

**Testimony of**

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**Submitted to  
The Subcommittee on Housing and Community Opportunity of 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 the U.S. Department of Housing and Urban Development's (HUD) proposed legislation to streamline and improve FHA single-family loan programs, including the Home Equity Conversion Mortgage (HECM) program. NRMLA commends HUD for its leadership and recognition of the importance of the reverse mortgage program. We salute the Department's willingness to make innovative improvements to make the HECM program more beneficial to seniors nationwide.

NRMLA is the principal nationwide non-profit trade association for banks and financial services companies that originate, service and invest in reverse mortgages. The association fulfills several roles: educating consumers about the opportunity to utilize reverse mortgages, training lenders to be sensitive to the needs of older Americans, and developing Best Practices and a Code of Conduct to make sure lenders offering reverse mortgages treat seniors respectfully.

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 monthly income and line of credit. 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 just under 200,000 HECMs. Nationwide, in 2005, some 43,000 seniors 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.

HUD's proposed reform package would make the following improvements: eliminate the cap on the number of HECM loans that HUD can insure; create a single national loan limit for the HECM program; and implement a HECM for Home Purchase option.

### **Eliminating HECM Cap**

In response to rapid growth in the reverse mortgage program, a key legislative priority for NRMLA in 2006 is focused on removing the cap on the number of reverse mortgages that HUD can insure. Without legislation, the Department can only insure 250,000 HECM loans—a cap that our industry could approach within a year as volume continues to steadily increase.

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.

That emergency supplemental appropriation 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.

HUD's 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.

### **Single National Loan Limit**

NRMLA supports a single, nationwide loan limit for the HECM program.

FHA's other mortgage insurance programs were established by Congress for families that might not otherwise be able to obtain mortgages to purchase modest homes. Because housing costs vary considerably from market to market, Congress established loan limits for FHA programs that vary according to the median home price in each market.

However, the FHA HECM program was established by Congress to enable elderly homeowners to convert the wealth that they have amassed in 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 senior homeowners living in areas with low FHA loan limits cannot access as much of their equity as seniors with comparably valued homes living in areas with higher FHA limits, regardless of their relative need for the funds. This unfairly penalizes senior homeowners in low-cost areas.

### **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.

### **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