GAO Report on Reverse Mortgages

NRMLA 2019 Annual Meeting
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REVERSE MORTGAGES

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

September 2019

GAO Highlights

Overview

The Government National Mortgage Association (Ginnie Mae) is the primary housing...
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

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

![Graph showing HECM originations and take-up rates from 1989 to 2018. The graph indicates a peak in take-up rates in 2006, followed by a decline. The source is GAO analysis of data from Census Bureau and Federal Housing Administration.]
Why Do HECMs Terminate?

Home Equity Conversion Mortgages (HECM) may be terminated for the following reasons:

- **Defaults**
  - Borrower fails to retain ownership or conveys title
  - Unpaid property charges
  - Failure to meet occupancy requirements
  - Failure to keep the property in good repair

- **PAID**
  - Loan repaid
  - Loan refinanced

- **OVERDUE**
  - Death

When loan balance becomes due, HECM borrowers (or their heirs) typically pay off debt by:

- **PAID**
  - House sold
  - Deed-in-lieu of foreclosure

- **Short sale**

Source: GAO analysis of Federal Housing Administration (FHA) information. | GAO-19-702
HECM Termination Reasons, 2014–2018

Total HECM terminations by reason

- 34% Death
- 30% Unable to determine termination reason
- 15% Default
- 8% Refinanced
- 3% Borrower moved or conveyed title
- 9% Repaid

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

Variation in HECM termination reasons over time

Percentage

Death

Unable to determine termination reason

Repaid, refinanced, moved, or title conveyed

Default

Fiscal year

2014 2015 2016 2017 2018

Source: GAO analysis of Federal Housing Administration data for the Home Equity Conversion Mortgage (HECM) program. | GAO-19-702
FHA Has Created Foreclosure Prevention Options, but Limited or Unknown Use of Them

<table>
<thead>
<tr>
<th>Foreclosure prevention options</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgagee optional election assignment</td>
<td>June 2015</td>
</tr>
<tr>
<td>Repayment plan</td>
<td>April 2015</td>
</tr>
<tr>
<td>At-risk extension</td>
<td>April 2015</td>
</tr>
<tr>
<td>Low-balance extension</td>
<td>March 2016</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014–2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of reviews</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>14</td>
</tr>
</tbody>
</table>

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

Search reverse mortgages or GAO-19-702

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