



Reverse Mortgages

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“House Rich, but Cash Poor”

A reverse mortgage is a type of home equity loan that allows seniors, 62 or older, to borrow against equity in their home:

- Without having to repay any of the mortgage debt during their lifetime
- Payments flow in reverse of a standard mortgage – from lender to borrower
- Seniors may remain in their homestead by converting home equity into a payment option
- No income or credit requirements. Seniors only need equity in their home and complete a counseling course
- Underwriting guidelines calculate the maximum loan amount

Payment Options

- Lump Sum
- Tenure
- Term
- Line of Credit
- Combinations of the above

Underwriting Guidelines

- Age of Borrower (if married, the youngest spouse)
- Payment Option
- Equity in home
- Current interest rates

Default Events

- All borrowers have died
- Sale or transfer of the property
- Occupancy
- Failure to pay taxes and insurance, or otherwise maintain the property

Servicing Issues

- Complying with Repair Rider to HECM
- Occupancy
- Taxes & Insurance
- Death of Borrower

Servicing Issues

1. Repair Rider to HECM

- Servicer must ensure repairs are completed before funds for repairs are disbursed
- If repairs are not completed, servicer may discontinue/suspend payment plan until repairs are completed
- Servicer may call the Note due and payable for failing to complete repairs, but must first receive HUD approval

Servicing Issues

2. Occupancy

- Each year, Servicer must provide borrower with a written certification to sign and return to the Servicer certifying that the property is still the borrower's principal residence
- Deed in Lieu of Foreclosure / Contested Foreclosures in this area
- Servicer must obtain HUD approval before calling the Note due and payable for Occupancy violation

Servicing Issues

3. Taxes & Insurance

- T&I management creates significant confusion for borrowers and even more stress on servicers
- Borrower may elect to pay their own T&I or allow Servicer to pay.
- When Servicer pays:
 - Portion of monthly payment withheld for T&I advance.
 - Portion of line of credit set aside for T&I advance
- 90-95% of borrowers elect to pay their own T&I.
- Real property tax deferrals/tax lien transfers

Servicing Issues

4. Death of Borrower

- Family/Neighbor information is the key. Collect as much information as possible and provide it to the foreclosure attorney with the referral
- Deed in Lieu of Foreclosure – A lot of work with or without probate
- Collecting as much information and providing same to foreclosure attorney
- Probate delays

Market Update

- 1990 – FHA insured 157 HECM loans
- 2006 – FHA insured 77,000 HECM loans
- FHA HECM volume increased 70% from 2005 to 2006
- GAO reports Americans over 65 total 34 million. By 2030 total will be 70 million
- 78% of borrowers choose Line of Credit payment plan
- 5% of borrowers choose Tenure plan (“lifetime income”)
- Center for Retirement Research found 43% of working households are currently saving too little to fund retirement needs

Market Update

- 1st Ginnie Mae HECM MBS set to close end of 3rd quarter 2007
 - Lenders obtain better pricing on secondary market
 - Increase competition
 - Expand product offerings
 - Reduce costs to borrowers

Legislative Update

- H.R. 391 passed on January 17, 2007 temporarily suspending the volume cap on FHA insured HECM loans which was at 275,000 loans
- 2007 Legislative Agenda:
 1. Eliminate the volume cap on the number of HECM loans FHA can insure
 2. Create a single national loan limit
 3. Institute a HECM for Home Purchase program

FOR MORE INFORMATION ON
REVERSE MORTGAGES

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