Comptroller of the Currency
Administrator of National Banks

Examining Reverse Mortgage Activities

National Reverse Mortgage Lenders Association
November 3, 2010

National Bank Reverse Mortgage Lending

National bank lenders accounted for 52% of 2009 HECM endorsements

- *Approximately 66 banks had HECMs endorsed in FY 2009*
- *The seven largest originators accounted for 98% of national bank endorsements*

Supervision of reverse mortgage activities is risk based and considers

- *Reputation, compliance, operational, and credit risk as applicable*
- *Lender business model – retail vs. wholesale, originate to sell, service*
- *Strategic plans – growth, new origination channels, significance of RM lending activities to enterprise wide lending activities*
- *Extent to which institution is affected by current and future industry developments*
- *Quality of infrastructure – management expertise, risk management practices, management information systems*

OCC Examination Approach

Risk based examinations may include some or all of the following areas

- ***Loan Origination*** *– processing, underwriting, closing processes – all channels*
- ***Quality Control*** *–timely testing of current loan quality and compliance with HUD standards for HECMs*
- ***Third Party Origination*** *– lenders originating through brokers and correspondents*
- ***Servicing*** *– all functions from new loan boarding thru assignment / claims*
- ***Marketing*** *– review of materials and controls to prevent misleading practices*
- ***Consumer Compliance*** *- compliance with applicable consumer regs*
- ***Financial Performance*** *– relative to plan, viability and sustainability of plans*
- ***Secondary Marketing*** *– lenders selling Fannie Mae, GNMA securitizations*
- ***MIS*** *- appropriateness of reporting to identify, measure, monitor, control risk*
- ***Internal Audit*** *- review for comprehensiveness of scope, quality of work*
- ***Management*** *- technical expertise, quality of risk management systems*

Compliance – Marketing / Advertising

Improper advertising and marketing practices can increase reputation and compliance risk significantly

- *Marketing materials are reviewed to identify potentially misleading, confusing, or inaccurate materials that may result in borrower confusion or misunderstanding of product features, terms, and risks, and consequences*
- *Internal controls over approval, distribution, and use of marketing materials are evaluated to assess potential for use of unauthorized materials or by unauthorized individuals*

<u>Effective Controls Include</u>

- *compliance and legal review of marketing materials before use*
- *controls to limit use to only authorized employees*
- *an expiration period requiring re-review and approval by compliance and legal before re-authorizing materials for use*

<u>Troublesome Practices Include Failure To Clearly Disclose That Reverse Mortgages</u>

- *are a loan, not a government benefit, and loan proceeds are not "income for life"*
- *can become due and payable under certain circumstances*
- *can result in borrowers losing their home under certain circumstances*

<u>Key Guidance</u>

- *FFIEC Interagency Guidance on Reverse Mortgages – OCC Bulletin 2010 – 30*
- *NRMLA Advisory Opinions 2010-02, 2009-02, and 2008-01*

Loan Origination / Underwriting

Recent changes in pricing, structure, terms, and the introduction of the HECM Saver increase the importance of reviewing loan origination

- *"Upfront" origination processes are reviewed to evaluate the thoroughness of lender processes (outside counseling) intended to ensure borrower understanding of product terms, features, risks, and potential consequences*

The OCC considers the following areas important when performing transaction testing as part of assessing loan origination

- *compliance with HECM program requirements and bank policy*
- *appropriateness of the loan to borrower circumstances to maximize the likelihood of the borrower remaining in their home while minimizing institutional reputation risk*
- *collateral adequacy, appraisal quality, and effectiveness of appraisal review process*
- *loans exhibiting questionable underwriting or potentially fraudulent transactions*
- *potential churning situations resulting in marginal or no benefit to borrower*
- *potential steering of borrowers to inappropriate products resulting in greater lender compensation at the borrower's expense due to poorly designed lender compensation incentives*
- *the expertise of the lender's staff and quality of processes designed to identify inappropriate origination practices or transactions*

Third Party Origination (TPO)

Lenders are expected to have robust risk management processes to identify, measure, monitor, and control the reputation, compliance, and operational risk inherent in TPO arrangements

Institutions originating through correspondent and broker channels are expected to have oversight programs that include

- *Initial due diligence and approval processes designed to reduce the likelihood of signing TPO's that don't share the sponsor's values, ethics, and operating philosophy, thereby increasing sponsor reputation, compliance and operational risk*
- *Annual review and re-certification processes to reaffirm that TPOs continue complying with sponsor's internal policies and banking laws and regulations, while remaining a profitable partner for the sponsoring institution*

Well developed MIS is critical to proper oversight of TPO relationships and performance

- *MIS should include TPO productivity, quality, and include metrics that flag potentially suspicious, or questionable transactions for research and follow-up*
- *Examples of possible metrics include production volume by product type / structure, geography, pull-through / fallout rates, defaults by channel and type, early stage defaults, initial utilization, large post-closing draws, and near-term pay-downs / payoffs, and customer service metrics*

Management Information Systems

Thoughtful, appropriate management reporting is critical to the proper supervision of reverse mortgage activities

- No industry standard template exists for “good MIS”, lenders have been working diligently to identify meaningful metrics to measure key performance areas

<u>While individual metrics may vary somewhat, MIS should report on the following activities as applicable</u>

- *<u>Financial Performance</u> – actual vs. budget by product, channel, and overall*
- *<u>Emerging Issues</u> – impact of industry and regulatory developments and trends on near term performance and longer term strategic initiatives*
- *<u>Production -</u> volume and quality trends by product mix, channel*
- *<u>Quality Control</u> – quality of recent origination to identify weaknesses in origination processes*
- *<u>TPO Performance</u> - broker production, quality, other performance metrics*
- *<u>Servicing</u> – servicing book composition, customer service metrics, repairs status, defaults trends, maturity event tracking, assignment and claims volumes, loans approaching assignment*
- *<u>Audit Results</u> – of internal audits, regulatory exams, and corrective actions*

OCC Contact Information

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