

## **Testimony of**

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**Submitted to  
The Subcommittee on Housing and Community Opportunity  
The Committee on Financial Services  
U.S. House of Representatives**

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National Reverse Mortgage Lenders Association (NRMLA) is pleased to submit testimony in support of H.R. 1852, the Expanding Homeownership Act of 2007. Introduced by Reps. Barney Frank and Maxine Waters, H.R. 1852 would streamline and improve FHA single-family loan programs, including the Home Equity Conversion Mortgage (HECM) program. NRMLA commends Chairman Frank and Chairwoman Waters for their leadership and recognition of the importance of reverse mortgages and salute their willingness to make innovative improvements that will make the HECM program more beneficial to seniors nationwide.

As the national voice of the reverse mortgage industry, NRMLA serves as an educational resource, policy advocate and public affairs center for reverse mortgage lenders and related professionals. NRMLA was established in 1997 to enhance the professionalism of the reverse mortgage business. In that capacity, NRMLA educates consumers about the pros and cons of getting a reverse mortgage, trains lenders to be sensitive to the needs of older Americans, enforces our Code of Conduct and Best Practices, and promotes reverse mortgages in the news media.

As you know, reverse mortgages enable senior homeowners 62 or older to convert part of the equity in their homes into tax-free cash without having to sell, move, give up title, or take on new monthly mortgage payments. Borrowers are never, under any circumstances, forced to leave their homes providing they make their real estate property tax and insurance payments. Borrowers can choose to receive reverse mortgage funds as a lump sum, fixed monthly payments (for up to life), line of credit, or as a combination of these. No mortgage payments are due during the life of the loan. Borrowers can use the funds anyway they wish. The loan is repaid when the last surviving borrower (in the case of a couple) sells the home or permanently moves out.

The most widely used reverse mortgage, accounting for an estimated 90 percent of the marketplace, is the FHA-insured Home Equity Conversion Mortgage, or "HECM." Since its adoption in 1990, FHA has insured almost 300,000 HECMs. Nationwide, in 2006, some 76,000 seniors—almost double the number from the previous year—obtained a HECM to pay off existing debts, fund health care expenses, pay for modifications to

make their homes safer and more comfortable, or simply to create an income stream that provides additional cash and peace of mind.

The proposed reform package would make the following improvements: 1) Eliminate the HECM loan cap; 2) Permit HECM for home purchase; 3) Allow HECMs on housing cooperatives; 4) Require HUD to study the impact of reducing mortgage insurance premiums, and exempting borrowers from paying any MIP if all, or a portion, of the loan proceeds are used to purchase long-term care insurance; and 5) Increase FHA Lending Limits.

### **Eliminating HECM Cap**

In response to rapid growth in the reverse mortgage program, a key legislative priority for NRMLA in 2007 is focused on removing the cap on the number of reverse mortgages that FHA can insure. By law, the Department can only insure 275,000 HECM loans. Legislation (H.J. Res. 20) was approved earlier this year that "suspends" the cap through September 30.

When Congress first authorized the HECM program in 1987, it was created as a demonstration program and the number of loans that could be made was limited. The idea back then was to gain some experience with the program and observe how it performed. In 1998, Congress adopted legislation making the program permanent, but set a cap of 150,000 HECM loans that could be outstanding. Early last year, production of HECM loans began to bump up against that cap and HUD took steps to shut down new loan origination activity. To avoid this, just in the nick of time, Congress increased the HECM authorization cap to 250,000 loans in a supplemental appropriations bill that was about to be enacted. Before the end of the last Congress, the cap was increased one more time to its current level of 275,000 loans.

The passage of H.J. Res. 20 enabled the HECM program to continue without interruption, but demonstrated the need to eliminate the cap. Had there not been an appropriate legislative vehicle moving forward at precisely that time, seniors would have been shut off from the opportunity to utilize FHA-insured reverse mortgages to tap the equity in their homes.

The proposed FHA reform bill would permanently eliminate this uncertainty and create a market environment in which existing and new participants could bring down costs to consumers through product innovation and competition. A performance track record of the HECM program has now been clearly established. The program was initially designed with the intent of producing a "break even" cash flow. It has far surpassed that and yielded a significant surplus. It is time to remove the HECM loan volume cap so this important program can help more seniors live comfortable lives in their own homes.

### **HECM for Home Purchase Option**

Although the reverse mortgage was originally conceived as a financial tool to help seniors stay in their current homes, it is evident that some homeowners may want to use reverse mortgages to purchase new homes that are better suited to their current needs or

closer to their families. Newer homes might be preferred because they require less maintenance or have a single-story design, making it easier to “navigate” the home. The reverse mortgage should be recognized as a tool to help individuals buy homes that better serve their needs without having to exhaust cash reserves or take on new monthly mortgage payments.

NRMLA strongly believes that the use of HECM loans for the purchase of new homes is consistent with the intent of the program to help seniors live comfortably in homes of their own. We urge Congress to provide HUD with the authorization to insure loans used for this purpose.

### **HECMs on Housing Cooperatives**

Currently, HECMs can be obtained on single-family homes, manufactured homes built after June 1976, qualified condominiums, and townhouses. In December 2000, Congress passed, without controversy, Section 201 of the American Homeownership and Economic Opportunity Act (PL 106-569), which instructed HUD to expand the HECM program to include units in housing cooperatives.

Today, over 1.2 million families enjoy homeownership through a housing cooperative throughout the United States, with large numbers located in major urban areas such as New York City, Washington, D.C., Chicago, Miami, Minneapolis, Detroit, Atlanta, and San Francisco. Cooperative members own shares in a corporation that owns or controls the building in which they live. Each shareholder is entitled to occupy a specific unit and has a vote in the corporation. Every month, shareholders pay an amount that covers their proportionate share of the expenses of operating the entire cooperative, which typically includes underlying mortgage payments, property taxes, management, maintenance, insurance, utilities, and contributions to reserve funds.

While shares in a co-op are technically personal property in most states, Federal regulations since the late 1970’s have treated loans secured by those shares as real estate loans. FHA has had a single family loan program, Section 203n, since that time, and Fannie Mae has had a robust secondary market program for share loans for almost 25 years. Large national banks, including Bank of New York, National Cooperative Bank and Washington Mutual, have routinely offered conventional financing on cooperatives for many years.

HUD supports allowing HECM loans on housing cooperatives and we urge Congress to implement this section of H.R. 1852, so that thousands more seniors can utilize the reverse mortgage program to live more financially secure retirements.

### **MIP Study**

Under the HECM program, borrowers are charged a mortgage insurance premium (MIP), equal to 2 percent of the home value or FHA county lending limit, whichever is less, plus an annual premium thereafter equal to 0.5 percent of the loan balance. The MIP is an important consumer protection that guarantees if the company managing the borrower's account – commonly called the loan “servicer” – goes out of business, the FHA will step

in and make sure the borrower has continued access to his or her loan funds. Furthermore, the MIP guarantees borrowers that they will never owe more than the value of their home when the HECM must be repaid.

Nevertheless, the MIP represents a significant upfront cost, especially in high-cost areas where it can equal more than \$7,000. Last year, NRMLA convened a Reverse Mortgage Working Group to begin discussions on developing a lower cost version of the HECM. While these discussions are going on, private lenders are developing conventional reverse mortgage products with low or no-cost features.

NRMLA has conducted several actuarial analyses, all of which conclude that the 2 percent mortgage insurance premium that FHA is charging upfront more than covers the cost of administering the HECM program. In fact, we believe that FHA has room to reduce the MIP altogether, or at the very least to redistribute more upfront MIP to the amount charged annually on the outstanding loan balance.

We support Congress' efforts to ask HUD to study these issues and to develop a recommendation that benefits consumers.

### **Higher FHA Lending Limits**

NRMLA supports Congress' efforts to increase FHA lending limits, especially in high-cost areas. However, for many years, NRMLA has advocated a single national loan limit for the HECM program.

The FHA mortgage insurance programs were established by Congress to enable families that might not be able to obtain a mortgage with private mortgage insurance to purchase modest homes. Because housing costs vary considerably from market to market, Congress established loan limits for FHA that also vary according to the median home price in each market, with a cap for very high-cost areas based on the loan limits for Fannie Mae and Freddie Mac. With this system, a maximum-amount FHA loan should purchase about the same modest amount of housing in any market.

However, the FHA HECM program was established by Congress to enable elderly homeowners to convert their home equity into cash to help pay for living expenses. These expenses, which can include health care and home maintenance, do not vary considerably from market to market, and have little if any relationship to the median home price of the area. The disparities in the current FHA loan limits mean that a senior homeowner living in a city with a low FHA loan limit cannot access as much of his or her home equity as can a senior living in a city with a high FHA limit, regardless of their relative need for the funds. This unfairly penalizes senior homeowners in low-cost areas.

In addition, the variances in loan limits are confusing to seniors. It is difficult for lenders to undertake nationwide marketing efforts for HECMs and create standard explanatory materials that can help homeowners determine how much income they could get from a HECM. This has inhibited the growth of the program and prevented more widespread publication of information about reverse mortgages. As a result, many senior

homeowners still do not know they can get a federally-insured reverse mortgage that could dramatically improve their quality of life.

For these reasons, we would ask Congress to consider amending the existing bill and including language that would create a single national loan limit for HECM.

**Conclusion**

A healthy, active HECM program could be a key component for helping seniors take control over their financial situation. Reverse mortgages are a promising way to unlock billions of dollars in home equity, providing financial security, independence, and great improvement in the quality of life for thousands of senior homeowners and their families. Wider acceptance of reverse mortgages can mean reducing the need for costly increases in federal spending on health care and other benefits for seniors in the future.

The FHA Home Equity Conversion Mortgage is the primary source of reverse mortgages. Congress should enact HUD's proposals to make needed changes that will result in more senior homeowners enjoying the benefits of this outstanding program.

NRMLA and all of our member lenders stand ready to assist Congress and HUD in this vitally important effort.

Respectfully Submitted,  
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Washington, DC