

Reverse Mortgages: The Answer to Some Woes?

Home Equity Conversion Mortgages offer help to older borrowers facing financial strain

By **Robert D. Yeary**, chairman and CEO, Reverse Mortgage Solutions Inc.

AS THEIR RETIREMENT INVESTMENTS and incomes continue to shrink, more older homeowners will be inclined to seek reverse mortgages. Many of these people never would have considered such a product in the past. As economic times change, however, so do the needs of homeowners of all ages.

Home Equity Conversion Mortgages (HECMs), insured by the Federal Housing Administration (FHA), allow homeowners ages 62 or older to borrow against their home equity. As more U.S. residents with existing mortgage and personal debt reach that age, a new group of potential reverse-mortgage customers emerges.

In many cases, reverse mortgages can help these older citizens pay off existing debt and even avoid mortgage delinquency and foreclosure.

To qualify for a HECM, borrowers must own their house outright or have only a small mortgage balance remaining. They also must live in the house, be current on any federal debt and participate in an information session led by an approved counselor.

HECMs are the only reverse-mortgage product the federal government insures, and brokers looking to work with these mortgages would be wise to educate themselves about the product and its requirements. This is especially true as more eligible borrowers turn to the product as overall turmoil in the financial markets challenges their bottom lines.

Exploring the client base

According to HECM-origination statistics from the FHA and the U.S. Department of Housing and Urban Development, the annual number of HECMs endorsed by the federal government increased every fiscal year from 2000 through 2008.



The annual endorsement level grew from 6,637 to 112,015 during that time.

The growth trend is expected to continue in fiscal year 2009. According to the data, there were 37,502 HECM endorsements between this past October and January.

Why is this occurring? Many potential reverse-mortgage clients have watched their retirement portfolios wither during the past two years. In some cases, these potential clients now

lack the cash flow necessary to meet their ongoing expenses. While they previously could have counted on help from adult children, that support system also often faces hardships brought on by job loss and other economic challenges.

Borrowers who take out HECMs can receive payments in one of the following five ways.

- 1. Tenure:** Offers equal monthly payments as long as one borrower continues to live and use the property as a principal residence
- 2. Term:** Offers equal monthly payments for a chosen and fixed period of time
- 3. Line of credit:** Offers unscheduled payments at times and in amounts of the borrowers' choosing, as long as funds remain in the line of credit
- 4. Modified tenure:** Combines a line of credit with scheduled monthly payments
- 5. Modified term:** Combines a line of credit with monthly payments for a chosen and fixed period of time

The easiest way for independent mortgage brokers to originate HECMs is to affiliate with FHA-approved lenders. This move gives these brokers access to government programs and can aid in their education of the reverse market.

Loan-limit changes

A recent AARP survey noted that 36 percent of middle-aged and older U.S. residents stopped putting money into their retirement accounts during 2008, and 17 percent prematurely withdrew funds from a retirement account.

Fortunately, HECMs now feature increased loan limits and lower origination-fee caps.

The national loan limit, which was raised to \$417,000 this past November, stands at \$625,500 for the rest of the year. Before this past November, the limit varied by geographic location and could be as low as \$200,000.

The origination fee, which had been capped at 2 percent of any loan amount, is now capped at 2 percent on the first \$200,000, plus 1 percent



Robert D. Yeary is chairman and CEO of Reverse Mortgage Solutions Inc., which provides private-label subservicing as well as a state-of-the-art loan-origination system for reverse mortgages. RMS is the fourth-largest servicer of reverse mortgages in the country. Yeary has held many senior-executive positions in his nearly 40 years in the mortgage industry. Before forming RMS, he was a consultant to Senior Loan Link. Contact Yeary at (281) 404-7818 or byeary@rmsnav.com.

Continued ...

Illustration: Dennis Wunsch

REPRINTED FROM *SCOTSMAN GUIDE* RESIDENTIAL EDITION AND SCOTSMANGUIDE.COM, APRIL 2009

All rights reserved. Third-party reproduction for redistribution is prohibited without contractual consent from Scotsman Publishing Inc.

Reverse Mortgages

... Continued

of any amount over that. There is also a fee ceiling of \$6,000 per reverse mortgage.

A home's market value determines how large of a reverse mortgage homeowners can receive. Although a home's value may have slipped of late, that drop compares favorably to larger declines experienced by stocks. In addition, depending on the house's current value, the owners still may be eligible for the maximum \$625,500 loan amount.

In some cases, a reverse mortgage can solidify a borrower's portfolio until the stock market recovers. For example, borrowers who previously used stock dividends to supplement Social Security income may find themselves without those dividends. A reverse mortgage can fill the gap until dividend payments return or stock values recover. This can be critical to borrowers who must pay off debt in order to avoid further financial troubles.

Health-care expenses and home repairs represent other common motivations for obtaining reverse mortgages, as well.

Aging baby boomers

One stumbling block to reverse-mortgage originations has been a persistent lack of understanding of the HECM program. This comes from brokers who don't know how to qualify to participate in the program and from homeowners who mistakenly believe they must turn over ownership of their homes to a bank.

These misconceptions also are changing as more baby boomers turn 62 and gain eligibility for reverse mortgages. These potential reverse-

mortgage borrowers tend to have more familiarity with debt financing, such as that offered by home-equity loans. For many baby boomers, it doesn't seem unusual to tap into their home equity.

A 2008 AARP report on readiness for retirement noted that many baby boomers nearing retirement will find that housing equity makes the difference between a difficult retirement and a comfortable one.

Sealing the deal

By affiliating with FHA-approved lenders, independent brokers can gain access to all FHA programs. These brokers can receive reverse-mortgage applications and have them funded by the FHA-approved mortgagee.

Although brokers must be FHA-approved to originate HECM and other FHA-insured mortgage loans, two different levels of approval are open to brokers under HUD-established restrictions. An FHA-approved loan correspondent, or mini-eagle, often is the easiest approval to obtain. Brokers can originate and process HECMs and other FHA loans. A sponsor underwrites the loan, and the loans can be closed by that sponsor or the broker correspondent.

The mini-eagle approach is similar to the forward wholesale channel, in which a mortgage bank funds a broker's loan. In the FHA reverse-mortgage world, however, it's an FHA mortgagee funding the correspondent's loan.

This brokerage relationship with the FHA's stamp of approval allows brokers to do reverse mortgages as well as low-downpayment, government-insured loans. It's also a supervised relationship, with the FHA supervising the broker as a correspondent, which is especially

important in light of fraud concerns. It adds a layer of protection and can offer brokers additional credibility with consumers.

The other level of FHA approval is mortgagee, or full eagle. These brokers can process, underwrite and close loans in their name.

At some point, however, they must qualify for direct endorsement. These mortgagees also can contract with another mortgagee to be their agent in processing and underwriting HECM loans.

Brokers also should note that various companies offer online and other technology-based loan-origination systems that help FHA correspondents originate reverse mortgages, provide proper disclosures and serve other customer needs. In addition, a restriction established by the Housing and Economic Recovery Act of 2008 prohibits lenders from subsidizing HECM counseling.

■ ■ ■

As reverse mortgages become a necessity for more older homeowners looking to avoid foreclosure, eliminate debt and manage cost-of-living increases associated with aging, mortgage brokers who take the right steps and educate themselves can be ready to help. **!**