

MORTGAGE BANKERS ASSOCIATION

# MBA'S NATIONAL MORTGAGE SERVICING CONFERENCE & EXPO 2009 / TAMPA

MORTGAGE BANKERS ASSOCIATION

## Servicing Reverse Mortgages

Jim Bandy

Western Union Payment Services

Moderator



## Distinguished Panelists:

- Linda Bridges, Assistant Vice President, Wells Fargo Home Mortgage
- John Kozak, Account Executive, Government National Mortgage Association
- Carol Norton, First Vice President, Financial Freedom Servicing Manager
- Leslie Bromer, Policy Specialist, Department of Housing and Urban Development
- James Wright, Senior Vice President, Reverse Mortgage Solutions, Inc.

## Building A Firm Foundation

Linda Bridges

Wells Fargo Reverse Mortgage



- A reverse mortgage provides a senior with the ability to convert part of the equity in their home into tax-free proceeds without having to sell their home or taking on a monthly mortgage payment.
- The borrower always retains title and ownership of the home.
- The loan does not have to be repaid until the last surviving borrower no longer uses the home as their principal residence (moves out of the property or passes away).
- Funds may be obtained in a lump sum, monthly payments, line of credit or a combination of these options.
- The principal limit is the maximum amount of funds a borrower may access through the reverse mortgage. It is determined by using:
  - Age of the youngest borrower
  - Property value or maximum claim amount (which is the lesser of the property value or FHA lending limit)
  - Current interest rates
- Reverse Mortgage is different than a home equity loan
  - No payments required as long as the home is the principal residence
  - No income verification since monthly repayments are not required

- **Eligibility for reverse mortgage**

- Must be age 62 or older
- Own property free and clear or the existing loan must be paid off with the reverse mortgage proceeds
- Occupy the property as primary residence
- Maintain home with needed repairs, property taxes and insurance
- Borrower must participate in a counseling session

- **Qualification for reverse mortgage:**

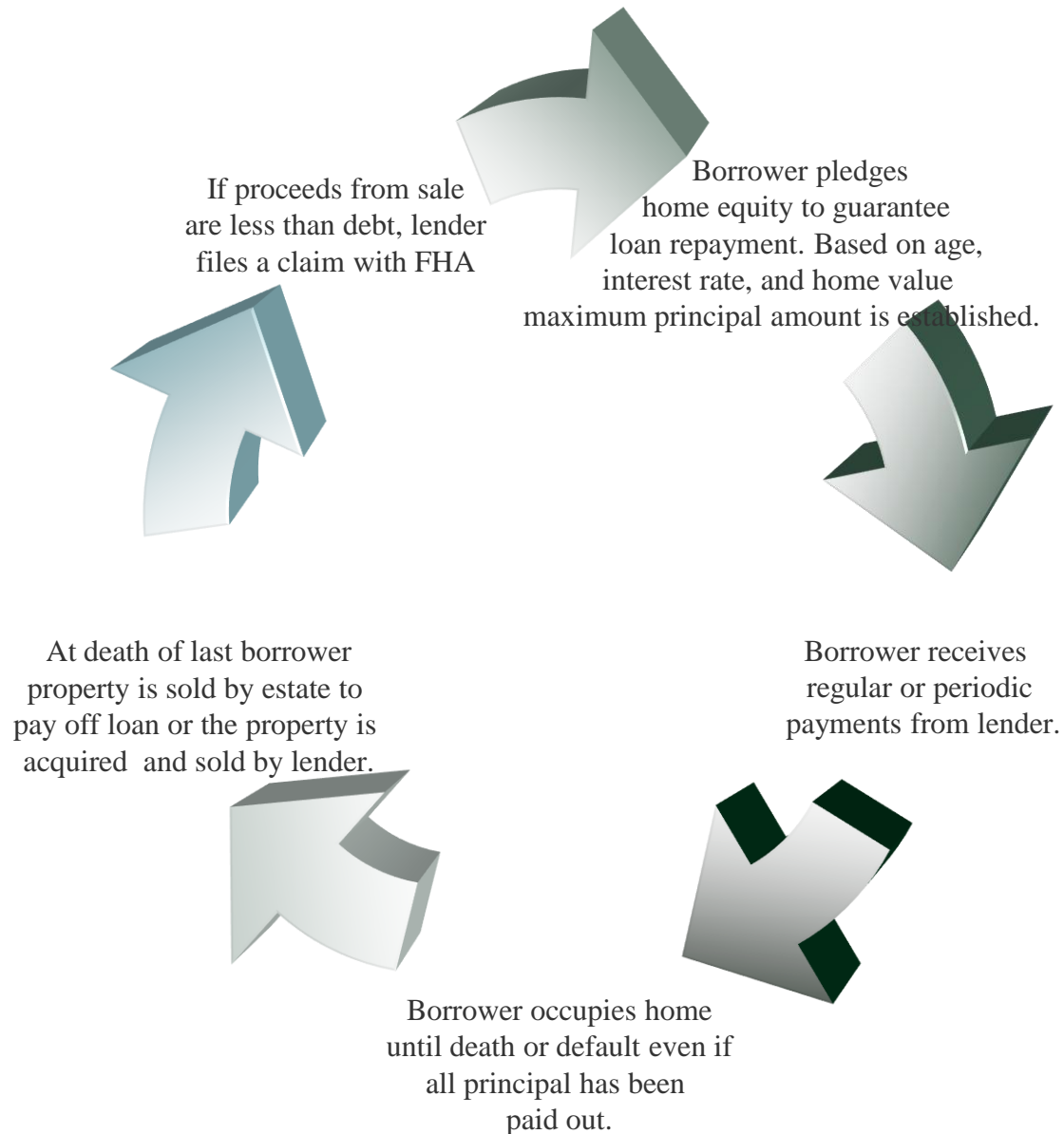
- No credit score requirement
- No income verification or requirement
- No monthly mortgage payments
- Repayment only at maturity event; death, property sale, or title conveyance
- Borrower cannot owe more than the home's appraised value at the time of repayment

## ▪ **Seniors Choose a Reverse Mortgage**

- Security –retain title and ownership of home. No repayment required as long as the home is the primary residence.
- Flexibility – obtain loan proceeds in a lump sum, in monthly installments, line of credit, or any combination of the three.
- Choice – can change payment plans as many times as desired throughout the life of the loan.
- Peace of Mind – enjoy a more financially comfortable retirement in home.

## ▪ **Benefits for Seniors**

- Fund retirement and/or to supplement social security.
- Keep senior in their homes and out of permanent care facilities.
- Pay for home modifications so seniors can age in place.
- Cover health-related expenses such as hospital bills and prescription drugs.
- Pay property taxes and homeowner's insurance



## Reverse Mortgage

- Purpose of loan is to generate cash
- Prior to closing, borrower has a lot of equity in property
- There are no income or credit requirements
- During life of loan: Receive monthly payments, loan balance increases and equity gets reduced
- At the end of the loan: Owes a large amount and has much less equity
- Rising debt, falling equity
- Amount borrowed is determined by considering age, current interest rate, and the appraised value of your home
- Requires Counseling

## Traditional Mortgage

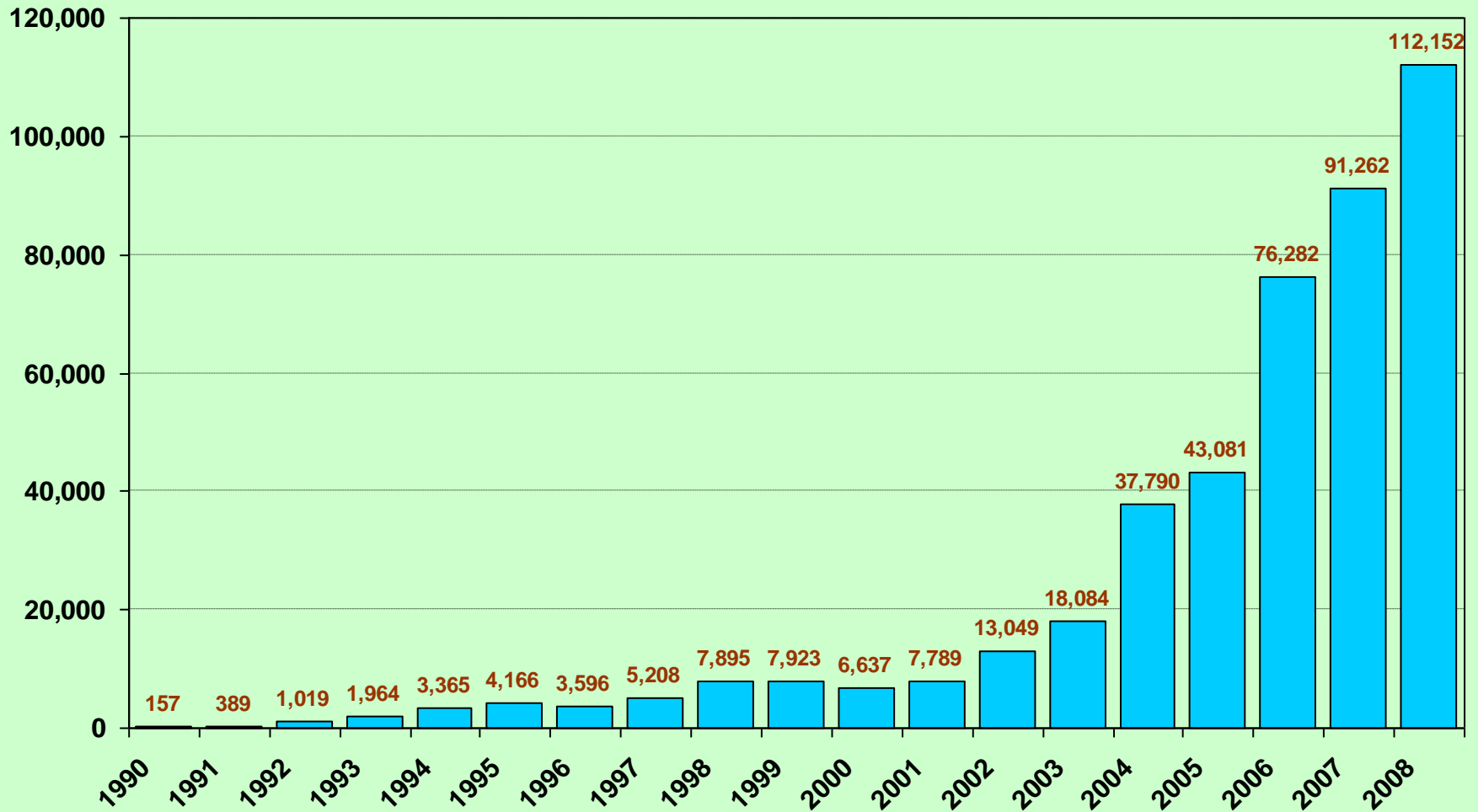
- Purpose of loan is to purchase property
- Prior to closing, borrower has no or little to no equity
- Must have sufficient income versus debt ratio to qualify for the loan
- During the life of the loan: Pay monthly installments, loan balance decreases, equity increases
- At the end of the loan: Owes nothing and has sufficient equity
- Falling debt, rising equity
- Amount borrowed is determined by requirements for income and creditworthiness
- Counseling Not Required

## Reverse Mortgage Growth

- Demand for reverse mortgages climbed in 2008 as credit tightened and retirement savings plunged.
- More seniors turn to reverse mortgages as the credit crisis worsens even to prevent foreclosure.
- Market expected to grow significantly as baby boomers with inadequate savings tap their home equity to fund retirement.
- HUD enhancing the HECM program to improve financial options for seniors during these critical times.
- HUD shows on a calendar year basis, the number of HECM loans closed in 2008 grew 6.4% to 115,176 loans.

## HECM – FHA Insured product represents over 92% of the reverse mortgage business

- Congress passed in July 2008 a national FHA reverse mortgage lending limit of \$417,000; allowing borrowers to obtain more funds. Previous lending limits ranged from \$200,160 - \$362,790.
- Monthly or Annual adjusting interest rates; interest rates based on 1-year Treasury (CMT), 1-month Libor (LBR).
- Fixed Rate option; provides borrowers with greater stability as the rate is fixed.
- Home Purchase option; allows more seniors to purchase homes suited to meet physical and financial needs.
- Reduced upfront origination fees allows seniors to receive lower origination costs to meet retirement needs. Reduced origination fees to 2% on the initial \$200,000 of maximum claim amount and 1% on the balance thereafter with a cap of \$6,000.
- Eligible properties includes: single-family homes, condominiums, manufactured homes, and one to four dwellings.



▪ California	98,145
▪ Florida	59,214
▪ Texas	25,321
▪ New York	23,647
▪ New Jersey	17,374
▪ Pennsylvania	15,768
▪ Arizona	15,501

- Fannie Mae
- Proprietary Products
- HUD HECM (Home Equity Conversion Mortgage)
- Ginnie Mae Securities

## Ginnie Mae & Reverse Mortgages

John Kozak

GNMA



- By most estimates the market for HECM loans is growing.
  - US Census statistics estimate 35 million people will be over the age of 65 by 2010 and 50 million by 2020
  - This demographic is expected to have one of the highest homeownership rates (80 percent estimated)
- Ginnie Mae announced the HECM MBS program in August 2007 under All Participants Memorandum APM 07-12
  - First HECM-backed security (HMBS) issued in November 2007
  - During fiscal year 2008, six issuers combined to issue 20 HMBS with over a billion in OPB
- Ginnie Mae's objective – create liquidity in the HECM market:
  - Increase the availability of HECM lending from multiple lenders
  - Decrease borrowing costs
- Ginnie Mae's role – guarantor
  - Unlike the GSE's, Ginnie Mae does not purchase HECM loans nor do we make a market in this product.

- FHA insured
- No monthly scheduled payments - payments are made after a maturity event occurs:
  - Death of the borrower
  - Failure to occupy the property for 12 consecutive months
  - Sale of the property
  - Prepayment
- Among the available HECM loan products, the line of credit mortgages dominate current production
- Average draw at origination is 60 percent of MCA
- Majority of HECM loans terminate or are assigned to HUD within seven years

- Principal Limit:
  - The maximum amount that a mortgagor can borrow
  - Generally the older that you are and the lower the interest rate, the more you can borrow
  - Once a borrower reaches the principal limit, the loan continues to accrue interest, servicing fees and the mortgage insurance premium (MIP), but the borrower can make no further principal draws
- Maximum Claim Amount (MCA):
  - The amount that FHA will insure for any HECM loan
  - FHA allows Issuers to assign a HECM loan that accrues to 98 percent of the MCA
  - Ginnie Mae requires any loan that has accrued to 98 percent of MCA to be purchased out of an HMBS pool whether or not an Issuer assigns the loan to FHA

- Participation:
  - The funded portion of a HECM loan that has been securitized
  - Additional and subsequent balances can be securitized in subsequent HMBS
  - There may be many participations in one HECM loan, but each participation corresponds to only one HMBS
- HMBS Rate:
  - Weighted average of the interest rates on the underlying participations
- Participation Rate:
  - Interest rate of the HECM, less the servicing fee margin

- The FHA guaranty on the underlying HECM collateral protects investors against credit risk
- The Ginnie Mae guaranty on the HMBS protects investor against Issuer risk
- Key HMBS features include:
  - Collateralized exclusively by HECM loans
  - Weighted Average Coupon (WAC) accrual pass-through bond
  - Securitization of funded balances
    - An individual HECM loan can be securitized in multiple HMBSs as they are funded over time
  - Underlying collateral must have the same index and reset dates

- Minimum pool size:
  - \$1,000,000
  - At least three HECM participations related to three distinct HECM loans
- Pooling parameters:
  - Fixed rate HECM loans cannot be pooled with adjustable rate loans
  - Adjustable rate HECM loans must have the same reset date
  - HECM participations must have a spread of between 6 and 75 basis points below the HECM note rate
- No Multiple Issuer pools

- Issuers may develop their own systems
- Issuers may contract with a Participation Agent/Master Servicer
- Issuer or Participation Agent (whoever is performing the servicing function) must successfully complete the Ginnie Mae testing
- Issuers are required to monitor a borrower's compliance:
  - Maturity event
  - Borrower default
- No loan substitutions

- Issuers are responsible for funding any payments due in a timely fashion
- Payments will be disbursed to investors in the month following receipt of:
  - Partial prepayments
  - Full payoffs
  - Issuer repurchases
  - FHA claims paid
- When a HECM loan is terminated, payments will be distributed in equal steps

- Issuers can select how servicing fee is calculated:
  - Flat rate: \$30 or \$35 in accordance with FHA regulations
  - Variable rate: 25 to 75 bps
- Servicing Fee Margin represents the Issuer's compensation and Ginnie Mae guaranty fee:
  - Flat rate Servicing Fee: 6 bps to 75 bps
  - Variable rate Servicing Fee: 25 to 75 bps

## Mandatory Repurchase Event

- Issuers must repurchase participations related to HECM loans that have reached 98 percent of their MCA:
  - For HECM loans that have not become due and payable, FHA will accept an assignment claim
  - For HECM loans that have become due and payable, Issuers will service the loan to termination at which point they will be able to submit a claim to FHA for any shortfall that occurs

## Payment of Interest Shortfalls

- Issuers are required to remit interest accrued through the first of the month on all full and partial payments
- HECM borrowers are allowed to make full and partial prepayments at any time, on any day of the month:
  - Payments made on the first of the month will be remitted to Investors on the distribution date according to Ginnie Mae II guidelines
  - Any payment made to Issuers after the first of the month will be remitted to Investors on the distribution date of the following month, and Issuers will make up any shortfall in interest

## Disclosure will include stratifications for data elements such as:

- Male and female sole and co-borrower ages
- Loan and property type
- Principal limit
- Ratio of outstanding balance to maximum claim amount
- Ratio of outstanding balance to principal limit

## Unique Servicing Needs

Carol Norton

Leslie Bromer

Financial Freedom

HUD

## Forward Loan

- Standard loan set up
- Few repair escrows
- Receive fixed payments
- Few payment changes
- Required T&I escrow
- Assess late charges
- Annual reporting
- Responsible for P&P
- Hold till payoff
- Default risk
- Payoff processing

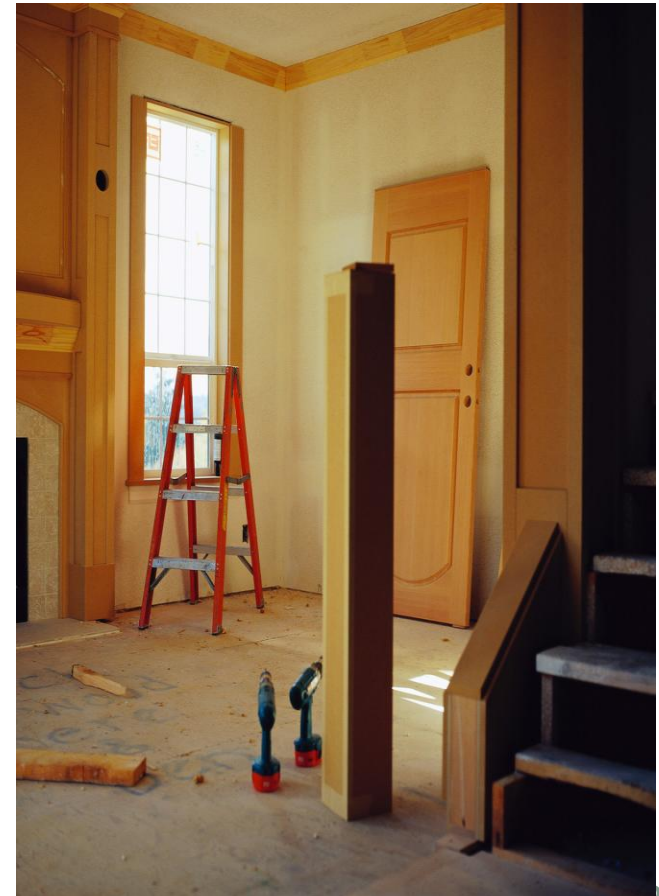
## Reverse Loan

- Standard loan set up
- Repair escrows common
- Make payments
- Payment changes common LOC
- T&I escrow optional
- Pay late charges
- Annual reporting
- Responsible for P&P
- Optional assignment
- Limited default risk
- Payoff processing

Some repairs required as a condition of origination.

Servicers monitor required repairs and pay costs with escrow set-aside.

Repair rider allows 6 months to complete the repairs - possible extensions up to one year



- Borrowers can be setup on monthly scheduled draws
- Borrowers may have a line of credit
- Funds are provided to the borrower via check or ACH
- Disbursement Requests
  - 5 business day turnaround
  - Verification of funds available
  - POA verification
  - Fraud training required
  - Servicer is required to make payment when taxes are delinquent
  - Inspections, property preservation and foreclosure fees are applied to the loan balance

Borrower may change payment plan at any time subject to:

- Maximum principal limit
- No non-compliance
- \$20 fee

Reasons for payment plan changes

- Cash flow management (i.e. LOC to Tenure)
- Change in term length
- Establish tax/insurance escrow – may be optional or mandatory
- Amortizing partial repayment

Borrowers are permitted to make partial repayments

- \$50.00 minimum repayment
- Must be applied in the following order: MIP, servicing charges, interest, principal
- Partial repayments with LOC option decrease the current loan balance and increase funds available for future draws

- Track principal and interest and loan balance
- Notify borrower of interest rate changes
- Issue monthly/annual statements of account



Tax - Same as non-escrowed forward servicing

- Can use similar vendors and processes to track non-payment
- Servicer is required to make payment when taxes are delinquent
- Repayment plans setup to recover funds when the LOC is exhausted

Flood/Hazard -Same as non-escrowed forward servicing

- Can use similar vendors and processes to track non-payment
- Servicer is required to obtain forced coverage policies for hazard and flood insurance
- Repayment plans are setup to recover funds when LOC is exhausted

Deferrals not permitted unless deferral lien is subordinate to HECM 1<sup>st</sup> and 2<sup>nd</sup>

Currently three states allow subordination:

- California
- Oregon
- Massachusetts

Tax Exemptions are permissible

Borrower must be owner occupant

- Servicer sends annual occupancy certification
- Borrower signs and returns

If not signed -

- Future disbursements are suspended
- Calls are made to contact the borrower
- Inspections ordered to determine if home is vacant
- Obtain documentation to request a due and payable approval based on the borrower moving out

## Property Maintenance

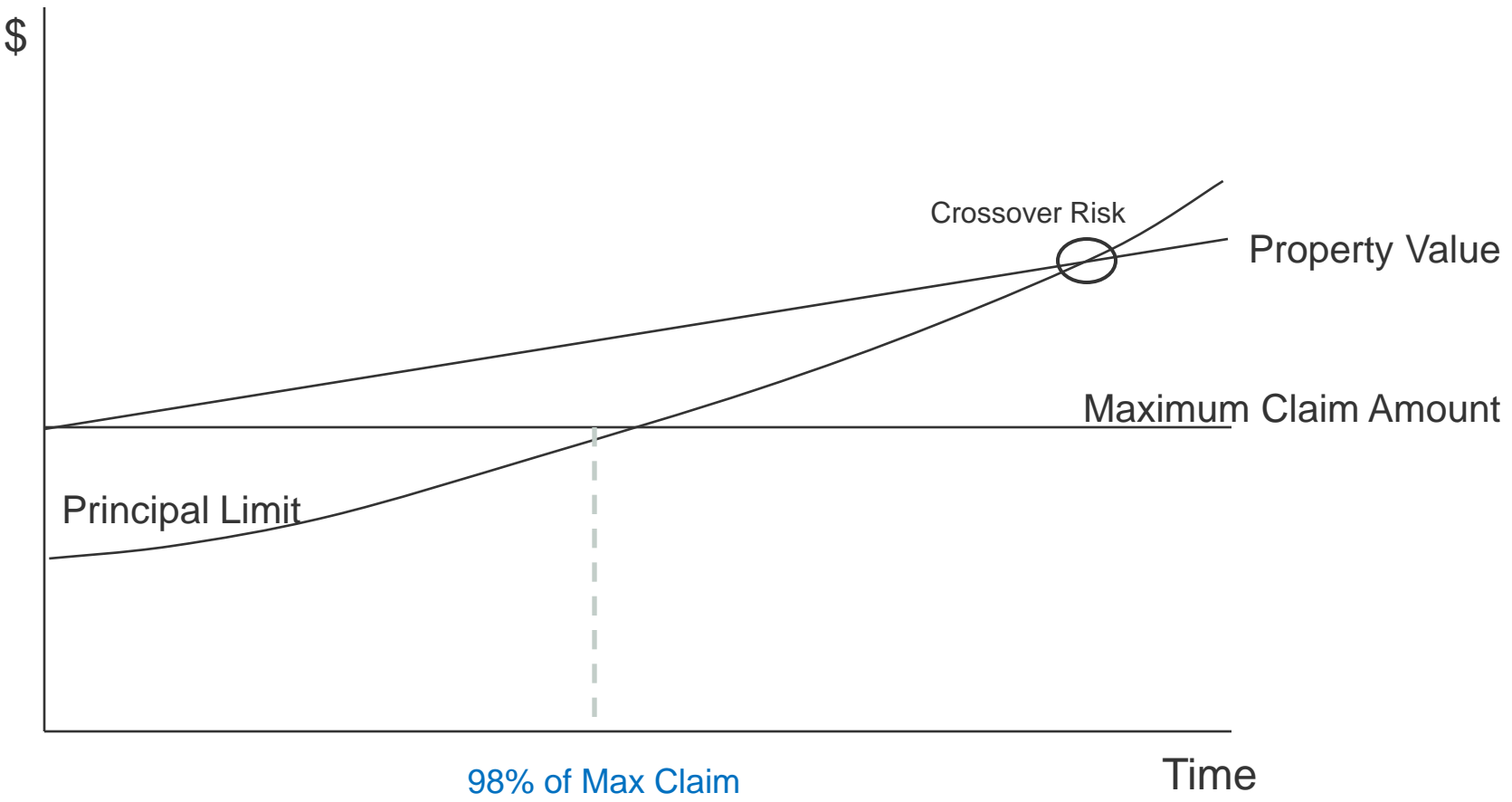
- Property is the only collateral
- Servicer must monitor property condition and take action if condition deteriorates

Holder may request assignment when:

- Loan balance reaches 97.5% of max claim amount
- Set aside repairs have been completed
- MIP payments current
- Loan is not in default

FHA pays claim up to 100% of max claim amount

*Optional* – some lenders elect not to assign



- The Servicer must be current in making payments to the borrower
- The Servicer must be current in making payments to MIP, including interest and late charges, if any
- Title must be clear and marketable; and
- *The loan may not be due and payable*

- 6,522 assigned loans
- Combined UPB of \$977 million
- Average claim \$151,793
- Average recovery 98% recovery

## Automatic

- Death of last borrower
- Sale or transfer of title by borrower

## Servicer Response

- Notify HUD within six months from date of death or default
- Work with the estate to sell the property
- File claim if sale proceeds are insufficient to pay off loan

## Property has equity

- Heirs may payoff or refinance to new loan type
- Heirs or estate may sell within 12 months from DOD for 95% of appraised value

## No equity or no heirs

- Foreclose
- Sell property for mortgage balance or appraised value
- File claim for loss

## HUD approval required

- Failure to maintain taxes and insurance
- Property not owner occupied for 12 months
- Poor property condition

## Servicer Response

- Contact borrower and attempt to resolve
- Notify HUD and request permission to call loan due and payable
- Send demand letter
- Initiate foreclosure within 6 months

Servicers encouraged to advance funds to pay for taxes and /or insurance beyond the maximum claim amount of the mortgage

- Requires servicer to ask for a “deferral” of due and payable decision.
- Servicers recoup T&I advances from the net proceeds of the sale after borrower’s death
- If net proceeds do not satisfy full amount of the debt servicer may file a claim up to the maximum claim amount.

- Bankruptcy is not considered a default under the HECM program.
- Borrowers cannot access funds unless the request is approved by the court or the trustee monitoring the bankruptcy.

## Reverse Mortgage Technology

James Wright

Reverse Mortgage Solutions, Inc.



- Ibis  
<http://www.ReverseMortgageHomePage.com>
- Mortgage Cadence  
<http://www.MortgageCadence.com>
- Reverse Vision  
<http://www.ReverseVision.com>
- RMCompass - Reverse Mortgage Solutions  
<http://www.RMSnav.com>

## HUD Approved HECM Servicers

- Banco Popular
- Bank of America
- Celink
- Dovenmuehle Mortgage
- Financial Freedom
- Generation Mortgage
- Genworth Financial Home Equity Access
- James B. Nutter & Co.
- MetLife Bank
- Nationwide Home Mortgage Co.
- Next Generation Financial Services
- ReverseIT/ Urban Financial
- Reverse Mortgage Solutions
- Senior Lending Network (World Alliance Financial)
- Standard Mortgage
- Sun West Mortgage
- Wells Fargo

## Fannie Mae Approved Servicers *(unverified)*

- Bank of America
- Celink
- Financial Freedom
- Generation Mortgage
- Genworth Financial Home Equity Access
- James B. Nutter & Co.
- MetLife Bank
- Next Generation Financial Services
- ReverseIT/ Urban Financial
- Reverse Mortgage Solutions
- Security 1 Lending
- Senior Lending Network (World Alliance Financial)
- Standard Mortgage
- Sun West Mortgage
- Value Financial
- Wells Fargo

- Celinek

[www.Celinek.com](http://www.Celinek.com)

- Reverse Mortgage Solutions RMS

[www.RMSnav.com](http://www.RMSnav.com)

- Lender Processing Services (LPS) – In partnership with RMS

[www.lpsvcs.com](http://www.lpsvcs.com)

- Reverse Mortgage Solutions (RMS)

[www.RMSnav.com](http://www.RMSnav.com)

## Loan Balance Transaction Management

- Balance Setup - (Closing Costs, Upfront Premium, Initial Draw)
- Borrower Disbursements – Sch & Unsch: (Check & ACH Generation)
- MIP and Interest Accrual
- COP Management (Change of Plan Recalculation)
- Tax/Insurance Disbursements
- Vendor Disbursements – Repairs, Release Check, etc.
- Balance adjustments/Voided Checks
- Payoff Calculation & Payment Application (Partial Repays; MIP/SF/INT/PR)
- Distinct Transaction Codes for unique events

## Set Asides/Growth

- SFSA (Service Fee Set Aside)
- Monthly Principal Limit Growth (For HECMs)
- RSA Accounting (Repair Set Aside balance Tracking)

## 3rd Party Accounting

- FNMA (eBoutique) – Upload “Transactions”, “COP”, “Trial Balance”
- GNMA (HMBS Reporting: Issuance and Monthly Reporting)
- IACS/Claims

## Compliance

- Annual Occupancy Verification – Mail Letters, follow-up calls
- Insurance Verification (Hazard, Flood, Wind, etc.)
- Monitoring Delinquent Taxes
- Monitor Deceased Records
- Bankruptcy Monitoring
- Red Flag, AML (Anti-Money Laundering) & OFC (Office of Foreign Assets Control)
- Upkeep and Maintenance

## Default

- Due & Payable w/ HUD Approval
- Due & Payable wo/ HUD Approval
- Loss Mitigation Management
- Family Sale – (Track Listings, offers, Process Sale Proceeds)
- Deed in Lieu (Review Title, Order Inspection, etc.)
- Pre-Foreclosure – NOI Letters, HUD FCL Form 92218)
- Foreclosure Management
- Bankruptcy Management
- Claims/Assignment

- Daily Trial Balance Reports
- Request for Funds/Disbursement Detail Reports
- Transaction Activity Reports by type
- Loan Inventory Reports on any given day (loans added, deleted, etc.)
- PIF Reports
- Compliance Reporting (i.e. occupancy verifications due)
- Delinquent Tax Reporting
- Expired Insurance Reporting
- Death Notification Reporting
- Default Reporting – Loan in FCL, BNK, etc
- 98% Maximum Claim Reporting
- Change of Plan Reporting
- Checks Register Reporting (Checks outstanding, cleared, etc.)

- Reverse Mortgages are very different from traditional forward mortgages
- GNMA MBS
- Unique Servicing Practices Needed
- Strong technology platform needed

## Questions