Testimony of

Peter H. Bell, President
National Reverse Mortgage Lenders Association

Before the

Subcommittee on Housing and Transportation
Committee on Banking, Housing, Urban Affairs
U.S. Senate

May 19, 2006

National Reverse Mortgage Lenders Association (NRMLA) is pleased to support S. 1710, the Reverse Mortgages to Help America's Seniors Act. NRMLA commends Senator Santorum for his leadership in introducing S. 1710 and for recognizing the importance of the federally insured reverse mortgage program.

As the national voice of the reverse mortgage industry in Washington, D.C., NRMLA serves as an educational resource, policy advocate and public affairs center on reverse mortgage issues. Since 1977, NRMLA has been educating consumers, training lenders to be sensitive to the needs of older Americans, enforcing our Code of Conduct and Best Practices, and promoting reverse mortgages in the news media.

Reverse mortgages allow homeowners 62 or older to convert part of the equity in their homes into cash without having to sell, move, give up title, or take on new monthly mortgage payments. Borrowers are never, under any circumstances resulting from the reverse mortgage, forced to leave their homes, provided they make their real estate property tax and insurance payments.

The amount of money a homeowner is eligible to receive depends upon his or her age (or age of youngest borrower in the case of a couple), appraised home value, current interest rates, and the FHA lending limit for the area.

A borrower can choose to receive proceeds as a **lump sum** (entire loan amount is provided up-front to the borrower); **tenure payments** (monthly payments are provided to the borrower for as long as they occupy the home); **term payments** (monthly payments are provided to the borrower over a specified period of time); **credit line** (borrower draws on the money as needed); or **combination payment** (borrower receives a combination line of credit and monthly payments).

Funds can be used for any purpose. In general, there are three types of borrowers who utilize reverse mortgages: **needs-based borrowers** who use loan advances to make ends meet on day-to-day living expenses, pay for home repairs and improvements, medical expenses or in-home care, pay-off existing debts, or supplement retirement income; **security-oriented borrowers**, who set up a line of credit and use proceeds only for emergencies or unanticipated expenses; and **lifestyle enhancement borrowers** who use reverse mortgages for discretionary spending including travel or purchase of a second home or new car.

Eliminating HECM Cap

In response to rapid growth in the reverse mortgage program, a key legislative priority for NRMLA in 2006 has 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 will approach within the next several months 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 FHA was authorized to insure was limited. Back then, the thought was to gain some experience with the program and observe how it performed. In 1998, Congress adopted legislation making the program permanent, but set an authorization cap of 150,000 HECM loans. Early last year, loan production 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 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.

S. 1710 would permanently eliminate this uncertainty by removing the cap, creating a market environment in which lenders could bring down costs to consumers through product innovation and competition. A track record of solid performance by the HECM program has now been clearly established. The program was initially designed with the intent of operating on a “break even” basis. It has far surpassed that and yields sufficient revenue to the FHA insurance fuund to more than cover its costs. 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.

Reverse Mortgage Alternatives

For purposes of this hearing, I think it's worth noting alternative sources of income available to seniors, particularly home equity loans or trading down to smaller homes.

Home equity loans are often problematic for seniors on fixed incomes because homeowners are obligated to make monthly payments that their cash flow prohibits. In fact, many seniors could not qualify for loans that require current payments because they just do not have the income to qualify.

The beauty of the reverse mortgage is that there are no monthly payments. Instead of the homeowner paying the lender, the lender pays the homeowner.

As far as the option of selling and moving is concerned, this can be problematic from both a financial and emotional perspective. It is important to recognize that a home, in many circumstances, is much more than merely an economic asset. I have visited seniors in homes with gardens nurtured for decades, woodshops, art studios, handmade built-in furniture and other irreplaceable features. Whether it is due to the physical attributes of the home, a sense of community, or the numerous memories contained therein, many seniors simply do not want to move.

From a financial perspective, if the costs of selling, including a typical broker's commission (6-7%), closing costs on the new home, and moving expenses (not to mention the inconvenience of packing up 15-55 years of accumulated belongings) are calculated, a reverse mortgage might very well prove to be the more cost-effective solution. Furthermore, it would be quite possible for someone to outlive the "net proceeds" obtained from selling and moving—unless those funds are used to purchase an annuity or some other financial instrument (yet another fee).

With the reverse mortgage, on the other hand, lifetime income can be guaranteed, as long as the home is occupied, even if the amount provided eventually exceeds the value of the house.

Role of the Federal Housing Administration

There are three reverse mortgage products available to consumers at the present time. The most widely used, accounting for an estimated 90 percent market share, is the FHA-insured Home Equity Conversion Mortgage, or "HECM." Since its adoption in 1990, FHA has insured just under 200,000 HECMs, including some 43,000 loans in 2005.

Seniors can also choose the Home Keeper reverse mortgage, developed in the mid-1990s by Fannie Mae. Financial Freedom Senior Funding Corporation, of Irvine, CA, has developed a proprietary "jumbo" reverse mortgage—called the Cash Account Plan—that is available for higher-priced homes.

The HECM product is chosen most often because of the advantages it offers consumers. In general, the federal guaranty provided by FHA allows the HECM to yield a higher percentage of equity to the homeowner than the other two products. By law, the HECM program contains numerous safeguards to protect homeowners, including mandatory counseling by an independent HUD-approved counselor; a limitation on the amount of fees lenders can charge; and a non-recourse feature, which limits the amount owed to the value of the home.

Why HECM Is Important

Today, over 34 million Americans are over age 65.[1] This is expected to double in the next 30 years to almost 70 million.[2] By 2030, 20 percent of Americans will be over age 65.[3] Almost four out of five seniors own their own homes, meaning that there are about 27 million senior homeowners today, and that number will rise in the future. Seniors of all races have the highest rates of homeownership.[4] In addition, senior homeowners have a lower median income than any other demographic group ($23,311 for seniors, and $43,581 for all homeowners nationwide), yet seniors have the *highest* median home equity ($80,000 for seniors, compared to $57,000 for all homeowners and only $19,000 for homeowners under age 35).[5] This indicates that conversion of home equity into income could significantly supplement the relatively low incomes of senior homeowners.

This is obviously 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, and people with declining mobility may require more help with daily tasks. Seniors who cannot afford these growing expenses must either forego them, 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. Studies by AARP have shown that seniors will sacrifice considerable quality of life in order to remain in their homes for as long as possible.[6]

Recognizing these challenges, FHA developed the HECM program to offer an ideal way to avoid these dire 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;

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[1] U.S. Bureau of the Census, Current Population Reports.

[2] Ibid.

[3] Ibid.

[4] "Housing Our Elders: A Report Card on the Housing Conditions and Needs of Older Americans, " HUD, November 1999.

[5] The State of the Nation's Housing 2000, Harvard University Joint Center for Housing Studies.

[6] Fixing to Stay, AARP, May 2000.

- pay for ongoing in-home health care, so the senior can avoid expensive government-paid hospitalization or nursing home care;
- pay for one or more new or used cars, or a wheelchair-accessible van;
- 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;
- many other uses that can help seniors maintain their dignity, avoid asking hard-pressed children for help, and enjoy life.

Reverse Mortgages and the Medicaid Debate

As Congress and state legislatures grapple with the growing costs of Medicaid, reverse mortgages take on an even more important role. The HECM program has the potential to help seniors afford to pay for long-term care in their own homes, helping to reduce the millions of dollars in governmental expenditures for seniors' health care needs in nursing homes.

The Centers for Medicare and Medicaid Services, a federal agency within the Department of Health and Human Services, and the Robert Wood Johnson Foundation funded a study by the National Council on Aging (NCOA) that explores the potential of encouraging seniors to utilize their home equity to cover long-term care needs.

NCOA's report, *Use Your Home to Stay at Home*: *Expanding the Use of Reverse Mortgages to Pay for Long Term Care*, shows that households could access as much as $695 billion in home equity through reverse mortgages. For individuals, this extra cash could go a long way to help with care giving and other long-term care expenses.

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. 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. We urge the Senate to approve S. 1710 to make sure that HECM loans continue to be available to all senior homeowners who could the benefit from this outstanding program.

NRMLA and all of our member lenders stand ready to assist Congress in this vitally important effort.

Respectfully Submitted,
Peter H. Bell, President
National Reverse Mortgage Lenders Association