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# **GAO Report on Reverse Mortgages**

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**NRMLA 2019 Annual Meeting  
Alicia Puente Cackley  
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September 2019

# REVERSE MORTGAGES

## FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing

GAO-19-702

Highlights of GAO-19-702, a report to congressional requesters

September 2019

### REVERSE MORTGAGES

#### FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing

##### Why GAO Did This Study

Reverse mortgages allow seniors to convert part of their home equity into payments from a lender while still living in their homes. Most reverse mortgages are made under FHA's HECM program, which insures lenders against losses on these loans. HECMs terminate when a borrower repays or refinances the loan or the loan becomes due because the borrower died, moved, or defaulted. Defaults occur when borrowers fail to meet mortgage conditions such as paying property taxes. These borrowers risk foreclosure and loss of their homes. FHA allows HECM servicers to offer borrowers foreclosure prevention options. Most HECM servicers are supervised by CFPB.

GAO was asked to review HECM loan outcomes and servicing and related federal oversight efforts. Among other objectives, this report examines (1) what FHA data show about HECM terminations and the use of foreclosure prevention options, (2) the extent to which FHA assesses and monitors the HECM portfolio, and (3) the extent to which FHA and CFPB oversee HECM servicers. GAO analyzed FHA loan data and FHA and CFPB documents on HECM servicer oversight. GAO also interviewed agency officials, the five largest HECM servicers (representing 99 percent of the market), and legal aid groups representing HECM borrowers.

##### What GAO Recommends

GAO makes eight recommendations to FHA to, among other things, improve its monitoring and assessment of the HECM portfolio and oversight of the servicers, and one recommendation to CFPB to share HECM servicer termination information with FHA. FHA and CFPB generally agreed with the recommendations.

GAO-19-702. For more information, contact Puerto Cackley at (202) 512-3678 or pcackley@gao.gov

##### What GAO Found

The vast majority of reverse mortgages are made under the Federal Housing Administration's (FHA) Home Equity Conversion Mortgage (HECM) program. In recent years, a growing percentage of HECMs insured by FHA have ended because borrowers defaulted on their loans. While death of the borrower is the most commonly reported reason why HECMs terminate, the percentage of terminations due to borrower defaults increased from 2 percent in fiscal year 2014 to 18 percent in fiscal year 2018 (see figure). Most HECM defaults are due to borrowers not meeting occupancy requirements or failing to pay property charges, such as property taxes or homeowners insurance. Since 2015, FHA has allowed HECM servicers to put borrowers who are behind on property charges onto repayment plans to help prevent foreclosures, but as of fiscal year-end 2018, only about 22 percent of these borrowers had received this option.



Source: GAO analysis of Federal Housing Administration data. | GAO-19-702

FHA's monitoring, performance assessment, and reporting for the HECM program have weaknesses. FHA loan data do not currently capture the reason for about 30 percent of HECM terminations (see figure). FHA also has not established comprehensive performance indicators for the HECM portfolio and has not regularly tracked key performance metrics, such as reasons for HECM terminations and the number of distressed borrowers who have received foreclosure prevention options. Additionally, FHA has not developed internal reports to comprehensively monitor patterns and trends in loan outcomes. As a result, FHA does not know how well the HECM program is serving its purpose of helping meet the financial needs of elderly homeowners.

FHA has not conducted on-site reviews of HECM servicers since fiscal year 2013 and has not benefited from oversight efforts by the Consumer Financial Protection Bureau (CFPB). FHA officials said they planned to resume the reviews in fiscal year 2020, starting with three servicers that account for most of the market. However, as of August 2019, FHA had not developed updated review procedures and did not have a risk-based method for prioritizing reviews. CFPB conducts examinations of reverse mortgage servicers but does not provide the results to FHA because the agencies do not have an agreement for sharing confidential supervisory information. Without better oversight and information sharing, FHA lacks assurance that servicers are following requirements, including those designed to help protect borrowers.

# Our Congressional Requesters and Scope

- Chairwoman Maxine Waters and Representative Denny Heck
- House Financial Services Committee
- FHA's Home Equity Conversion Mortgage (HECM) program

## Issues Our Report Examined

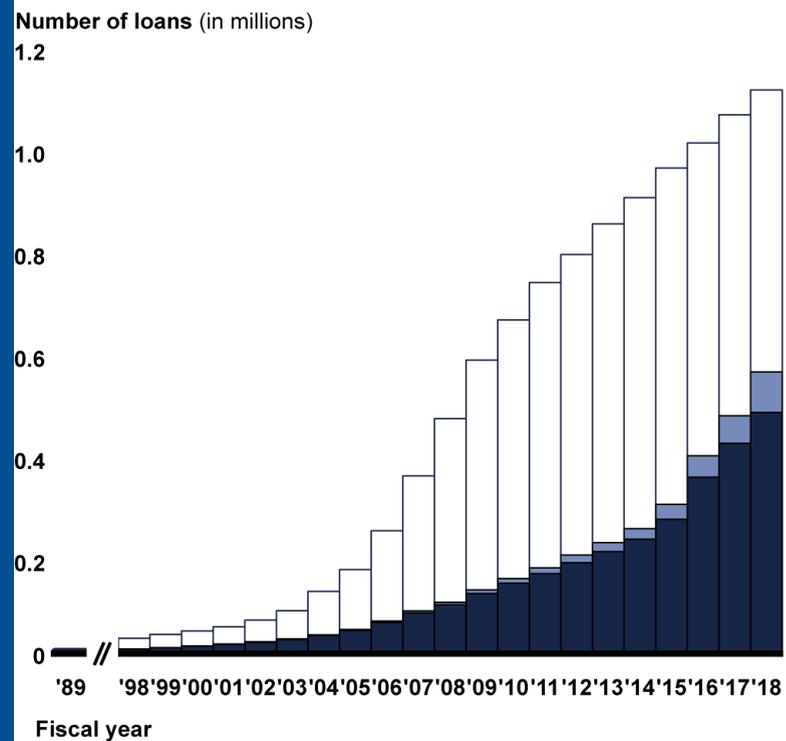
- Data on HECM terminations, servicer advances, and the use of foreclosure prevention options
- FHA's assessment and monitoring of the HECM portfolio
- Federal oversight of HECM servicers
- Consumer complaints about HECMs
- HECM market and how it has changed in recent years

## Data and Information Sources

- Obtained data from FHA's Home Equity Reverse Mortgage Information Technology (HERMIT) system
- Analyzed data for fiscal years 2014–2018 (5 years)
- Requested information from the five largest HECM servicers
- Interviewed FHA, CFPB, and representatives of five legal aid organizations that represent HECM borrowers

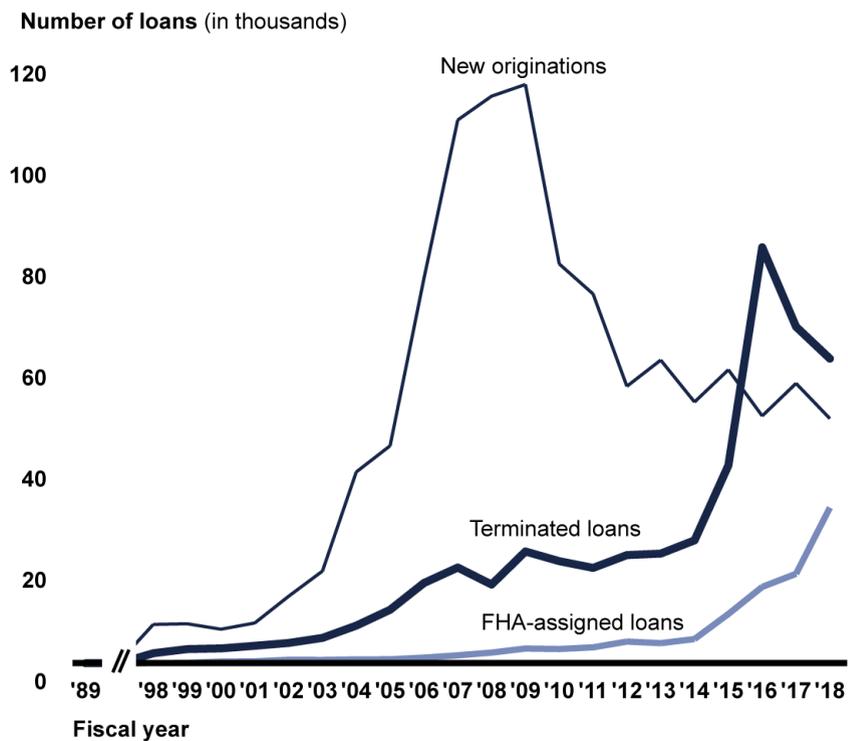
# HECM Portfolio Snapshot, 1989–2018

**Total loans, by loan status, at the end of each fiscal year**



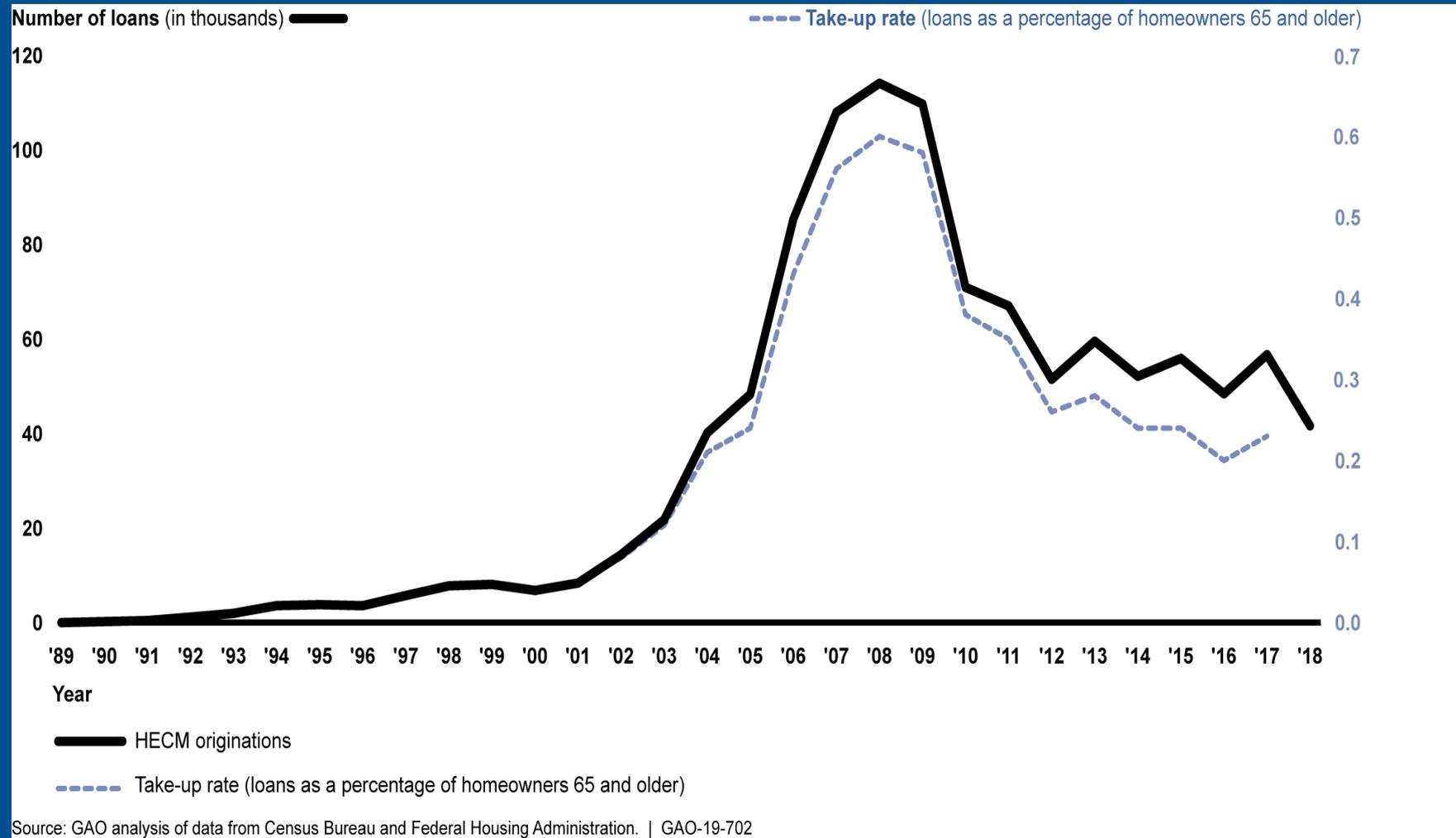
- Privately owned loans
- FHA-assigned loans
- Terminated loans

**Annual loans, by loan status, by fiscal year**

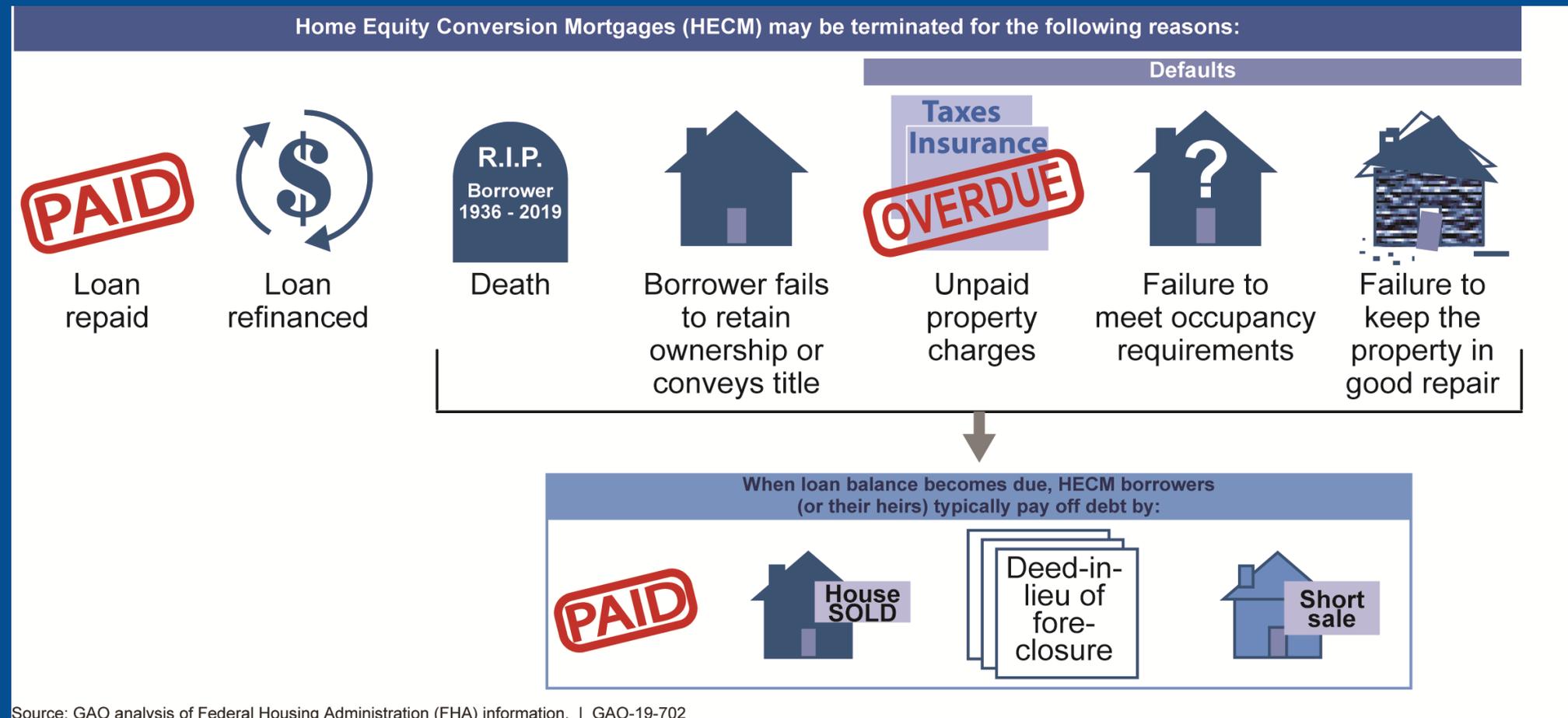


Source: GAO analysis of Federal Housing Administration (FHA) data for the Home Equity Conversion Mortgage program. | GAO-19-702

# HECM Originations and Take-Up Rates

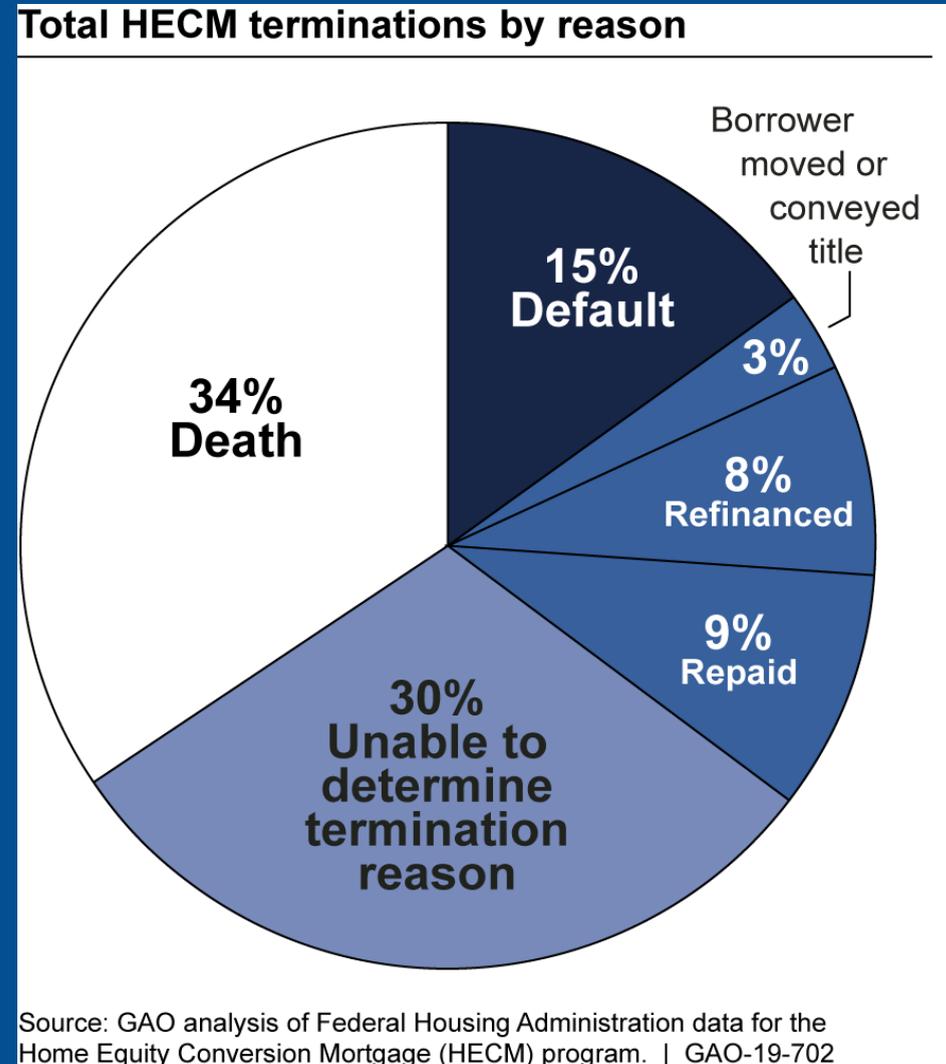


# Why Do HECMs Terminate?

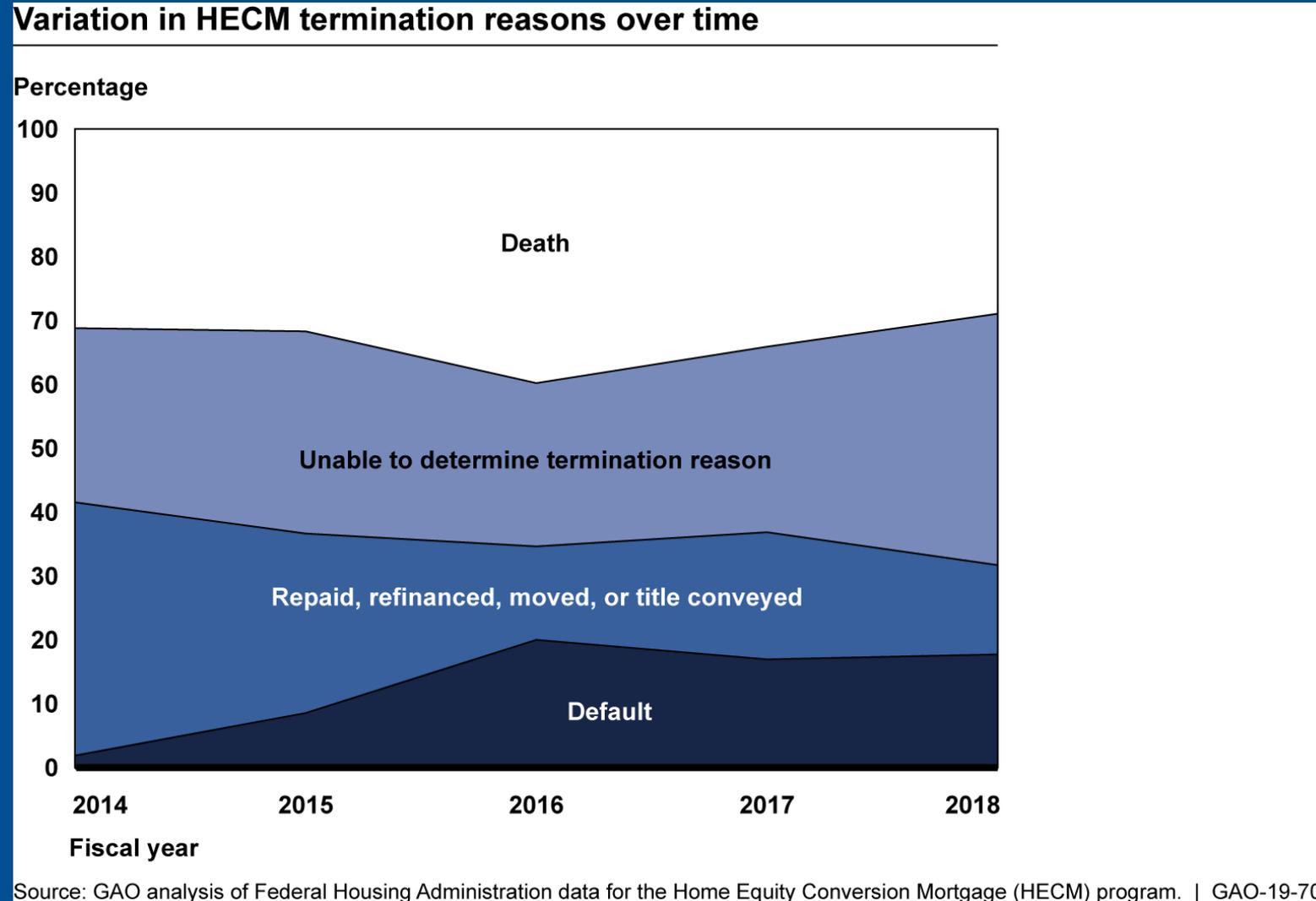


Source: GAO analysis of Federal Housing Administration (FHA) information. | GAO-19-702

# HECM Termination Reasons, 2014–2018



# HECM Defaults Have Increased



# FHA Has Created Foreclosure Prevention Options, but Limited or Unknown Use of Them

<b>Foreclosure prevention options</b>	<b>Effective date</b>
Mortgagee optional election assignment	June 2015
Repayment plan	April 2015
At-risk extension	April 2015
Low-balance extension	March 2016

Source: GAO analysis of FHA mortgagee letters. | GAO-19-702

# FHA's Monitoring, Performance Assessment, and Reporting Have Weaknesses

## Findings

- FHA's HERMIT system does not contain comprehensive data about the reasons why HECMs terminate
- FHA had not established comprehensive performance indicators for the HECM portfolio
- FHA had shortcomings in its internal reporting and analysis

## Our Recommendations for FHA

- Take steps to improve the quality and accuracy of termination data
- Establish and report on performance indicators (such as terminations, defaults, and borrowers receiving foreclosure prevention options)
- Develop analytic tools to better monitor outcomes for the HECM portfolio (such as dashboards or watch lists)

# Federal Oversight of HECM Servicers

## FHA

Insures HECMs and administers the HECM program, including issuing program regulations and enforcing program requirements

## CFPB

Supervises nonbank reverse mortgage lenders and servicers for compliance with, and enforces violation of, federal consumer protection laws

# FHA's Oversight of HECM Servicers Is Limited

## Finding

FHA has not performed a comprehensive on-site review of a HECM servicer since fiscal year 2013

Fiscal Year	2010	2011	2012	2013	2014–2018	Total
Number of reviews	2	1	4	7	0	14

Source: GAO analysis of FHA data. | GAO-19-702

## **FHA's Oversight of HECM Servicers Is Limited (continued)**

### **Our Recommendation for FHA**

Implement procedures for conducting on-site reviews of HECM servicers, including a risk-rating system for prioritizing and determining the frequency of reviews

## **CFPB Oversees Reverse Mortgage Servicers, but Does Not Share Exam Results with FHA**

### **Finding**

CFPB does not share the results of its HECM servicing examinations with FHA

### **Our Recommendations for FHA and CFPB**

Leadership should work to complete an information-sharing agreement that would allow CFPB to share the results of HECM servicing examinations with FHA officials

## CFPB Collects HECM Consumer Complaints

- We analyzed 2,500 reverse mortgage complaints received by CFPB in 2015–2018
- The most complaints were from borrowers in California (16%), Florida (11%), New York (8%), and Texas (7%)
- Five companies were the subject of 61% of complaints
- FHA's contractor that services assigned HECMs received 6% of complaints

## Analysis of Consumer Complaint Narratives

Issues consumers cited most commonly:

- Concerns around foreclosures
- Poor communication from lenders or servicers
- Problems at loan origination
- Difficulty with estate management
- Unfair interest rates, fees, or costs

# FHA's Complaint Data Have Limitations

## Findings

FHA does not use its inquiry or complaint data or CFPB's complaint data to help inform HECM program policies and oversight

The way data are collected does not produce quality information that could be used for these purposes

## Our Recommendations for FHA

Collect and record customer inquiries and complaints in a manner that facilitates analysis of the type and frequency of issues

Periodically analyze complaint data to help inform oversight and policies

## Questions?

## Additional information

[www.gao.gov](http://www.gao.gov)

Search reverse mortgages or GAO-19-702

## Contacts

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