ISSUE 2

Under issue 2, the alternative to issue the mortgage as described in the story may not indicate great caring for these women. Alternative 4, to not offer the mortgage to either woman, may be equally client unfriendly. At this point, in an in class discussion or as part of the discussion once the assignment has been turned in, it would be interesting for the faculty member to share that Caroline was a depression era child and never felt financially secure. Even though she may not have needed that money, she slept better at night knowing that it would be coming and that no personal crisis would cause her to be homeless or without income.

Alternatives 2 and 3, requiring additional advice from a professional financial planner or increasing counseling, both seem very client friendly. Either may result in reduced income which is not necessarily in line with putting our shareholders' interests first. If one reads the mission of the company to maximize value to the three constituencies to the extent possible, the impact on shareholders may be minimal compared to the benefit to the women.

d. Editorial Analysis

For issue 1, there is potentially negative publicity affiliated with each of the outcomes. In giving the cursory sales pitch, the company could be accused of taking advantage of the elderly women. To apply the values to this publicity, the company would need to focus on the need for these seniors to get financial planning assistance. Even so, publicity may focus on the lack of information given at these meetings. The company may have a hard time justifying this given its values.

For alternatives 2 and 3, it is hard to imagine negative publicity, unless it is of the same nature – taking advantage of the elderly. It is easier for the company to show that they are looking out for the needs of potential customers by providing more information with less pressure. Negative publicity associated with alternative 4 could focus on the lack of opportunity for seniors to learn about, and procure, needed financial tools. The company could respond that they did not want to take advantage of the elderly or create a sense of pressure.

For issues 2 and 3, negative publicity affiliated with granting the mortgages could focus on the fact that these women had the income to cover their expenses and the bank was taking advantage of them. The bank's response, based on its values, could focus on the sense of security that these women received from the additional income. Options 2 and 3 could have negative publicity related to age discrimination (do younger people have to get more counseling or additional advice before getting a loan or mortgage) or to the run-around given to the women. The company easily can respond that the motto of the company supports ensuring that these women had full knowledge and information about the product and some counseling as to its appropriateness for their stage of life and life goals. Alternative 4, not issuing the mortgage, could be surrounded with accusations of paternalism and age discrimination. It could be hard to counter this publicity based on the mission and values of the bank.

e. Rule Analysis

The Rule analysis is based loosely on Kant's categorical imperative and forecloses any argument that this is one isolated incident or one small company and it doesn't matter. Students must universalize each alternative. For issue 1:

If all mortgage banks went to senior centers and gave summary overviews and sales pitches on the reverse mortgage, more seniors may end up with reverse mortgages. Depending on the economic position of these seniors, this could alleviate suffering or angst at the end of life or it could waste a lot of the seniors' resources. Should all banks market passively by leaving brochures about services in senior centers with invitations to make appointments, seniors would have access to the information with no pressure. If banks pitched the products but were much more detailed about when a reverse mortgage is appropriate, more seniors would be better informed about the product. If no bank went to senior centers to discuss reverse mortgages, then the seniors would be without information or knowledge of a potentially useful tool.

For issue 2 it is a bit trickier analysis. If all banks issued reverse mortgages to people in the position of Caroline or Lois, there may be fewer resources for seniors who really need the money. Alternatively, there may be more seniors who live out the end of their lives more relaxed. For alternative 2 and 3, seniors would have more information as they entered in to contracts for reverse mortgages. For alternative 4, there may be people like Caroline who do not need the money from a financial perspective, but who would like the money for peace of mind.

E. COVER recommendation or conclusion

It is important for students to make preliminary decisions about the analysis. Anecdotally, this author has seen many students who can work through the analysis but stop short of making any recommendations or decisions. It is appropriate in an in-class exercise (or reviewing the assignment) to talk about how these ethical issues may relate to each other – perhaps resolving the first issue really eliminates the others. For example, should the bank decide more intense counseling is needed before issuing a reverse mortgage, perhaps we worry less about whether it was ethical to issue a reverse mortgage to either of the women – each would be more informed and we should have faith that each will select an appropriate option.

III. Conclusion

As a timely and important financial discussion, the reverse mortgage scenario presented in this case study lends to rich discussions about laws and regulations related to financial instruments, the judicial process and ethics. The case allows students to identify ethical issues and apply ethical philosophies to those issues to develop appropriate responses.