



# the Mortgage Press

*Keeping The Mortgage Professional Informed*

## Fueling your business, overcoming obstacles

### Current challenges in originating reverse mortgages

By Gary Zimmermann

#### **Managing costs to close reverse mortgages**

With today's gas prices, we're all feeling a financial crunch. Yet, from car pooling to public transportation to working from home, people are finding ways to cruise on while overcoming the expense. The mortgage industry is no different. While we have the excellent reverse mortgage product available to help seniors and fuel our business, we also have many challenges to conquer. With new legislation coming into place, and mortgage professionals acting as good ambassadors of the reverse mortgage product, the industry will continue to grow.

#### **Educating seniors on the reverse mortgage product**

The primary road block that we encounter in originating reverse mortgages is educating the customer. Many seniors are under the impression that, eventually, their home will be taken away if they obtain a reverse mortgage. In the early years of reverse mortgages (the late '80s), there were provisions in the paperwork for the lenders to charge a portion of the equity at the time the last survivor was no longer in the home. However, the U.S. Department of Housing and Urban Development (HUD) came into the market years ago with the Home Equity Conversion Mortgage (HECM)—currently the most popular program—and set specific parameters so that this is no longer an issue. It's important to educate seniors on this fact, as well as other specifics, to disprove any additional false information they may believe. Further, patiently explaining the financial options will give seniors peace of mind in working with the mortgage professional. General exposure to the public about a reverse mortgage is greatly beneficial for the industry.

Another reason why people step on the brakes when it comes to originating reverse mortgages is the cost to close—the reverse mortgage program is perhaps the most costly program many will ever apply for. With the closing costs being equal to a little more than a year's worth of property appreciation (in a normal market), this is an area where mortgage professionals need to be diligent in determining if the program is suitable for the particular customer. For example, if the customer is someone who has his back up against the wall facing foreclosure, the cost may be an insignificant factor. And in this case, the consideration of moving to save money makes less sense than spending a year's worth of appreciation. However, if a customer is looking at a reverse mortgage as a convenient way to access funds, but may not have an immediate need, perhaps it's not the right fit. Most people fall somewhere in the middle, and many actually find that if they have any need at all, the benefits outweigh the expense.

On July 30, 2008, President George W. Bush signed into law the Housing and Economic Recovery Act of 2008 (HR 3221), also called the American Housing Rescue and Foreclosure Prevention Act of 2008, Building American Homeownership Act of 2008, Clean Energy Tax Stimulus Act of 2008, FHA Manufactured Housing Loan Modernization Act of 2008, FHA Modernization Act of 2008, Mortgage Disclosure Improvement Act of 2008, and REIT Investment Diversification and Empowerment Act of 2008. The provisions from this bill that will directly affect the reverse mortgage industry are in the FHA Modernization Act of 2008, and should take 60 to 90 days to implement, which will probably equate to Wednesday, Oct. 1, 2008.

This bill will help curb some of the costs involved in closing a reverse mortgage, including restricting the origination fees that can be charged. Mortgage professionals will still be able to charge a two percent origination fee on the first \$200,000 of home value; however, now only one percent can be charged on any amount over \$200,000 to the home value limit. The total fee that can be charged is capped at \$6,000. Mortgage professionals are still not allowed to charge for processing, so that will remain an expense coming out of the origination fee.

One area in which there weren't any changes, the up-front mortgage insurance premium, warrants a second look toward the reduction of reverse mortgage closing costs. This fee is expected to remain at two percent of home value to program limit. As you are probably aware, this insurance is placed to cover costs involved if a lender goes out of business and HUD has to take over the servicing of the loan. However, even in the current market where lenders are dropping off from coast to coast, the likelihood of this happening with any reverse mortgage service to the point that it would have any large impact is slim. The up-front mortgage insurance premium is also in place to cover the case in which the last person is out of the home, and there is a deficiency between what the home can be sold for and what is actually owed to the lender. However, there most likely won't be enough of these claims to justify the expense of the insurance.

With HUD requiring that borrowers receive third-party counseling before committing to a reverse mortgage, further fees are incurred for the counseling. One way to reduce the senior's cost would be to cover it from the mortgage insurance fund—something it appears Congress will allow in the future. As of now, it is paid by the mortgage professional or the customer. Absorbing the cost into the mortgage in-

surance fund would save the customer \$125 in most cases.

#### **Combating a bad reputation**

Another hurdle we must rise above is the bad apples out there that create a nasty reputation for the reverse mortgage industry. For example, a loan originator decides to line his pockets with an additional commission by selling a 30-year annuity to an unsuspecting 75-year-old. These instances often become the highlight of the nightly news, many times branding the reverse mortgage as a bad program, rather than the annuity or the individual who sold it. The newest legislation, HR 3221, will go further to prohibit requiring the purchase of annuities, or any other financial product for that matter.

#### **The future of reverse**

A few additional enhancements to the reverse mortgage program that should be official by Wednesday, Oct. 1, 2008 include the ability to use a reverse mortgage to purchase a home, as well as an increase across the board on home value limits. Currently, limits are set on a per-county basis. With this restriction, anyone with a home over the county's home value limit is forced to have his benefit based on that limit amount, not what the home is actually worth. At the time of this article, the increased loan limits are in review with HUD's attorneys, and more information is expected to be available soon.

These enhancements make it an exciting time for the reverse mortgage industry. While faced with a few road bumps, mortgage professionals can continue full speed ahead, making the future exceptionally bright for the industry.

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