



FHA reverse mortgage policy changes nearing

By **SAMANTHA HENRY**, The Daily Transcript
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Reverse mortgages are causing trouble for the Federal Housing Administration, which could result in new policies going into effect in the next couple months.

Carol Galante, commissioner and acting assistant secretary for housing, wrote in a [letter to U.S. Sen. Bob Corker](#) four policies to help correct structural problems in FHA's Home Equity Conversion Mortgage (HECM) program. Those policy recommendations include: requiring borrowers with credit scores below 620 to have a maximum debt-to-income ratio no greater than 43 percent to be approved through FHA's TOTAL Scorecard; a moratorium on the full-draw HECM Reverse Mortgage, which would result in "the immediate cessation of the use of the Standard Fixed Rate HECM product"; lowering the maximum loan-to-value ratio on loans above \$625,500 to 95 percent from 96.5 percent, raising the down payment from 3.5 percent to 5 percent.

Galante stated in the letter that she would move on these actions by Jan. 31. Eric Meehan, president of **Golden Opportunity Reverse Mortgage**, said if the moratorium is approved at the end of the month, it will take about two more months to go into effect.

Meehan said the moratorium on the fixed standard product is "good for a couple reasons and bad for a couple reasons."

"I do believe there are lenders, banks and originators out there pushing the product because of the high amount of money they can make on the back end," Meehan said. "They're pushing this product absolutely, I believe, when it's not the best choice for the borrower. ... In Southern California, there are high-dollar homes and seniors have high mortgage rates. When they're paying a high mortgage rate, that fixed rate is very appealing to a senior. They're using the majority of the money to pay off the whole loan. I hate to see it go because a lot of customers benefit when the majority of the money pays off a loan, but it's not going to really hurt the industry."

An attempt to control fees and penalties could be good in terms of trying to "prevent some consumer exploitation," said Norm Miller, professor at the Burnham-Moores Center for Real Estate at the University of San Diego.

"Every time I see a Robert Wagner ad or Henry Winkler or an ex congressman, I feel that senior citizens are being suckered in as if they are now going to be set for life and seldom does it work that way. ... We have plenty of history to know that the public does not understand the mountain of paperwork they sign and some mortgage lenders specialize in such borrowers," Miller said in an email. "I fear that subprime lenders, now out of business for a while, have found a new niche and are now going after seniors trying to provide RAMs. How could you not trust the Fonz?"

Mark Goldman, a real estate professor at San Diego State University and mortgage broker, said changes could help reduce risk and "it's important to manage risk appropriately so these programs remain available to people."

"It's important to keep the system running properly so that these loans don't go into default, so these financing products remain available," Goldman said.

The economic value of the HECM portfolio in 2012 was projected in November to be negative \$2.8 billion in capital resources, compared to a positive \$1.4 billion the previous year, according to the [U.S. Department of Housing and Urban Development's annual report to Congress](#). The report lists the reasons for the decline as: updated mortality and termination speeds; higher rate of property conveyance at termination; and less optimistic baseline house price appreciation rates.

Challenges facing HECM loans, according to the annual report, include an increase in the number of borrowers taking out 80 percent or more of the maximum amount possible in one initial cash draw. Taking the eligible cash upfront could result in insufficient cash flow for property upkeep, taxes and insurance, thus increasing defaults resulting from borrowers who are unable or unwilling to make tax and insurance payments. Other challenges include increased loan conveyance rates and the increased likelihood that balances will exceed property values at the time of loan termination as a result of slower than expected mortality and termination speeds.

A high percentage of people who take out the maximum rate loan amount have a higher rate of default, Meehan said.

"The reason they're defaulting is because they're not paying their taxes. The people that need the most money are usually the ones that cannot pay their taxes," Meehan said. "I think these people would be defaulting anyway. If they're going to default anyway, they shouldn't get a reverse mortgage."

Miller said when most people who take out a reverse mortgage are doing so in a lump sum, it implies that the reverse mortgage isn't serving the retirement needs as much as short-term cash needs.

"They were designed to help people tap into home equity slowly to assist in retirement," Miller said in an email. "The new legislation appears to slow down the speed of draw and limits the [loan-to-value ratio] to a lower figure, and these are both critical to save the government [FHA] from certain future bailouts."

Meehan said the fixed-rate product has only been a "real, viable marketing product" since 2009 and said "I find it hard to believe that that many people are defaulting because of taxes."

The annual report has numbers from 2007 to 2009, Meehan said, which was before the fixed-rate product was available.

"I do question the numbers," Meehan said. "I don't question what's going on in today's world."

The annual report listed one short-term change to "issue new incentives for estate executors of HECM borrowers to dispose of properties themselves rather than conveying them to HUD."

"Some of the reasons for default is because of home values," Meehan said. "As values go up, [FHA] will see less of these foreclosures. When a person dies and is no longer living in the home, instead of heirs selling because of equity, if the property is upside down, they just turn the keys over and now HUD is left with the homes. The idea of incentivizing the homeowner to sell the house — I like."

The FHA's proposal to reduce the principal limit would hurt Meehan's business, he said.

"I would definitely be against that. It was already reduced twice since 2009," Meehan said. "I don't believe there's any reason to reduce the principal limit anymore -- that would hurt business. Right now, taking away the fixed-rate product, that won't hurt my business. Anyone who says it will is being short sighted."