



2017 NRMLA Annual Meeting

NOV. 13 – 15 • SAN FRANCISCO

Reinventing Ourselves: A Roundtable Discussion

PRESENTERS:

PETER BELL, PRESIDENT & CEO, NRMLA, WASHINGTON, DC

JOE DEMARKEY, NRMLA CO-CHAIR, REVERSE MORTGAGE FUNDING, BLOOMFIELD, NJ

REZA JAHANGIRI, NRMLA CO-CHAIR, AMERICAN ADVISORS GROUP, ORANGE, CA

MIKE KENT, LIBERTY HOME EQUITY SOLUTIONS, RANCHO CORDOVA, CA

MICHAEL MCCULLY, NEW VIEW ADVISORS, NEW YORK, NY

KRISTEN SIEFFERT, FINANCE OF AMERICA REVERSE LLC, TULSA, OK

Mortgagee Letter 2017-12

- **Biggest change since HECM program's 1989 inception**
- **Short term disruption and volume drop likely**

Mortgagee Letter 2017-12

➤ **BUT, in the long term...**

- | | |
|---------------------------------------|---------------------|
| ❖ MMI Fund: | Strengthened |
| ❖ Consumer Benefits: | Enhanced |
| ❖ MIP Cost to Borrower: | Lowered |
| ❖ HECM Premiums: | Reduced |
| ❖ HMBS Issuer Risk: | Lessened |
| ❖ Existing Books' Prepay Risk: | Improved |

Program Changes

- **Rate competition between lenders increased**
- **Old PLF table at 5% = approx new PLF table at 3%**
- **Benefit reduced for Expected Minimum Rates greater than 3%**

Program Changes

- **More akin to forward mortgage market**
 - ❖ **Lower interest rates provide more homeowner proceeds**
 - ❖ **“Mainstream” product features**
 - ❖ **The consumer benefits from competition**
 - ❖ **Lower interest rates avert excessive premiums**

Program Concerns

- **HECM to HECM refinance exposure**
- **Finding the HECM interest rate “clearing level”**
- **Confronting lower profitability and volume**
- **Institutional investors reevaluating program**
- **Implications for Ginnie Mae and HMBS**

Enhanced Consumer Benefits

- **Prospective borrowers can seek lowest interest rate / highest proceeds**
- **Reduced fees to consumer, further minimizing high cost stigma**
- **Equity remaining in home at maturity increased**
 - ❖ **For every \$100,000 borrowed, at 4% homeowner protects incremental \$100,000 in equity over 20 years**

Enhanced Consumer Benefits

- Present value of borrower paid all-in MIP lower after approx 4 years
- Headline risk reduced, strengthening program reputation

HMBS Issuer Risk Decreased

- **Longer duration a benefit**
 - ❖ **Increases core mortgage servicing rights value**
 - ❖ **Lowers loan loss reserve requirements**
 - ❖ **Eases capital needs**

- **Fewer defaults and crossover loss lowers foreclosure rates**

HMBS Issuer Risk Decreased

- **Less debenture interest curtailment exposure**
- **Fewer 98% assignments to HUD**
- **Lower interest rates mean lower headline risk**

Lending Environment – Long Term

- **Repositioned HECM with mainstream consumer benefits / safeguards**
- **Fewer underwater loans, foreclosures, defaults, and crossover loss**
- **Diminished headline risk**

Lending Environment – Long Term

- **Banks, credit unions, other big brands re-enter the space?**
- **Volume gains from borrowers previously not interested in program**
- **Product innovation away from FHA including non-Agency, Fannie Mae and Freddie Mac**

Possible Product Enhancements

- **Repeal the 60% utilization cap**
 - ❖ Financial assessment makes caps redundant
 - ❖ Less impactful with lower PLFs
 - ❖ Reduces HECM to HECM refinance risk
 - ❖ Justified by new uniform initial MIP

Possible Product Enhancements

- **Encourage fixed rate production**
 - ❖ Many seniors prefer the certainty of fixed rate
 - ❖ Financial assessment mitigates irresponsible borrowing
 - ❖ Longer duration, lower PLFs, 2% upfront MIP all protect MMI Fund

Possible Product Enhancements

- **Fix the “assignment paradox”**
 - ❖ Secretary’s Notes a significant contributor to MMI Fund losses
 - ❖ Increase 98% threshold...or servicing continues through foreclosure
 - ❖ Insurance remains unchanged

NATIONAL REVERSE MORTGAGE LENDERS ASSOCIATION

ANNUAL MEETING & EXPO

November 13-15, 2017

The Palace Hotel | San Francisco, CA

