



STATEMENT

BEFORE THE

FIELD HEARING OF THE HOUSING AND TRANSPORTATION SUBCOMMITTEE

OF THE

UNITED STATES SENATE

ON

S. 1710, THE REVERSE MORTGAGES TO HELP AMERICA'S SENIORS ACT

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BRISTOL TOWNSHIP SENIOR CENTER
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Senator Santorum and Representative Fitzpatrick, my name is Fred Griesbach. I am the AARP State Director for Pennsylvania. Thank you for the opportunity to testify at this Field Hearing. My remarks today will focus on efforts to enhance the utility of the Home Equity Conversion Mortgage program (HECM). This is the program administered by the U.S. Department of Housing and Urban Development (HUD) that provides FHA mortgage insurance to qualified reverse mortgages.

Senator Santorum, AARP strongly supports S. 1710, the Reverse Mortgages to Help America's Seniors Act – and its companion bill introduced in the House by Representative Fitzpatrick, HR 2892. Both of these measures would remove the existing statutory cap of 250,000 active loans that can be insured under the Home Equity Conversion Mortgages (HECM) program. HR 2892 has been passed by the House, S. 1710 awaits action in the Senate.

In the last two years, the volume of new reverse mortgages insured by the program has increased by 150 percent over the previous two years. The HECM program was literally brushing up against the previous program cap of 150,000 loans when the limit was hurriedly upgraded to 250,000 loans last year in a supplemental appropriations bill. If the statutory limit on the number of loans had not been increased, older homeowners would not have been able to get federally insured reverse mortgages. The success of the HECM program and the increased volume of loans argue for eliminating the limit on loans to allow reverse mortgages to become a mainstream financial tool for older homeowners

Removal of the cap on loans is also an important step in allowing the reverse mortgage industry to develop in ways that could benefit consumers. In particular, removing the cap is essential to promote the future growth and increased competition necessary to reduce the current high costs of these loans. High costs are frequently cited by consumers for deciding against taking out such loans.

During the past year, the average value of a home in the HECM program was about \$255,000. The fees and other non-interest costs of a HECM on such a home in many urban areas can be over \$25,000. The upfront costs would include \$5,100 for the initial mortgage insurance premium, up to another \$5,100 for the lender's origination fee, and about \$2,200 in third-party closing costs. The average borrower in the program is a 74-year-old single female. If she lives to her remaining life expectancy (until age 86) and uses only half of her initial loan amount, she could also owe about \$5,000 in monthly servicing fees and about \$8,000 in periodic mortgage insurance premiums.

So the total cost of the loan - excluding interest - could be about \$25,400, which is greater than the average annual income of HECM borrowers. Most Americans would be highly reluctant to take out a loan in which the fees alone exceed their annual incomes. But many older homeowners are faced with exactly this dilemma - an attractive loan that meets their needs and is insured by the federal government, but costs significantly more than they believe is reasonable or are willing to pay.

Of particular concern is the HECM origination fee, which is limited by HUD to no more than 2% of the home's value. By contrast, HUD limits the origination fee on its regular "forward" mortgages to 1% of the loan amount. Expressed as a percent of the loan amount, HECM origination fees range from 2.5% to 5%. So HUD's origination fee limit on its reverse mortgages is from two and one-half to five times greater than the limit on its reverse mortgages.

Since the maximum HECM origination fee is tied to home values, rising values beget higher fees. In a little more than one year, the maximum fee rose by 24%, and if current proposals to establish a single national loan limit were to become law this year, it will have increased by 44% in less than two years.

AARP believes that a major barrier to lower costs is a lack of competition in the HECM market. The current statutory limit on the number of outstanding HECM loans is a key factor in limiting competition. As long as the current limit remains, major national providers of financial services are unlikely to enter this market and provide the kind of low-cost competition associated with larger loan volumes. Likewise, current HECM providers may be unlikely to compete on the basis of lower costs if the overall supply of this product remains limited by federal statute.

While lifting the limit on the number of HECM loans may be an important step in reducing HECM costs, it is not the only one. HUD is currently exploring other avenues for reducing costs, including actuarially sound reduction of the program's insurance premiums and different ways of charging loan costs. While AARP generally supports efforts to reduce consumer costs, specific proposals must be evaluated with respect to their impact on overall costs and program soundness. Lower insurance premiums would be welcome, but they must be actuarially sound. Lower fees would also be welcome, but not if they are packaged with higher interest rates that increase total loan costs while decreasing loan amounts.

Another major barrier to the healthy growth of the HECM program has been the quality and availability of counseling for prospective borrowers. To obtain a HECM loan, homeowners must - by statute - be counseled by a HUD-approved housing counseling agency. The National Reverse Mortgage Lenders Association

(NRMLA) has supported this counseling requirement despite problems with the quality and availability of the counseling.

Over the past five years, the AARP Foundation's HUD-funded Reverse Mortgage Education Project has been working with HUD, NRMLA, and counseling agencies to improve HECM counseling. This joint effort has developed tools that have produced quality counseling within the Project's select but growing network of HECM counselors, and HUD has begun the process of applying those tools to its complete HECM counseling program. The Project's tools have included:

- a rigorous national exam for HECM counselors,
- basic and advanced counselor training,
- a detailed protocol of HECM-specific counseling policies and procedures,
- model software for analyzing and comparing reverse mortgages,
- generic consumer information on HECM loans and other alternatives,
- online programs for screening clients and estimating loan amounts,
- a multi-faceted program of counselor backup and support, and
- counseling evaluation by way of a client satisfaction survey.

Homeowners counseled by exam-qualified HECM counselors in the Project's network have given this counseling consistently high marks. While less than a third of these clients considered themselves to be well-informed about reverse mortgages before counseling, more than 9 out of 10 said they were well-informed after counseling.

Based on this performance, HUD has steadily increased the amount of funding to pay for counseling by these select network counselors. It has also incorporated key parts of the Project's counseling protocol into its requirements for all HECM counselors. In the near future, we are hoping that HUD will require all HECM counselors to pass the HECM counselor exam and build more of the Project's counseling protocol into HUD's requirements for all HECM counselors. In short, we have the tools for improving HECM counseling quality, and will continue working with HUD to establish higher individual standards for all HECM counselors and to provide program support for all HECM counselors meeting those standards.

But as the HECM market grows, the cost of providing that counseling will also grow. This will require a sound source of reliable funding that grows with the size of the market. AARP will work with HUD and the Congress toward this end.

In summary, we are making significant progress toward improving the quality of HECM counseling. However, the ongoing availability of high-quality HECM counseling will depend on creating reliable funding sources that can keep pace with the growth of the program.

Conclusion

Thank you again for the opportunity to testify. AARP looks forward to working with you and the other members of this Subcommittee to enact S. 1710. I would be happy to answer any questions that you may have.