

FHWA Research Study

Reverse Mortgages in Relocation Assistance

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Purpose of Research Study

- Provide FHWA with technical expertise on reverse mortgages
- Collect, analyze and organize information needed to explain reverse mortgages and the impacts to both displacing agencies and persons displaced by Federal or federally-funded projects
- FHWA will use research to develop guidance for establishing a fair and effective method of addressing reverse mortgages encountered when displacing persons in accordance with the Uniform Act



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



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 continues to occupy property as principal residence, pays taxes and insurance, and maintains property
- **Non-recourse:** If the loan balance is greater than value of home at time of borrower's death, move-out, sale of property, 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.



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

- Determine the Agency's obligations under the Uniform Act to displaced homeowners with a reverse mortgage
- Development of 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



Owner Has Sufficient Equity

- 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 may be eligible for an increased interest payment (most HECMs to date adjust monthly)



Owner Does Not Have Sufficient Equity

- 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?



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
 - Provide a direct loan to the homeowner with the same terms as the original reverse mortgage – amount and tenure payment, if applicable, 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



Questions?



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