Reverse Mortgages in Relocation Assistance

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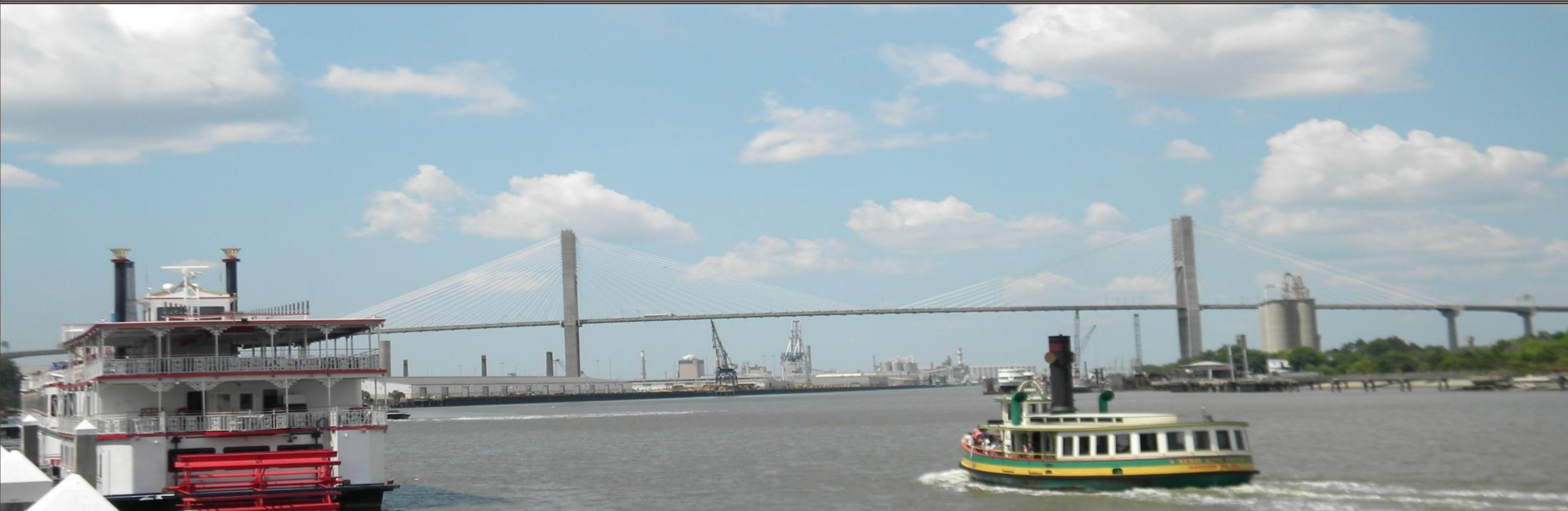


Reverse Mortgages

- 90 – 95% of reverse mortgages are originated through the Federal Housing Administration (FHA) of the Department of Housing and Urban and Development (HUD).
- These reverse mortgages are known as Home Equity Conversion Mortgages (HECMs).
- As of July 2012 there were approximately 582,000 HECMs in existence.

Program Eligibility Requirements

- **Age:** Borrower (or youngest borrower must be at least 62 years old.
- **Ownership:** The borrower must hold title to the property.
- **Principal residence:** Borrower must occupy the property as a principal residence
- **Sole mortgage:** Any existing mortgages must be paid off at closing.
- **Property standards:** Property must meet minimum housing quality standards as prescribed by FHA.

Ongoing Obligations

- **Principal residence:** Borrower must continue to occupy the property as a principal residence
- **Taxes and insurance:** Borrower must remain current on all property taxes and homeowner's insurance
- **Maintenance:** Borrower must keep home in good repair

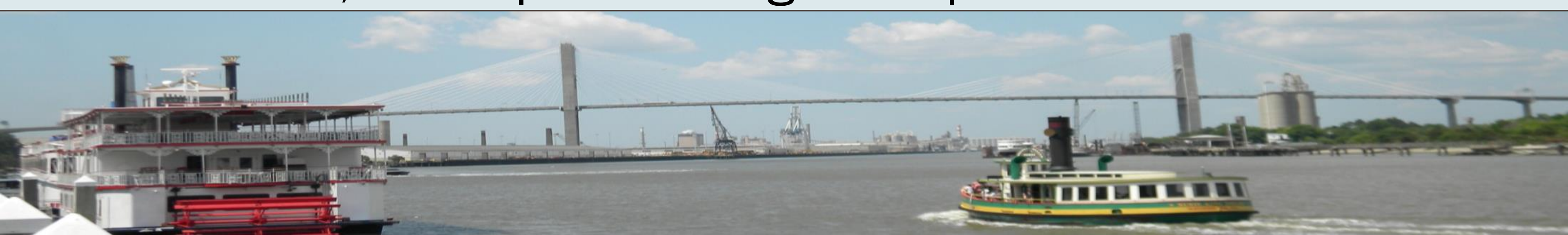
Failure to meet these obligations can result in lender foreclosing on the home.

Consumer Protections

- **Right to remain in the home:** Borrower may remain in home indefinitely, regardless of how large the loan balance becomes, so long as borrower complies with three previous conditions listed.
- **Non-recourse**: If the loan balance is greater than value of home at time of borrower's death, move-out, or foreclosure, the lender cannot seek to recover balance from borrower's (or estate's) assets. FHA insurance covers this excess.
- **Counseling**
- **Disclosures**

Repayment Triggers

- **Death**: Borrower (or last co-borrower) dies.
- **Move-out**: Borrower (or last co-borrower) moves out of house permanently.
- **Extended absence**: Borrower (or last co-borrower) does not physically reside in property for more than 12 months due to illness or other reasons.
- **Sale or gift of property**: Borrower (or last co-borrower) sells the property or otherwise transfers title to third party.
- **Failure to fulfill obligations**: Borrowers fails to pay taxes, insurance, or keep home in good repair.



Mortgage Amount Based On

- Age of youngest borrower
- Current interest rate
- Lesser of appraiser value or the HECM FHA mortgage limit of $625,000 or sales price; and
- Initial mortgage premium (HECM Standard or HECM Saver)

HECM Costs

- Mortgage insurance premium
- Third party charges (closing costs)
- Origination fee – depends on value of home
- Interest rate – adjustable or fixed
- Servicing fee – account statements, disbursing loan proceeds, assuring loan requirements are met

Why Choose a Reverse Mortgage?

- Allows homeowners to draw down equity and continue to reside in existing home for extended period (age in place)
- This equity conversion helps meet expenses in retirement
- Choose between income stream to assist with everyday expenses, a line of credit for major expenses, or combination
- No monthly payments to a lender ever required – interest accrues over life of loan and debt is satisfied when borrower dies or sells the home

Disbursement Options

- **Tenure** – equal monthly payments as long as borrower lives and continues to occupy property
- **Term** – equal monthly payments for a fixed period of months selected
- **Line of credit** – unscheduled payments or in installments, at borrower's choosing until LOC is exhausted
- **Modified tenure** – combination of LOC and tenure payments
- **Modified term** – combination of LOC and term payments
- **Lump Sum** – all or most equity drawn up front (now accounts for 70% of market)

Challenges for Displacing Agencies

- Agency obligations under the Uniform Act to displaced homeowners with a reverse mortgage
- Consistent, equitable guidance for handling these situations
- HECMs not similar to type of mortgage envisioned under original increased interest provision of Uniform Act – owner is obtaining either a revenue stream or a revenue package by drawing down on the property's equity
- Various disbursement options present different challenges for solutions

Formation of Working Group

- Members from FHWA, FAA, FTA, HUD, State DOTs, and consulting firms – also have members from HUD who specialize in the HECM program

- Working Group has worked with O. R. Colan Associates to identify challenges that Agencies must address when relocating individuals with reverse mortgages that are displaced as a result of a Federally-funded project

Easy to Hard

- Regardless of the type of disbursement option the owner elected, if there is sufficient equity remaining in the subject property to obtain a replacement HECM for purchase, the relocation problem should be fairly uncomplicated.
- Owner should be eligible for incidental expenses and an increased interest payment if the interest rate on the new mortgage is higher (most HECMs to date adjust monthly).

Example

Existing HECM Tenure Payments (accrues interest and mortgage insurance monthly that apply to mortgage balance)	$800/month
Balance of HECM at time of acquisition	$64,200
FMV of subject property	$300,000
Equity in subject property	$235,800
Comparable replacement property	$320,000
Price differential payment	$20,000

The homeowner should have sufficient equity plus the price differential payment to obtain a HECM for purchase for the comparable replacement dwelling that provides a similar monthly tenure payment (based on new actuarial tables at current age). Homeowner also eligible for fees & costs associated with new HECM and increased interest rate, if any.

Complications Arise

- When the homeowner with the HECM has little or no equity in the subject property at the time of acquisition, it is unlikely they can qualify for a HECM replacement for purchase.
- In these situations, the displacing Agency must still offer comparable replacement housing.
- What options are available?

Example

Existing HECM Tenure Payments (accrues interest and mortgage insurance monthly that apply to mortgage balance)	$800/month
Balance of HECM at time of acquisition	$200,000
FMV of subject property	$200,000
Equity in subject property	0
Comparable replacement property	$210,000
Price differential payment	$10,000

This situation presents several challenges for the displacing Agency;

1. Is the monthly tenure payment an eligible portion of the MIDP or replacement housing payment?
2. Since the owner only has the $10,000 price differential payment available to purchase a replacement dwelling, how does the Agency get her into another house?

Possible Solutions (not finalized)

- Compute a rental assistance payment for the displaced homeowner – convert owner to tenant status
- Provide assistance under Housing of Last Resort
  - Supplemental payment to enable the homeowner to reestablish a replacement HECM for purchase – this supplemental payment may include the amount needed to reestablish a HECM that pays out the same monthly revenue stream previously received
  - Provide a direct loan to the homeowner with the same terms as the original reverse mortgage – amount and tenure payment calculated on current age of owner and actuarial tables

Possible Solutions (not finalized) - continued

- Provide assistance under Housing of Last Resort
  - Create a life estate for the homeowner with the Agency as the remainderman – homeowner responsible for taxes, insurance and maintenance of property
  - Purchase a replacement dwelling and rent/lease back to homeowner for life – homeowner responsible for taxes and insurance. Maintenance may be Agency responsibility since it is the owner.
  - Provide a lump-sum payment based on the monthly tenure payment for the actuarial remainder of the homeowner's life, discounted at the historical passbook savings rate.

Possible Solutions (not finalized) - continued

Make a payment under 49 CFR 24.106 *Expenses incidental to transfer of title to the Agency*

(a) The owner of the real property shall be reimbursed for all reasonable expenses the owner necessarily incurred for:

(1) Recording fees, transfer taxes, documentary stamps, evidence of title, boundary surveys, legal descriptions of the real property, and similar expenses incidental to conveying the real property to the Agency. However, the Agency is not required to pay costs solely required to perfect the owner's title to the real property;

(2) Penalty costs and other charges for prepayment of any preexisting recorded mortgage entered into in good faith encumbering the real property; and [emphasis added]

(3) The pro rata portion of any prepaid real property taxes which are allocable to the period after the Agency obtains title to the property or effective possession of it, whichever is earlier.

(b) Whenever feasible, the Agency shall pay these costs directly to the billing agent so that the owner will not have to pay such costs and then seek reimbursement from the Agency.

Possible Solutions (not finalized) - continued

- When homeowners do not have sufficient equity to reestablish a reverse mortgage with similar monthly revenue stream, the prepayment provisions of §24.106 may apply
- Payoff of the reverse mortgage terminates the loan contract- the owner will no longer receive the periodic payments of equity guaranteed under the terms of the mortgage
- This is a prepayment penalty created by early termination of the loan caused by Agency's acquisition

Possible Solutions (not finalized) - continued

Calculation of Prepayment Penalty

Amount of penalty determined as the present value of future payments to owner based on actuarial equivalent of owner's remaining life, discounted at average passbook savings rate.

Owner's current age	86
Current monthly revenue	$700
Average passbook rate over historical period	3.5%
Likely remaining life based on actuarial tables 6.31 years	75 monthly periods
Prepayment penalty due for early termination	$47,093

Next Steps

- Complete Working Group Meetings and Summarize Findings
- Submit Report about Costs Associated with Reverse Mortgages
- Prepare strategy paper for FHWA incorporating findings of previous tasks to consider in developing guidance establishing a fair and effective method of calculating a payment
- Develop a functioning mortgage interest differential payment calculator for reverse mortgages

Questions?

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