Testimony

of

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National Reverse Mortgage Lenders Association

before the

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Mr. Chairman and Members of the Committee:

Thank you for convening this hearing to look into the Federal Housing Administration's (FHA's) Financial Condition and Program Challenges. I am here today in my capacity as President & CEO of the National Reverse Mortgage Lenders Association (NRMLA), a trade association of over 300 companies involved in the origination, funding and servicing of reverse mortgages. Our organization has been serving the reverse mortgage industry as a policy advocate and educational resource since 1997. We also provide information about reverse mortgages to consumers and members of the press.

NRMLA member companies are responsible for over 90% of the reverse mortgages made in the United States. All NRMLA member companies commit themselves to our Code of Ethics & Professional Responsibility. Under that Code, placing the needs of the client takes precedence over all other considerations.

This Committee, including members from both sides of the aisle, has been consistently sensitive to reverse mortgage issues and has continually taken steps to improve and enhance FHA's Home Equity Conversion Mortgage (HECM) program. For that, we are very appreciative, as are the three-quarters of a million senior households who have utilized the HECM program since its inception.

The issues surrounding reverse mortgages bring a key question into consideration:

How do we finance our longevity?

There were 4.2 million Americans over 85 years old in 2000; there will be over 9 million Americans over 85 years old in 2030. With life carrying on for decades beyond our earning years, we must manage assets and resources to sustain ourselves longer. Aging in place, remaining in one's own home for the duration of life or as long as physically possible, is simply the most cost-effective and financially sensible housing option for many. This requires the strategic use of home equity as a means of financial support.

Housing wealth, the equity accumulated in a home, represents the largest component of personal wealth for many American households. Typical retiree households might have Social Security income, a modest pension, limited income from low-yielding fixed-income instruments, and, perhaps, a diminished 401(k) account. The equity they have built up in their home is often their greatest asset, an important resource for funding their future.

The Bi-Partisan Policy Commission, in a report issued earlier this week, cited that half of homeowners 62 years of age or older had at least 55% of their net worth tied up in home equity. Furthermore, according to the Commission report, 9.5 million households headed by someone age 65 or older, spend more than 30% of their income for housing expenses, including mortgage payments; 5.1 million spend more than half their income on housing.

Congress recognized this when initially authorizing the HECM program as part of the Housing & Community Development Act of 1987.

Before moving on to a discussion of current issues impacting the HECM program, I would like to provide an overview of the program's history. The history is important because it illustrates that HUD has acted responsibly in its role of stewardship for this program. Furthermore, the Department has led a collaborative effort among all stakeholders – including the government, senior advocates, social service providers, housing counselors and the reverse mortgage industry – to continually re-evaluate and make modifications to this valuable program.

As a result, the HECM program has been able to serve over 750,000 homeowners since its inception. At the present time, there are approximately 578,000 senior households utilizing HECMs to help meet their financial needs.

A Brief History of the HECM Program

The development and implementation of the Home Equity Conversion Mortgage program was a deliberate and thoughtful process.

The first reverse mortgage loan in the U.S. was made in 1961 by Deering Savings & Loan in Portland, Maine to a widow named Nellie Young. Over the next 20 years, various studies and surveys were conducted to explore the viability of such a product, most notably those by Yung-Ping Chen of UCLA and Jack Guttentag of The Wharton School and largely driven by Ken Scholen, then working with the Wisconsin Board on Aging, who wrote three books on the subject.

In 1980, Scholen presented the concept to the Federal government and received funding from the Administration on Aging for a Home Equity Conversion project. The following year, the White House Conference on Aging, attended by leaders of organizations serving the senior sector, endorsed the creation of a Federal Housing Administration mortgage insurance program for reverse mortgage loans. It was another nine years before the first FHA-insured reverse mortgage was issued. During this time more studies and hearings on the viability and need for such a program continued both in Washington and in many states.

In 1983, the Senate approved a proposal by Senator John Heinz for the creation of FHA insurance for reverse mortgages and a Senate/House conference committee called for a Department of Housing & Urban Development study of the idea. In 1985, HUD held a conference on the subject, but when they issued their study in 1986, the Department opposed a federal reverse mortgage demonstration program. The following year, AARP offered a critique of HUD's decision, written by Scholen, and the 100th Congress passed the Housing and Community Development Act, directing the HUD Secretary to conduct a demonstration program for insuring reverse mortgages.

The National Housing Act of 1987, Section 255, outlined the specifics of the demonstration program. The purpose of the program was "to meet the special needs of elderly homeowners by reducing the effect of the economic hardship caused by increasing costs of meeting health, housing and subsistence needs at a time of reduced income, through insurance of home equity conversion mortgages to permit the conversion of a portion of accumulated home equity into liquid assets." Among the requirements contained in the original statute were:

- Adequate 3rd party counseling including explaining alternative financial options;
- A fixed or variable interest rate or future sharing between the mortgagor and the mortgagee of the appreciation in value of the property, as agreed upon by the mortgagor and the mortgagee;
- A list of disclosures to be delivered at least 10 days before closing;
- A guarantee to borrowers that they would be protected against disappearance of their lender and obligations beyond the value of their home at sale;
- Scheduled reports to Congress.

To create the new product, HUD created a development team under the auspices of Judith May. The team was led by Ed Szymanoski, a mathematician and economist, who managed the annual actuarial review of HUD's home mortgage insurance fund. They had no model to work from, so they built a simulation model to analyze the actuarial risks the FHA insurance fund would be exposed to under various scenarios. As Szymanoski later explained, "Innovations from our initial design recommendations included the first-ever two-part premium structure for an FHA program (two per cent up front and 50 basis points annually), a two dimensional "principal limit" factor (by borrower age and interest rate) that is used as an effective limit on HECM LTVs (loan-to-value), and formulas for borrowers to set up their own customized payment plans—allowing maximum flexibility in choice among monthly payment streams, lines of credit or combination plans with both." All of this initial modeling remains a working part of the program today.

The pilot program was careful and initially limited to 2500 loans through 1991. The first FHA-insured Home Equity Conversion Mortgage (HECM) was issued October 19, 1989 to Marjorie Mason of Fairway, Kansas. HUD selected 50 lenders to make the first HECMs. The FHA sponsored fourteen two-day counselor training sessions conducted by Scholen and Bronwyn Belling of AARP. In the first year (1990), 157 loans were closed. In the second year (1991), 389 loans were closed. The program grew slowly as it found its footing.

The original statute had called for evaluations of the program by HUD staff on a timely basis. The first report in 1992 was followed by further evaluation in 1995. Several subsequent evaluations have been conducted over the years.

The goals of the demonstration were to (1) permit the conversion of home equity into liquid assets to meet the special needs of elderly home owners, (2) encourage and increase participation by the mortgage markets in converting home equity into liquid assets, and (3) determine the extent of demand for home equity conversions and types of home equity conversion mortgages that best serve the needs of elderly home owners.

The 1995 report stated "the Demonstration has made significant progress toward achieving each of these goals, although more time will be necessary to complete the work. "

This report also addressed the adequacy of the mortgage insurance premium for the first time and concluded the present value of the premiums collected exceeded the value of insurance claim losses.

Once the program was launched, deliberation continued and it was closely observed. Over the subsequent years, Congress has amended the statute nine times, sometimes simply to clarify wording, others to alter substance. Changes include:

- In 1990, the volume cap was changed from 2500 loans by the end of Fiscal Year (FY) 1991 to 25,000 loans by the end of FY 1995;
- In 1996, the restriction on securing the loan with a single-family residence was changed to also include a 1-4 family residence in which the mortgagor occupies one of the units; the aggregate number of loans insured was changed twice from 25,000 through FY 1995 to 30,000 through FY 1996 and then to 50,000 through FY 2000;
- In 1998, in the HUD Appropriations Act, the word "demonstration" program was struck and the program became permanent; the aggregate number of mortgages that could be insured was raised to 150,000;
- In 2000, refinance of existing HECMs was authorized and rules created for implementation including requiring a good faith estimate of costs and permitting a credit for previous upfront mortgage insurance premium against the new premium;
- In 2005, the volume cap was raised from 150,000 loans to 250,000 loans;
- In 2006, the volume cap was raised from 250,000 loans to 275,000 loans; in the Home Equity Act of 2006, regional loan limits for HECMs were eliminated and a single national loan limit equal to that of the Freddie Mac loan limit (then $417,000) was created;
- In 2008, via the Housing and Economic Recovery Act, limits were placed on origination fees; cross selling of other financial products as a condition for obtaining a reverse mortgage was prohibited; rules assuring independence of counselors from lenders were strengthened; the establishment of qualification standards for counselors and a new counseling protocol was called for; HECM insurance was shifted from the General Insurance Fund to the Mutual Mortgage Insurance Fund (MMI); a provision to permit a waiver of upfront insurance premiums when proceeds are used to purchase a qualified long-term care insurance policy was eliminated; and the HECM for Purchase program, which authorized use of these funds for purchase of principal residences, was created;

- In 2009, as part of the American Relief and Recovery Act, loan limits were increased to 150% of the Freddie Mac limit or $625,500;

In addition to these legislative changes, HUD has also made periodic administrative changes to the program, including:

- In 2010, FHA reduced the Principal Limit Factors (essentially the Loan-to-Value ratio) for all HECMs by 10% to address concerns about the performance of the program and eliminate any need for credit subsidy;
- In 2011, FHA implemented an additional reduction in the Principal Limit Factors and raised the annual Mortgage Insurance Premium.

All in all, what occurred throughout the years has been a constant monitoring of the program by FHA and continual re-evaluation both internally at HUD and by outside consultants, resulting in thoughtful steps being taken to manage the program pro-actively.

In 1997, just prior to the program being made permanent, the National Reverse Mortgage Lenders Association was formed. With new promise of a prolonged future, and perhaps partially due to the existence of an industry-wide professional organization, the business began to grow. In 2001, NRMLA had 32 member companies and about 7800 loans were closed. By 2005, we had 370 members and over 43,000 loans were closed. By 2007, volume would surpass 100,000 loans per year, where it remained for three years. Current annual loan volume is about 60,000 loans.

In 2007, Ginnie Mae introduced its HECM Mortgage-Backed Securities program (HMBS). In November of that year, the first HMBS pool was offered by Goldman Sachs.

In Ed Szymanoski's last report on the demonstration program written in 2000, he reported a high level of satisfaction among HECM borrowers. In 2007, AARP reported that 93% of borrowers surveyed had a good experience with their loans. In 2010, consumer research conducted by Marttila Strategies for NRMLA reported that 90% of surveyed borrowers felt no pressure to proceed, 90% did not feel they were misled in any way or given wrong information, 80% said they were likely to recommend the product to a family member and more than 50% said they could not meet their monthly expenses without their HECM.

In 2012, in response to a Request for Information published in the Federal Register by the Consumer Financial Protection Bureau (CFPB), NRMLA retained ORC International (ORC), a widely respected independent consumer opinion research organization to survey a statistically significant sample of borrowers on their information gathering and decision-making regarding their reverse mortgage, their needs and motivations for obtaining it, their use of funds and whether or not they could continue to live in their homes without the financial assistance provided by the HECM loan. ORC found that HECM borrowers were thoughtful in approaching this topic, did comprehensive research, obtained input from knowledgeable and trusted advisors, found HECM counseling to be useful, utilized the funds to establish greater financial stability for themselves, and felt that without the HECM, it would be challenging for them to remain in their homes.

Despite the growth of the industry and the high level of contentment among borrowers, HUD and the industry did not retreat from the responsibility of perpetual re-evaluation and frequent refinements. During this past decade of growth:

- Loan Limits have been adjusted to keep up with needs;
- Loan to value ratios (Principal Limit Factors) have been lowered to protect the FHA Mutual Mortgage Insurance Fund (MMI);
- The Mortgage Insurance Premium has been increased to protect the MMI fund;
- The counseling process has been enhanced with a new intensified protocol requiring the addition of the Financial Interview Tool to evaluate a potential borrower's means to live up to the loan's obligations and benefitscheckup.org, to see what other financial help might be available to them;
- An exam and continuing education requirements were established for all HECM counselors to make sure they fully understand the mechanics of the product, as well as changes that are implemented over time;
- New products, including the HECM Saver and the HECM for Purchase, have been designed and introduced to serve seniors with different needs;
- HUD, FTC, AARP, NRMLA and now, the CFPB, have worked together to discourage inappropriate and misleading advertising language.

Both our government partners and our members have had a laser focus on providing this beneficial product to America's seniors and delivering it with the highest ethical values and integrity. At the same time, they have adjusted the program when necessary to keep it aligned with the requirements of and maintain the security provided by FHA insurance.

The history of the HECM program demonstrates that its participants have been thoughtful, careful and responsible. The program has resulted in the growth and development of an important financial management tool that we are able to offer because of the sharing of risk between the public and private sectors.

The lessons learned from the HECM program helped spawn a new market of proprietary reverse mortgages, which prior to the financial crisis of 2009, had started expanding and grew to over 10% of the reverse mortgage market. Today, we are beginning to see preliminary indications that investors are studying the opportunity for proprietary reverse mortgage products and are poised to return to this market as the economy stabilizes.

Emergence of HECM as a Proactive Tool for Personal Financial Management

While HECM was initially created to help seniors supplement their retirement income by simply adding in a stream of monthly payments to the homeowner, or creating a stand-by line of credit, use of the loan has evolved to help a number of seniors facing differing circumstances. In some cases, a HECM is utilized to pay off an onerous mortgage and/or other debts. This enables the senior to eliminate monthly payments and deploy their regular cash flow to cover day-to-day living expenses, while being able to remain in the home, rather than having to sell it and move. In other cases, reverse mortgages have been utilized to cover costs for in-home care, allowing borrowers to avoid costly stays in nursing homes – helping to avoid costs that might ultimately have to be borne by Medicaid.

With the introduction of the HECM Saver, which provides lower risk to the FHA insurance fund and lower upfront costs to consumers, the program has drawn interest from financial planners working with older clients. Many retirees experience peaks and troughs in their cash needs over time. As a result, they are often forced to liquidate assets at inopportune times. Rather than selling stocks into a down market, or cashing in Certificates of Deposit (CDs) or other financial instruments before maturity and possibly incurring penalties for doing so, utilization of a HECM Saver can provide cash for immediate needs and then be repaid back into the HECM line of credit when investment values are higher or when CDs mature. The net result, according to models run by leading financial planners, is that the client will have a larger amount of money available to meet their needs through retirement and fund longevity.

Importance of Counseling for Reverse Mortgage Borrowers

A challenge with reverse mortgages is that, to many prospective borrowers, the notion is somewhat counter-intuitive. How a reverse mortgage works, how the amount of money available to a homeowner is determined, and how HECMs are priced are topics that are often not fully understood by seniors considering utilizing this helpful tool. As a result, Congress wisely established a statutory requirement that every prospective borrower must meet with an independent third-party reverse mortgage counselor before actually completing a formal application for a HECM loan.

Analyzing how a reverse mortgage might fit into the picture for any particular borrower and learning how to assess the various options available is not a simple task -- particularly for older homeowners who might not have been in the financial markets for awhile, for newly widowed individuals whose loss of their spouse's Social Security creates financial insecurity, for seniors struggling to make ends meet, or for those trying to plan ahead to maximize their resources and sustain their financial independence.

Counseling has become a hallmark of the HECM program. It is a very effective consumer safeguard and its impact can be seen in the limited and isolated number of instances where there has been evidence of fraud or elder financial abuse within the HECM program. NRMLA regularly surveys Attorneys General offices in all states, Divisions of Banks, and Departments of Consumer and Elderly Affairs, and all report a very low or no incidence of complaints about reverse mortgages. NRMLA believes that the mandatory counseling is a significant contributor to the integrity of the HECM program.

The opportunity for every prospective reverse mortgage client to consult with an independent, professional reverse mortgage counselor prior to formally submitting a loan application is a critical step that helps consumers make sound decisions. The reverse mortgage counselors are employed by HUD-approved, community-based and nationally-designated nonprofit counseling organizations, and each individual counselor must be qualified by passing a HUD-administered exam and meeting continuing education requirements.

The counseling covers several key aspects as delineated in the statute that created the HECM program. First of all, Sec. 255(d)(2)(b) of the National Housing Act requires that:

> "To be eligible for insurance under this section, a mortgage shall have been executed by a mortgagor who has received adequate counseling as provided in subsection (f), by an independent third party that is not, either directly or indirectly, associated with or compensated by a party involved in originating or servicing the mortgage, funding the loan underlying the mortgage or engaged in the sale of annuities, investments, long-term care insurance or any other type of insurance or financial product."

Sec. 255(f) further requires:

> "The Secretary shall provide or cause to be provided adequate counseling for the mortgagor, as described in Subsection (d)(2)(b). Such counseling shall be provided by counselors that meet qualification standards and follow uniform counseling protocols.
>
> "The protocols shall require a qualified counselor to discuss with each mortgagor information which shall include –
>
> 1.) Options other than a home equity conversion mortgage that are available to the homeowner, including housing, social service, health and financial options;
> 2.) Other home equity conversion options that are or may become available to the homeowner, such as sale-leaseback financing, deferred payment loans, and property tax deferral;
> 3.) The financial implications of entering into a home equity conversion mortgage;
> 4.) A disclosure that a home equity conversion mortgage might have tax consequences, affect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the homeowner; and
> 5.) Any other information that the Secretary may require."

The result of this has been the development of a robust network of committed counseling organizations and qualified individuals to deliver the HECM counseling, either in face-to-face sessions or via telephone, depending on each client's personal choice and mobility. This counseling network has ably served the needs of older homeowners considering HECM loans and has grown in capacity and sophistication as the decisions that go into evaluating a HECM get ever more complex.

One particular area that has emerged, and both NeighborWorks and National Council on Aging (NCOA), two of the primary providers of reverse mortgage counseling and training, are to be commended for stepping up to the plate to deal with the issue, is providing remedial counseling to reverse mortgage borrowers who have had setbacks in their financial affairs and have had difficulties meeting their obligations to pay property taxes and insurance. Failure to pay these so-called "property charges" represents a technical default under the HECM program.

When a borrower falls into technical default, the loan servicer is obligated to pay such charges on their behalf to protect the FHA insurance fund and begin working with the borrower to bring the account current. HECM counselors play an integral role in providing remedial assistance and advice for borrowers in technical default.

As a result of these remedial counseling services, many HECM borrowers facing this situation have been able to arrange a repayment plan to reimburse the lender's advances, protecting FHA from possible payouts for claims, while preserving the homeowner's ability to continue living in his/her home – a win-win solution for all involved

Standards for HECM counseling are very specific and stringent. They are the product of an ongoing collaborative effort among a varied group of stakeholders including HUD, senior advocacy groups, gerontology experts, housing counseling professionals and experienced lenders. They have proven to be very effective to date and have been considerably enhanced with the introduction of updated HECM counseling protocols three years ago.

Current Issues Impacting the HECM Program

1.) Performance of Various Years "Books of Business"

There is concern about the overall health of FHA's Mutual Mortgage Insurance Fund (MMIF), of which HECM is a part. In the invitation to testify at today's hearing, the Committee has asked if the current state of FHA is due to the unprecedented decline in the housing market or if the mission of FHA is flawed?

Clearly, to us, FHA is fulfilling a mission that is necessary and useful in helping older Americans remain in and maintain their homes. Aging in place is the most cost effective alternative for many households. HECM is a critical resource for helping seniors do so.

The financial challenges the program faces are directly a result of the decline in the housing market over the past few years. The major factor creating stress on the program is the diminution of housing values from 2009 through part of 2012. Because HECM loans rely on the future value of the home for repayment, diminished values have an even more severe impact on reverse mortgages than on other types or mortgage loans.

The earlier books of business under the HECM program, loans made from 1990 thru 1996, essentially paid-off successfully before home values crashed in 2009. The books of business originated from 1997 through 2008, had all been projected to perform in an actuarially sound manner and only became a challenge as a result of the unforeseen collapse in the housing markets. Because these loans were made with lower loan limits and expected interest rates that were higher than the actual rates in recent years, as home price appreciation improves, many of these loans will get back on track. In fact, earlier this week, Standard & Poor's reported that home prices in January 2013 increased 6.8% from January 2012, a significant improvement from the forecast utilized in the FHA actuarial assessment conducted last June. In Phoenix, a particularly troubled market, prices are up 23% in the past year; Atlanta is up 9.9%; Detroit is up 13.6%.

The loss severity of the 2010 and 2011 books of business has been moderated somewhat by cuts in the Principal Limit Factors (loan to value calculations) and increased Mortgage Insurance Premiums mentioned earlier in this testimony. The improved outlook for home price appreciation will have a strong positive impact on these portfolios.

The 2012 and 2013 books of business were assessed to have a positive economic value in the recent actuarial review. Furthermore, FHA has adjusted its expectation of future home price appreciation for these newer loans, utilizing a more conservative estimate of 2% per annum (in the 2013 book), rather than the 4% that had been utilized historically, further enhancing the expectation of positive performance for these portfolios.

That leaves the problematic portfolio of loans originated in 2009, when home values were at their peak, and before FHA cut the Principal Limit Factors and raised the Mortgage Insurance Premiums for the later books. However, with stronger performance in the housing markets and the improvements we are witnessing in home price appreciation, plus the vastly improved outlook for newer loans, we believe FHA has the opportunity to "earn" its way out of the negative estimate of economic value for the 2009 HECM portfolio, particularly if given the tools necessary to properly manage its risks going forward.

2.) Ability of FHA to Act Expeditiously in Making Program Changes to Manage Risk & Strengthen the HECM Program

One of the challenges HUD has faced in managing the HECM program has been its inability to move swiftly in making programmatic changes that could enhance the security and financial performance of the Mutual Mortgage Insurance Fund. Reverse mortgages are a relatively new concept and there has been a learning curve as HUD and the industry have observed how these loans perform. While some of the lessons to date have been translated into program improvements as described earlier in my testimony, others await implementation. Unfortunately, during the downturn, HUD was unable to move fast enough in making some desired changes.

This is due to the circuitous route that HUD must follow to modify its regulations. Changes to many aspects of the HECM program must be made in accordance with the Federal Administrative Procedures Act and generally take up to two years to be implemented. If FHA is granted the authority to modify the HECM program through the issuance of Mortgagee Letters, in lieu of Rule changes, program changes and enhancements could be implemented in a matter of months, not years.

There are a few adjustments that FHA can currently do by Mortgagee Letter, such as changing the principal limit factors – something that they are currently doing to essentially implement a moratorium on the Fixed-Rate (full draw) HECM Standard loan option. However, there are other thoughtful, longer-term solutions to strengthen the program that currently require pursuing the formal regulatory development process.

Changes that FHA would like to implement, and which the industry supports, include:

A. Establishing a **financial assessment** process, essentially a new approach to underwriting, being developed specifically for HECM borrowers, that would require lenders to ascertain a prospective borrower's likely ability to meet all of his or her obligations under the loan, including paying taxes and insurance;

B. Requiring **set-asides or escrows for taxes and insurance;**

C. Introducing **restrictions on initial draws and/or utilization of funds.**

Both Assistant Secretary for Housing/Federal Housing Commissioner Carol Galante, in recent testimony before this Committee, and the 2012 Independent Actuarial Report on the Mortgage Mutual Insurance Fund suggested that it would be helpful if Congress provided HUD with the authority to make such changes through the issuance of Mortgagee Letters. NRMLA urges Congress to quickly grant HUD that authority.

3.) Authorization Cap

A major issue faced by the reverse mortgage industry is that, while the HECM program was made permanent back in 1998, there has been a statutory limit on the number of loans FHA is authorized to insure. Although the cap has been routinely raised or suspended by Congress in a series of consecutive appropriations measures and continuing resolutions, the existence of the cap deters some industry participants from making the commitment required to fully embrace reverse mortgage lending, thus keeping competition in the market at a minimal level.

NRMLA urges Congress to support the continued availability of Home Equity Conversion Mortgages by permanently removing the cap on the number of HECMs that FHA may insure to minimize any possible disruption in the availability of this importance personal financial management tool.

While there might be some concern about monitoring the program to assure that it operates on a fiscally sound basis, the review undertaken annually in the budget process provides that opportunity. There are also opportunities for review whenever this committee conducts its periodic and helpful oversight of the program, or of FHA generally.

4.) Tax & Insurance Defaults

Homeowners with HECM loans are required to keep their properties properly insured, plus pay taxes and any applicable homeowner association fees. If they fail to do so, the loan servicer is required to advance such funds on their behalf, from the borrower's line of credit, if funds are available, or from the loan servicer's own funds if no funds are available in the HECM account. Once a loan servicer advances funds for these purposes, it is required to work with the borrower to recover the funds advanced through a repayment plan. If the borrower continues to fail to meet that obligation, the loan is in "technical default" and the loan servicer must go to HUD and request permission to call the loan due and payable.

Earlier on, some HECMs were made to homeowners who eventually proved to be unable to meet these obligations. This has resulted in several new initiatives to minimize issues caused by technical defaults. FHA now requires loan servicers to report delinquent borrowers in a more timely fashion and to work with them and a special task force of counselors trained in remedial strategies for dealing with such defaults.

Counseling protocols have been enhanced to make sure that the responsibility for paying these so-called "property charges" is explicitly discussed upfront in counseling sessions with all borrowers. Lenders have become much more direct in discussing this obligation with prospective borrowers and are beginning to implement procedures designed to identify applicants who might not be able to meet their obligations.

The items discussed earlier in my testimony, including financial assessment as part of the loan origination process, and the establishing of tax and insurance set-asides, would help address this issue. Right now, HUD may only implement these items through the formal promulgation of regulations. We believe these items should be implemented quickly and, once again, urge Congress to give FHA the authority to address such items through the issuance of Mortgagee Letters, a much more expedient process.

Conclusion

The FHA Home Equity Conversion Program has been a useful tool, helping hundreds of thousands of seniors maintain their homes and lead more financially stable lives. The program has been administered thoughtfully, carefully and responsibly by a partnership of stakeholders including HUD, the lending community, senior advocacy groups like AARP and National Council on Aging, and the housing counseling network. This has allowed the reverse mortgage concept to gain a foothold and prove the value of this important personal financial management tool as a component of retirement finance and funding longevity.

We thank the Members of this Committee for your continual interest in the HECM program and hope that we can count upon Congress to demonstrate its support by granting HUD the authority to make programmatic changes swiftly and by eliminating or permanently suspending the cap on the number of HECM loans that FHA is authorized to insure.

Professional Biography for Peter H. Bell

Peter H. Bell is the President & CEO of National Reverse Mortgage Lenders Association (NRMLA), a Washington, D.C.-based trade association representing lenders, investors and loan servicers engaged in the origination, funding, administration and marketing of reverse mortgages, as well as vendors who provide services to those core members of the Association. NRMLA's primary functions include providing policy analysis and advocacy, public affairs outreach, professional education and networking opportunities for the reverse mortgage industry.

The Association has developed and sponsors the Certified Reverse Mortgage Professional (CRMP) designation for individuals involved in the reverse mortgage business. Its Ethics Committee fulfills an important responsibility ensuring that all member companies conduct their business in accordance with a stringent Code of Ethics & Professional Responsibility. Mr. Bell has served as NRMLA's CEO and chief ethics officer since its inception in 1996.

Mr. Bell has a long, deep background as a housing policy analyst in Washington for the past 37 years. In addition to his work on reverse mortgage and retirement finance issues, he is a nationally recognized authority on affordable housing development and finance issues and is frequently called upon to testify before Congress or advise federal agencies on housing matters. Mr. Bell serves on several civic and industry boards including the Board of Directors for Homes for America, an Annapolis, MD-based nonprofit developer of affordable housing active in the Mid-Atlantic region, and advisory boards for US Bank Community Development Corporation and The Related Companies Community Development Corporation.