THE FHA REVERSE MORTGAGE PROGRAM:

HELPING TEXAS' SENIORS FINANCE RETIREMENT WITH THEIR OWN RESOURCES

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Introduction

Texas' overall population, like the nation's, is growing older. This aging is a result of the maturing of the Baby Boomer generation, which makes up the largest segment of our population.

Boomers are exploding the size of the senior demographic and will continue to do so until 2020 when there will be over 3.5 million seniors in our state. In addition, of the 5.68 million owner-occupied housing units in Texas, 1,307,210 are owned by Texans age 65 and over. *Source: US Census*

Simply looking at the state's aging demographics shows that we must act now to help provide liquidity and safety to the burgeoning senior housing market. Already the second most populous state in the country with a current population of 25.14 million, the state projects that Texas' population by 2030 will add between nine million and eighteen million people, expanding to a total population between 32 million and 41 million. When averaging those numbers, you see a projected population of 36.4 million people, an increase of 59%. That is the equivalent population of another Dallas, Fort Worth, Houston, San Antonio, and Corpus Christi combined. *Source: A&M Real Estate Center*

Markets respond to demographics. As the largest segment, seniors will have enhanced influence on Texas' topics of discussion, creation of products, and results of elections.

Unfortunately, in looking at a multiplicity of sources, by the time most of our family and friends are in the heart of retirement, they will have spent all of their savings, if they had any to begin with. Social Security was never intended to be the primary source of retirement income, yet it represents half the monthly income to 66% of its recipients. Private pensions are almost extinct and dozens of public pension funds are severely underfunded, threatening the retirement security of government workers and taxpayers. With over 10,000 boomers entering retirement every day, many with less than one year saved for retirement, their accumulated home equity is a crucial asset that could be accessed to finance health care costs, basic living expenses and home improvements.

In a time so difficult for older Texans', why are we not having an open discussion about home equity as a viable retirement option?

When you compare the retirement savings of those over age 62, home equity represents a greater percentage of one's net worth, vs. their overall liquid assets. Even if you examine a retiree's entire net worth, that number won't be enough for many people to live on. At some point, many Texas homeowners will have only two choices: Tap their home equity or move into a government assisted living facility.

So for people who don't want to sell their homes and downsize (or can't downsize) to free up money for living expenses, a reverse mortgage may be their best hope for continued solvency. In the coming decades, reverse mortgages will help tens of thousands of families stay in their homes and pay for a variety of retirement expenses.

Perhaps the best savings plan we have in Texas is a mortgage payment. This is why a reverse mortgage may be the most important financial tool the average Texan has in their disposal.

In addition, there is the entitlement problem. The financial burden on federal, state and local government programs designed to help seniors is increasing, but there are less resources to pay for it. By providing ongoing cash flow, a reverse mortgage can also help to prevent an individual from taking Supplemental Security Income (SSI) and can allow them to live independently of yet another government-backed program. Plus, if Medicaid's home equity exemptions were amend, reverse mortgages could be used to finance home care, saving the government billions of dollars.

Your grand-father may not have had a mortgage in retirement, but in the coming years, as baby boomers age into full retirement and as health care costs continue to soar, more people will need to access their home equity to pay their basic living expenses.

This is clearly important from a public policy perspective. As seniors age, their incomes do not generally increase, while their needs do. Homes need repairs and accessibility improvements, chronic illnesses require ongoing treatment and expensive prescription drugs, cars wear out and must be replaced with more expensive ones, and people with declining mobility may need more daily help with household tasks. Seniors who cannot afford these growing expenses either forego them—thereby, sacrificing quality of life, independence, and even their health—turn to families, who are often hard pressed to help; take out expensive home equity loans, which must be repaid on a current basis; seek government assistance; or sell their homes in order to access their home equity.

Reverse mortgages offer an ideal way to avoid these consequences while maintaining seniors' desired independence in their own homes. Reverse mortgages can also save the federal government money through reduced demand for health care and other benefits. Proceeds from reverse mortgages can be used to:

- **pay for home repairs, cost-saving energy improvements, and improvements to accessibility that can prevent injuries;**
- **pay for ongoing in-home health care, so the senior can avoid expensive government-paid hospitalization or nursing home care;**
- **pay for expensive prescription drugs that may not be covered by any government or private insurance plan;**
- **pay for motorized wheelchairs and other life-enhancing equipment that Medicare or private insurance may not pay for;**
- **pay off an existing mortgage and, in some cases, avoid foreclosure;**

In addition to helping seniors who wish to stay in their present homes, FHA implemented a very popular program called HECM for Purchase, which allows qualified borrowers to use a reverse mortgage to purchase a new home that better suits their needs. Unfortunately, Texas is the <u>only</u> state that does not allow this financial option.

Once considered primarily a tool for the needy, reverse mortgages have become recognized by many seniors and their financial advisors as a critical retirement planning tool. In the past year, there has been a steady stream of research produced by academic experts offering a variety of approaches and strategies for utilizing reverse mortgages to prolong available assets.

A healthy, active HECM program is a key component to helping seniors take control over their financial situations. 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.

Reverse Mortgages in Texas

Texas reverse mortgages are a type of home equity loan authorized by the Texas Constitution that allows senior homeowners, age 62 or older, to borrow against the equity in their homes without having to repay any of the mortgage debt during their lifetimes so long as they continue to live and properly maintain their homes, keep the property tax and insurance payments current, and abide by the terms of the reverse mortgage loan agreements. All Texas law establishing and regulating the reverse mortgage is contained in provisions of Section 50, Article XVI, of the Texas Constitution, including specifically subsections 50(a)(7), which authorizes the reverse mortgage, 50(k) through 50(p), inclusive, and Section 50(v), which define the loan.

Prior to the origination of the first Texas reverse mortgage in the year 2000, Texas was the only state in the country without this important financial option for its senior homeowners. Since then, over $4 billion worth of home equity has been borrowed by homeowners in Texas.

Texas now has a national market share of 8.8% of all reverse mortgages in the country, making the Lone Star State the second-largest market for this retirement product; as of 2007.

Texas has uniquely protective homestead laws and strict compliance standards embedded in its constitution, including mandatory third-party counseling for prospective reverse mortgage borrowers. Because of this, reverse mortgages in the Lone Star State are considered to be one of the more regulated mortgage loans in the entire country.

In the last two years, $1.07 billion in reverse mortgage funds have been accessed by Texas homeowners. Texas may be poised to become the largest reverse mortgage lending state in the country by the end of the decade. Individuals age 65 or older own 1,307,210 owner-occupied homes in Texas, representing 22.9% of all households in the state. In addition, Texas is home to 5.2 million baby boomers that will be at least 65 years of age by 2030. And out of the estimated 39 million informal caregivers throughout the United States, nearly 3 million are in Texas.

Overall, there have been over 50,000 HECM cases endorsed in Texas, ranking it the number three (3) state in overall HECM Production, measuring from the inception of the HECM program. There remain 41,300 active (non-paid) HECM cases in Texas.

The top five states for HECM production are: California, **Texas**, Florida, New York and New Jersey.

The Texas Department of Savings and Mortgage Lending

According to the Texas Department of Savings and Mortgage Lending, the state's chief mortgage regulator, over the last six (6) years, their office has not issued a single enforcement action based on complaints involving reverse mortgages. See attached letter on page 8.

What is a Reverse Mortgage?

A reverse mortgage is a loan available to homeowners age 62 or older that enables a borrower to convert part of the equity in their home into cash.

Reverse mortgages were conceived as a means to help people in or near retirement and with limited income use the money they have put into their home to pay off debts (including traditional mortgages), cover basic monthly living expenses or pay for health care. There is no restriction on how a borrower may use their reverse mortgage proceeds.

The loan is called a reverse mortgage because the traditional mortgage payback stream is reversed. Instead of making monthly payments to a lender (as with a traditional mortgage), the lender makes payments to the borrower.

A borrower is not required to pay back the loan until the home is sold or otherwise vacated. As long as the borrower lives in the home, he is not required to make any monthly payments towards the loan balance, but he must remain current on his tax and insurance payments.

Features of Reverse Mortgages

With a reverse mortgage, the borrower always retains title to or ownership of the home. The lender never, at any point, owns the home even after the last surviving spouse permanently vacates the property.

The amount of loan proceeds the borrower is eligible to receive depends on the person's age (or age of the youngest borrower in the case of couples), the value of the home, the interest rate and upfront costs. The older the borrower, the more proceeds he can receive.

The loan proceeds can be delivered as a lump sum, as a line of credit or as fixed monthly payments, either for a fixed amount of time or for as long as you remain in the home. A borrower can also combine these options, for example, taking part of the proceeds as a lump sum and leaving the balance in a line of credit.

Fees can be paid out of the loan proceeds. This means a borrower incurs very little out-of-pocket expense to get a reverse mortgage. The only out-of-pocket expense is the appraisal fee and maybe a charge for counseling depending on the counseling organization the borrower works with. Together, these two fees will total a few hundred dollars. Very low-income homeowners are exempted from being charged for counseling.

The final loan balance is comprised of the amount borrowed, plus annual mortgage insurance premiums, servicing fees and interest.

No matter how large the loan balance, the borrower never has to pay more than the appraised value of the home or the sale price. This feature is referred to as non-recourse. If the loan balance exceeds the appraised value of the home, then the FHA insurance fund absorbs that loss.

Types of Reverse Mortgages

Home Equity Conversion Mortgage
HECM is the commonly used acronym for a Home Equity Conversion Mortgage, which is a reverse mortgage created by and regulated by the U.S. Government Department of Housing and Urban Development.

A HECM is not a government loan. It is a loan issued by a private bank, but insured by the Federal Housing Administration, which is part of HUD. Each year the borrower is charged an insurance fee of 1.25% of the loan balance.

The loan balance thus increases by the amount of this fee. The insurance purchased by this fee protects the borrower (1) if and when the lender is not able to make a payment; and (2) if the value of the home upon selling is not enough to cover the loan balance. In the latter case, the government insurance fund would pay off the remaining balance.

Currently, HECMs make up 99% of the reverse mortgages offered in America. HECMs come with rules and regulations that include a requirement that the borrower receive third-party counseling.

HECM Options

Standard

The term "HECM Standard" refers to a traditional Home Equity Conversion Mortgage, which has been available since 1989 (2000 in Texas). There are currently more than 700,000 issued HECMs in the market.

Saver
HECM Saver is a lower-cost version of HECM Standard. The saving comes from a lower upfront mortgage insurance premium (MIP). The trade-off is that the borrower receives 10-18% less money. This product is desirable for people who don't need as much money compared to HECM Standard, or don't want to pay the higher fees.

For Purchase
While the typical retiree uses a HECM to eliminate debts, pay for healthcare and/or cover daily living expenses, a growing segment of the senior population is using it to purchase a home that better suits their needs.

The advantage of using HECM for Purchase is that the new home is purchased outright, using funds from the sale of the old home, private savings, gift money and other sources of income, which are then combined with the reverse mortgage proceeds. This home buying process leaves the borrower with no monthly mortgage payments.

HECM for Purchase offers a solution to downsize into a place that's more easily navigable, possibly more energy efficient, with lower maintenance costs, or which is closer to friends and family.

- **Note:** This is <u>not</u> available in Texas**.** The reverse mortgage industry is looking to amend the Texas Constitution to allow senior homeowners the ability to purchase a home with a reverse mortgage. Texas, already the home to one of the most consumer-friendly reverse mortgages in the country, is also the only state in the nation that does not authorize such a financial transaction, which is known as a Home Equity Conversion Mortgage (or HECM) for Purchase.

Mandatory Counseling

Arguably the most important consumer protection built into the reverse mortgage program is the requirement that a prospective borrower must first meet with an independent third-party counselor approved by HUD before signing a loan application or incurring any fees. A new counseling protocol published by HUD last year requires use of a Financial Interview Tool (F.I.T.), developed by the National Council on Aging, to assess whether or not individual borrowers will be able to maintain the financial wherewithal to sustain themselves in their home and meet their financial obligations after obtaining a HECM.

For low and moderate income borrowers, another mandatory counseling tool, called BenefitsCheckup, is utilized to help borrowers identify other programs that they can access in lieu of, or in conjunction with, a reverse mortgage.

HUD has very detailed counseling protocols that require counselors not only to cover the types of items outlined in the Texas Constitutional provisions, but extend much farther beyond, such as consumer understanding and cognizance.

Costs Associated With a Reverse Mortgage

Many of the same costs that someone pays to obtain a home purchase loan, or to refinance their existing mortgage, apply to reverse mortgages too. A borrower can be charged an origination fee, up-front mortgage insurance premium (only for the FHA HECM), an appraisal fee, and certain other standard closing costs.

In most cases, these fees and costs are capped and may be financed as part of the reverse mortgage.

TEXAS DEPARTMENT OF SAVINGS & MORTGAGE LENDING

Douglas B. Foster
Commissioner

January 11, 2013

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Re: Open Records Request

Dear Mr. Norman:

You requested information concerning any enforcement actions issued by the Department involving reverse mortgages.

Please be advised that a search of our records does not reveal any enforcement actions issued by this Department from complaints involving reverse mortgages in the past six years.

Additionally, there are no open complaints concerning these loans at the present time.

If you have any additional questions or need any additional information, please let me know.

Sincerely,

F. C. "Chris" Schneider
Associate General Counsel

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