



REVERSE MORTGAGES

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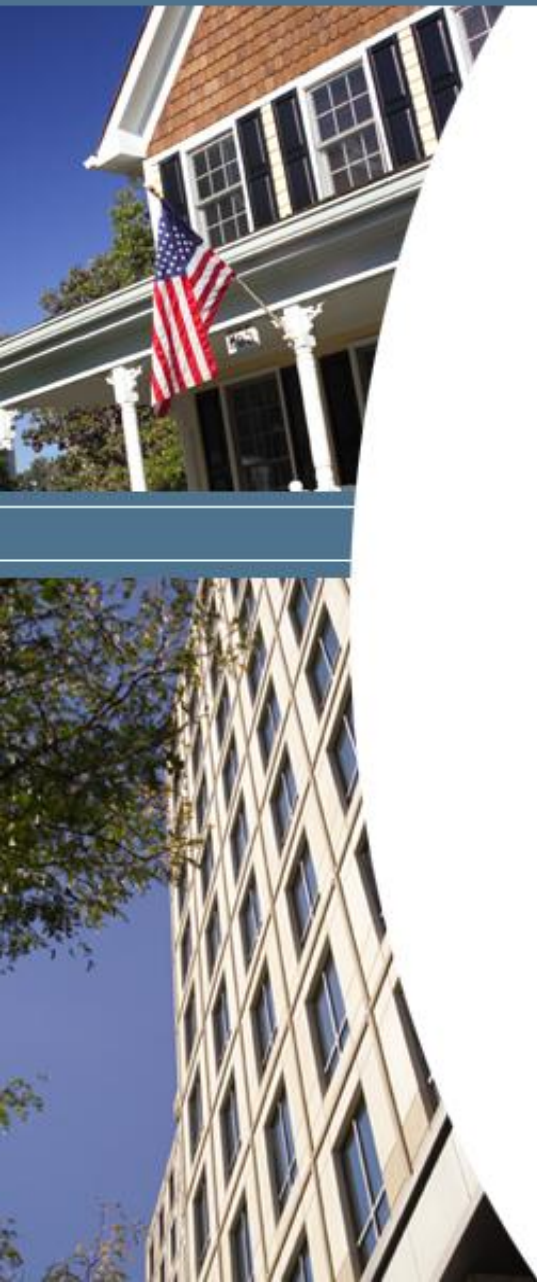
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THINGS YOU SHOULD KNOW

- You Already Know 90% of What You Need to Know
- Reverse Mortgages are, for Compliance Purposes, First and Foremost, Residential Mortgage Loans
 - ✓Laws of General Application (State and Federal);
Some with Peculiar Applications to Reverse Mortgages
 - ✓Laws Specific to Reverse Mortgages
- Operationally, and “Culturally”, Reverse Mortgage are Very Different (“Life Time Events”, “Life Time Decision”)
- All HECMs are Reverse Mortgages
- Not all Reverse Mortgage are HECMs (Home Keeper & Proprietary Programs)
- Most Reverse Mortgages offered Today are Reverse Home Equity Lines of Credit (or HELOCs)

OUTLINE REVERSE MORTGAGES

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- What Are Reverse Mortgages?
 - How Do They Work?
 - Who Wants Them/Needs Them?
 - Who Originates Them?
 - Who Buys Them?
 - Who Services Them?
 - When is a Reverse Mortgage Appropriate?
 - Why Now?
 - Where are They being Made?
 - Applicable Laws?
 - General Federal Laws?
 - Specific Federal Laws?
 - Originator Requirements?
 - HECM Program Rules?
 - HECM General Structure?
 - General State Laws?
 - Specific State Laws?

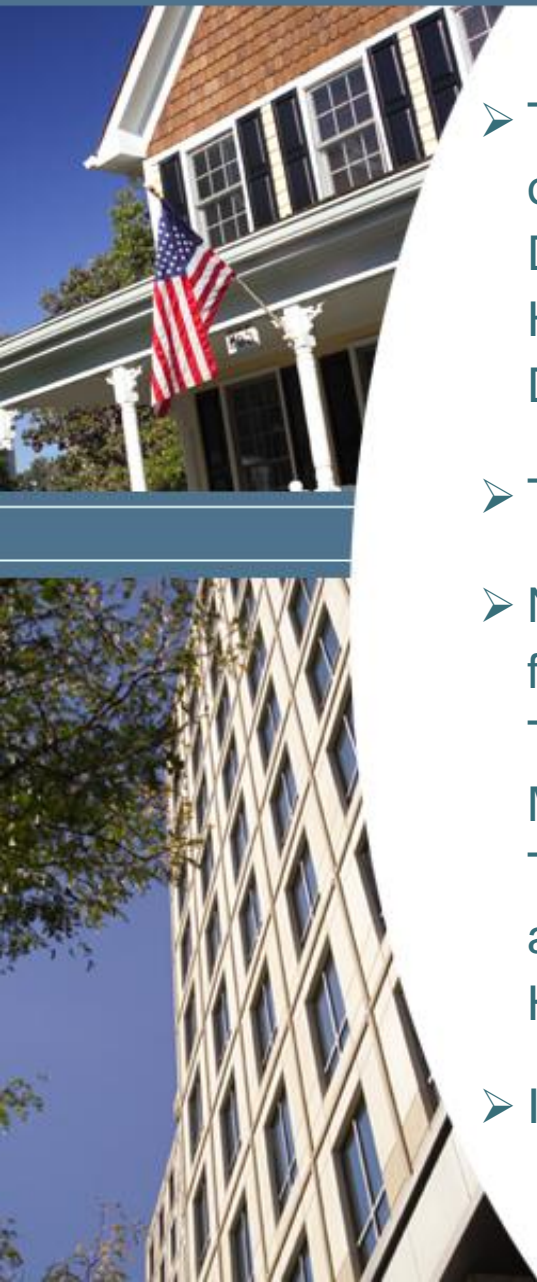
WHAT ARE THEY?

- Reverse Mortgages are Defined at the Federal Level Primarily under TILA (and Reg. Z) and, for the FHA-insured Home Equity Conversion Mortgage (or HECM) Program, by FHA Regulations, Mortgagee Letters and Handbook Provisions
- A Reverse Mortgage is a Non-Recourse Consumer Credit Transaction under which Loan Advances are Secured by the Consumer's Principal Dwelling and which Does Not become Due and Payable until a Maturity Event or Default Occurs
- Reverse Mortgage are, of Necessity, First Lien Loans Only
- Under the FHA HECM program, the Borrower Must be at Least 62 Years of Age
- As the Name Suggests, the Lender Makes Payments to the Borrower, thus the Payment Stream is "Reversed"

HOW DO THEY WORK?

- A Senior Obtains a Line of Credit or a Commitment from the Lender to Make Monthly Payments to the Senior, or a Combination of Both, for Either a Specified Period (a Term Loan) or for the Life of the Borrower (Tenure-based Loan); Most Reverse Mortgages are Tenured-based
- The Amount for which a Senior Qualifies Depends upon a Number of Factors, including the Senior's Age, the Value of the Home, Current Interest Rates and any Outstanding Liens on the Home; Normal Credit Underwriting is Not a Factor
- Origination Fees and Closing Costs Can be High, but Where Else Might One Obtain a Loan that Need Not be Re-paid until they Move, Sell the Home or Pass Away?
- Origination Fees can be Based on the Home Value, and Not Necessarily the Loan Amount
- Interest Rates are Usually Variable and Based on Short Term, Lower Rate Indices (One Year CMT, or LIBOR), Plus a Margin. Fixed Rate Loans Permissible.

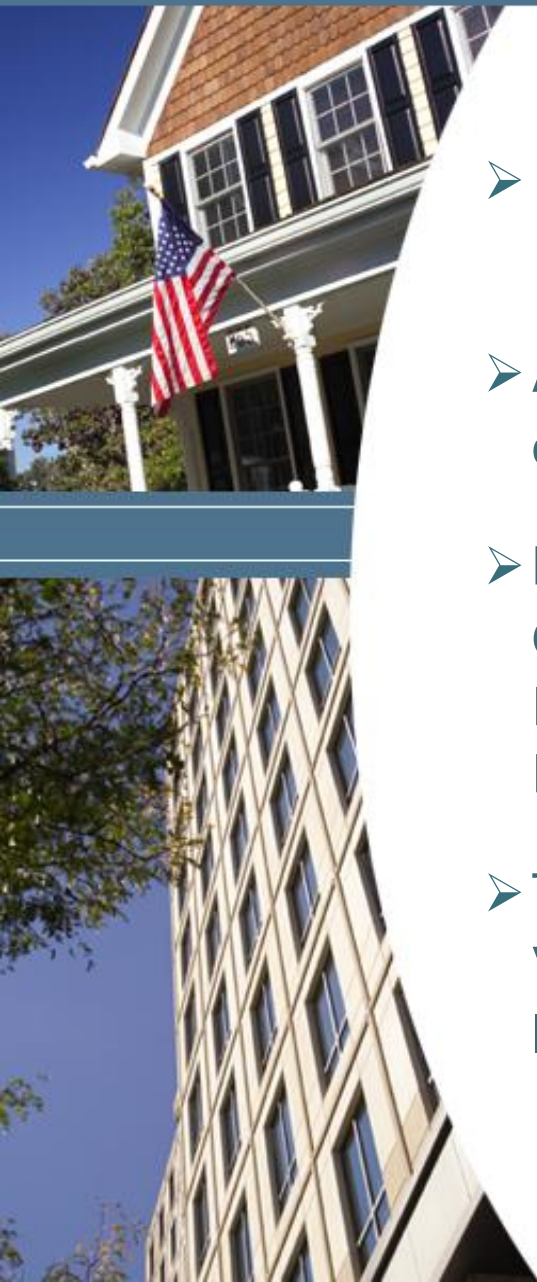
WHO NEEDS THEM?

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- The Typical Reverse Mortgage Borrower Was a 72-year old House Rich, Cash Poor Widow with a Home in Disrepair, Past Due Real Estate Taxes, Lapsed Homeowner's Insurance, with Credit Cards "Maxed" Out Due to the Purchase of Prescription Medication
 - The Demographics are Changing
 - Now, More Often, Seniors are Using Reverse Mortgages for a Whole Host of Things, including the Purchase of Long Term Care Insurance, Re-Modeling the Home to Make It More Senior Friendly (so that they may "Age in Place"), To Pay for Travel or a Grandchild's Education Expenses, and at least one Senior used a Reverse Mortgage to Buy a Harley Davidson Motorcycle in order to tour the U.S.
 - In Short – Financial Flexibility

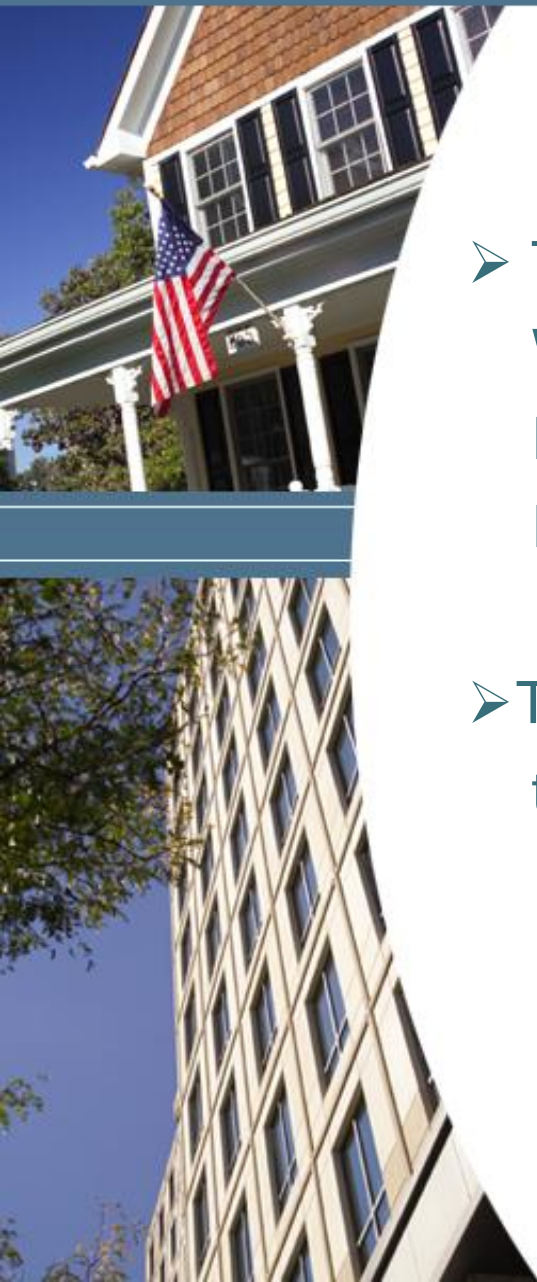
WHO ORIGINATES THEM?

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- There are more than 1,000 Retail Originators in the U.S. Marketplace, 1,348 Originators Endorsed HECM Loans 2007 YTD
 - There Are Over 3,000 Correspondents in U.S. that Originate the FHA-Insured HECM Product
 - There Are 4 or 5 Large “Aggregators”, Most of Which Have Both Wholesale and Retail Channels, and Most of Which Also Service Reverse Mortgages

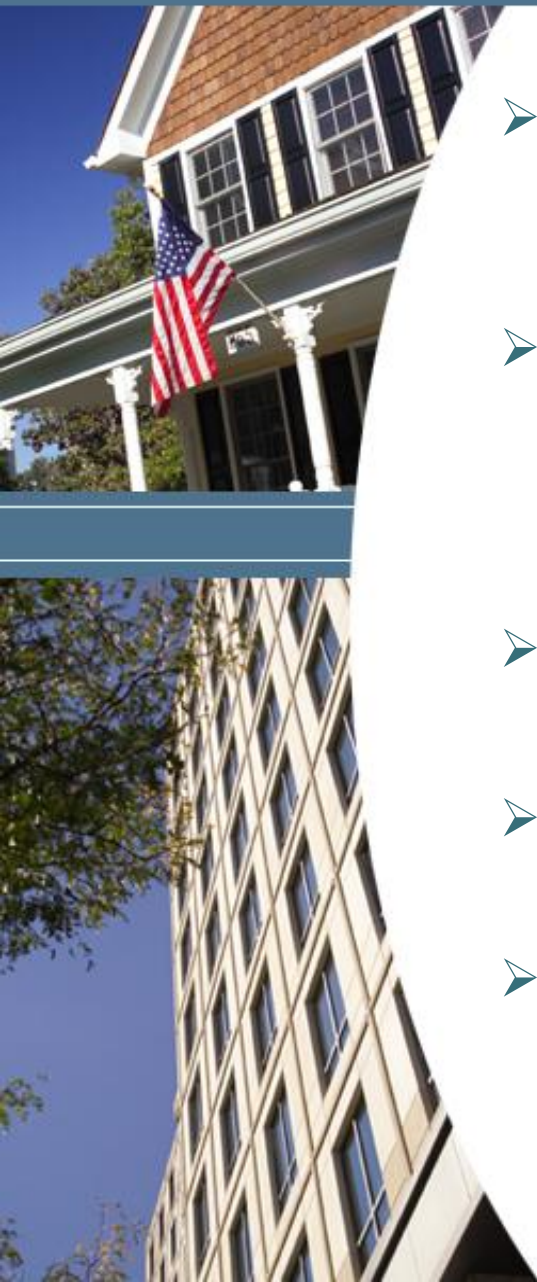
WHO BUYS THEM?

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- Until July 2006, Fannie Mae Was the Sole Investor in HECMs
 - And, until that time, HECMs were Approx. 90-95% of the Reverse Mortgage Origination Market
 - Beginning July 2006, Several Wall Street and Other Investors became Interested in and began Purchasing Reverse Mortgages, including New Proprietary Products
 - Those Proprietary Programs since January 2007, Variations of the HECM largely were eclipsed by the late 2007 Credit Crunch but “They Will Be Back.”

WHO SERVICES THEM?

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- There Are 4 or 5 “Aggregators”, Most of Which Have Both Wholesale and Retail Platforms, and Most of Which Also Service Reverse Mortgages
 - There also are 3 or 4 “Stand Alone” Servicers that Offer Reverse Mortgage Servicing

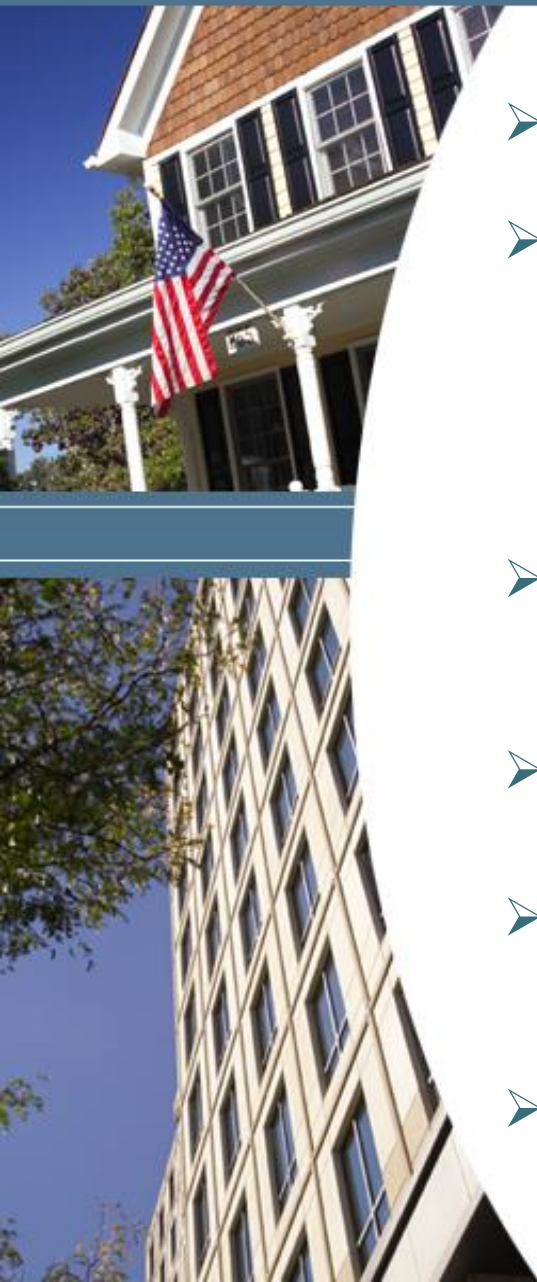
WHEN TO GET THEM?

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- Seniors that Need Cash for Living or Daily Expenses, that Have Equity in Their Homes, but Do Not Plan to Move Soon
 - Seniors Looking for Financial Flexibility – Including High Net Worth Individuals with High Value Homes that Do Not Wish to Use Other Assets (Ex., Drops in the Stock Market)
 - Reverse Mortgages Do Not Make Sense for Seniors with Little or No Current Equity in Their Home
 - Reverse Mortgages Do Not Make Sense for Seniors Planning to Sell Their Home and/or Move Soon
 - Reverse Mortgages May Not Make Sense for Seniors with a Terminal Illness

WHY NOW?

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- Demographics (The “Graying” of America; More Seniors Every Day; “The Greatest Generation”, Attitudes Toward Debt Changing)
 - Elder Policy – Medical Care, Social Security
 - Untapped Value - Less Than 2% of Market Tapped
 - Longer Life Spans
 - Fluctuating Retirement Plan Values
 - The “Sandwich” Generation
 - Capital Markets - Investors Wanting and Willing to Invest

WHERE ARE THEY ORIGINATED?

- 
- Bi-Coastal, and the Bread Basket
 - Because of the current HUD HECM Property Value Limit, “Jumbo” or certain Proprietary Programs were Popular in California and parts of the East Coast, and They “Will Be Back.”
 - HECMs are still viable in the Midwest, and in selected areas on the East and West Coast
 - The Usual Suspects – California and New York
 - Some Unusual Trends – Connecticut, but not as much In Florida as One Would Expect
 - Higher National Loan Limit Coming



➤ **Federal Laws and Regulations**

➤ **State Laws and Regulations**

- ✓ General Laws with Peculiar Applications to Reverse Mortgages
- ✓ Laws Specifically designed to Address Reverse Mortgages

GENERAL FEDERAL LAWS?

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- Rate Preemption – DIDA; Interest Rate (including compounding) as Agreed Between the Parties in 35 states, more or less
 - Term Preemption – Parity Act; Negative Amortization, Balloon Payments
 - TILA – Open-End Credit
 - FHA – Approval, Process, Servicing
 - RESPA – Open-End Credit Exclusions; Section 8
 - HMDA – Open-End Credit (HELOCs)
 - Other Laws – NBA, HOLA, FDICA, NCUA

SPECIFIC FEDERAL LAWS?



➤ TILA

- ❖ Defines Reverse Mortgages
- ❖ Non-Recourse; Principal Dwelling

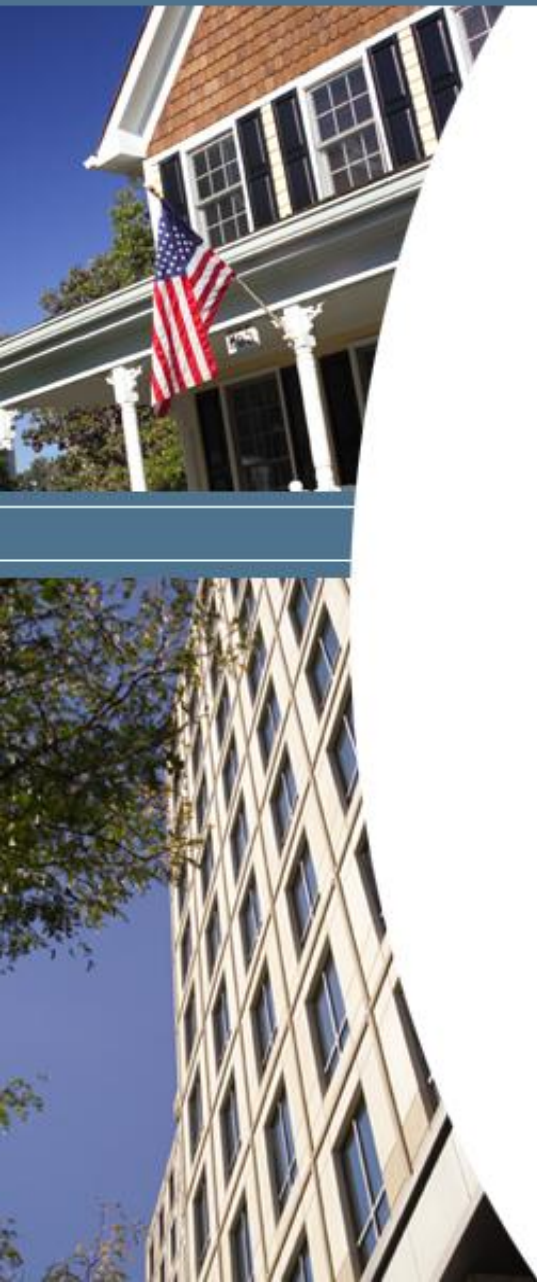
➤ Specific Reverse Mortgage Disclosures

- ❖ TALC

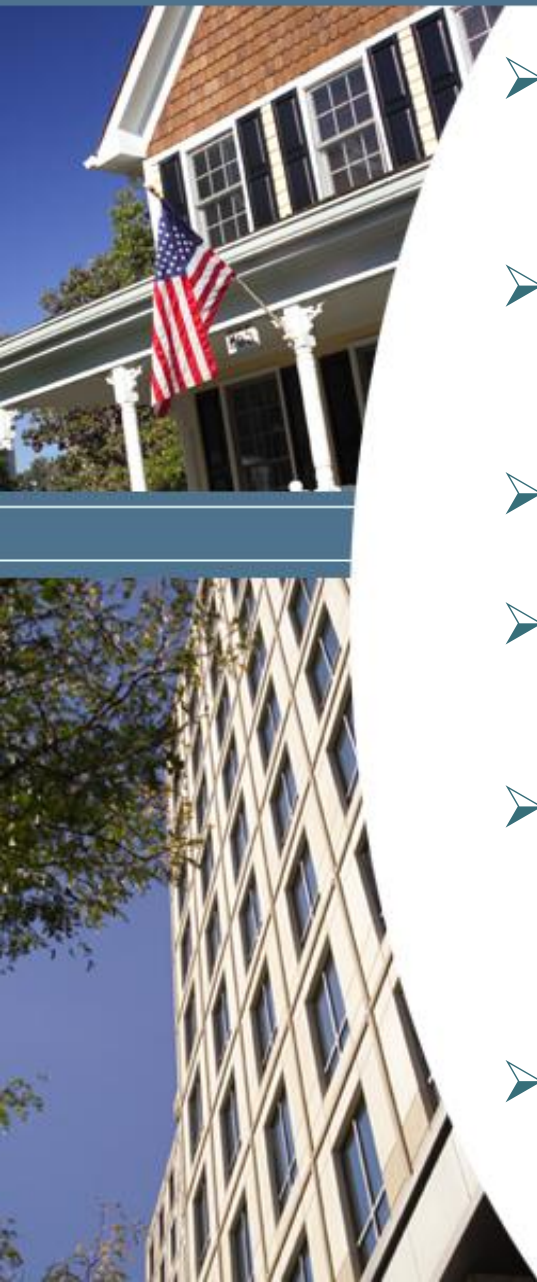
➤ FHA

- ❖ HECM Program Rules
- ❖ Servicing Rules

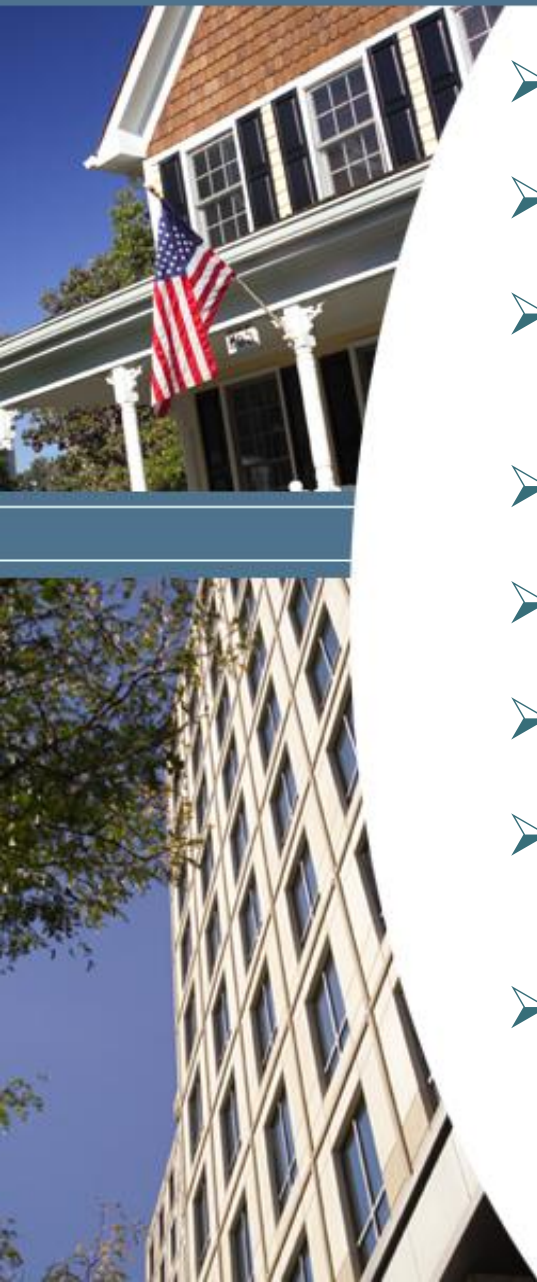
ORIGINATOR REQUIREMENTS?

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- Loan Correspondents
 - Mortgagees
 - Principal – Agent Relationships
 - HECM Advisors

HECM PROGRAM RULES?

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- Section 255 of the NHA; Started in the Late 1980's as a Pilot Program
 - Continues to be a Limit on the Number of Loans Originated/Insured; The “Cap”
 - HECM Regulations - 24 CFR 206.1 *et seq.*
 - Many FHA-Insured “Forward” Single Family Loan Rules Apply
 - The HUD HECM Handbook, 4235.1, REV-1, Provides a Great Degree of Detail, but is Outdated in Some Areas
 - Mortgagee Letters (ARM: CTM, LIBOR; Fixed)

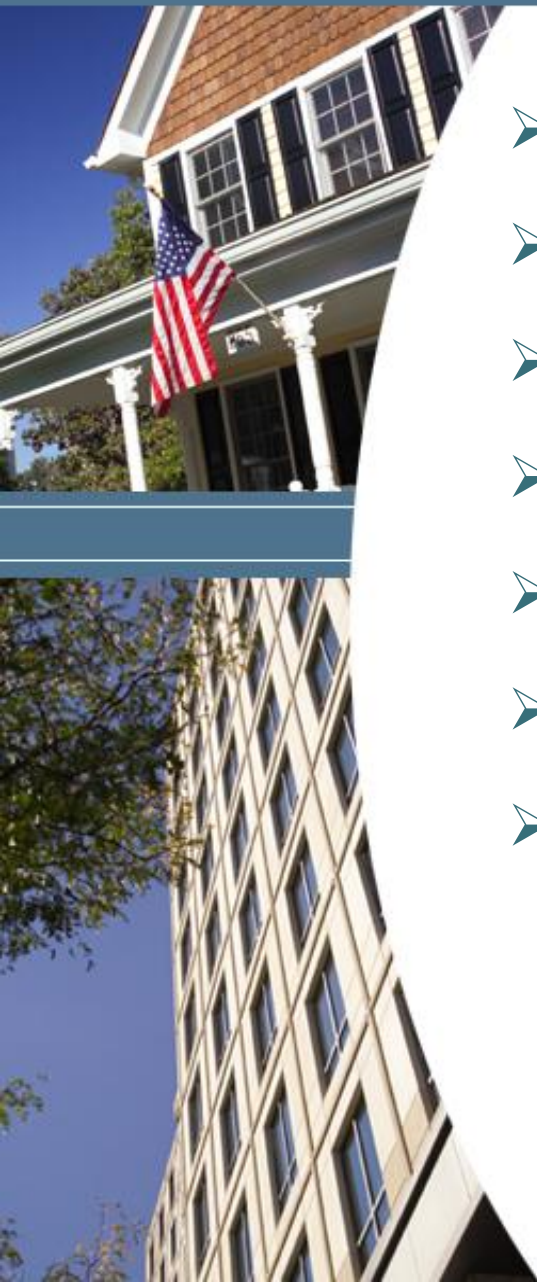
HECM LOAN STRUCTURE?

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- Age – 62
 - Counseling Required
 - Collateral – “Real Property”; Co-Ops Not Yet; MH (RE only); Long-Term Leases
 - Life Estates; Trusts
 - Payment Plans and Features (5 Plans)
 - Line of Credit Growth
 - Loan Documents (2 Notes, 2 Mortgages; Loan Agreement)
 - Single National Loan Limit; Lift the “Cap”; Long Term Care

GENERAL STATE LAWS?

- 
- Licensing Approvals
 - Disclosures – Reverse Specific/Forward “Adjusted”
 - Fee Limits – Reverse Specific/Forward “Adjusted”
 - Lien Laws – Max. Principal Sum, Taxes
 - Requirements/Prohibitions

SPECIFICA STATE LAWS?

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- California
 - Massachusetts
 - New York
 - North Carolina
 - Tennessee
 - Rhode Island
 - Others – Hawaii, Nebraska, South Dakota, West Virginia; (Fifteen States Require Counseling for Reverse Mortgages)

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- Reverse Mortgages Are:
 - ❖ Mortgages
 - ❖ HELOCs
 - ❖ FHA – Dominated...

 - But, in Reverse