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"Reverse Mortgages: Polishing not Tarnishing the Golden Years"

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Chairman Kohl, Ranking Member Smith, and distinguished members of the Committee, thank you for the opportunity to testify on the Federal Housing Administration's Home Equity Conversion Mortgage (HECM) program.

FHA's reverse mortgage program reflects the very best of FHA. Launched in 1989, HECMs were designed to be an innovative new mortgage product, a product that would allow seniors to tap into their home equity in a safe and affordable manner, and a product that would serve as a model for the private sector. As Secretary Jackson and Commissioner Montgomery have noted many times, the FHA was established to operate in exactly this manner – supporting and complementing the private sector with products that meet a public purpose.

HECMs continue to be at the forefront of the reverse mortgage industry, representing approximately 90 percent of the business today. The product is less expensive than other reverse mortgage products, provides higher cash proceeds to borrowers, and offers unique consumer protections.

All seniors contemplating a HECM receive counseling from a qualified HECM counselor to ensure they understand the product's complexities and costs and are aware of alternatives to a HECM before making a financial commitment. Further, FHA's HECM program is extremely flexible, offering seniors five payment plan options that permit the borrowers to draw funds on a monthly basis, in a single lump sum, through a line of credit that lets them tap funds as needed, or through a combination of these methods. Seniors can easily change payment plans at any point in time. Additionally, because HECMs are non-recourse loans, when the borrower's heirs sell the property, they will not owe more than the value of the property, even if the local real estate market has declined and the loan balance is greater than the home's appraised value. If, however, the property's value has increased, the heirs will inherit the full amount of that appreciation; neither the lender nor FHA will receive a share of that equity.

In addition, the FHA regulates the lenders who participate in FHA's reverse mortgage program. Lenders who originate and underwrite HECMs must meet basic net worth and audit requirements that demonstrate their capacity to operate in a safe and sound manner. Further, before a lender can close its first five HECM loans, FHA carefully reviews each loan package in its entirety, re-underwriting the mortgage to verify that the lender understands and complies with all of FHA's guidelines.

As a result of conscientious oversight, the FHA program has helped close to 400,000 seniors live more comfortably in their Golden Years. Over the last four years, HECM volume has increased steadily, from 37,000 loans in 2004 to 107,000 in 2007. The marked success of FHA's HECM has resulted in the entrance of a number of private-sector, non-insured reverse mortgage products into the market. FHA demonstrated the value of the product and the private sector is ready to carry it to the next level. Consumers are now in a position to benefit from the improved efficiency, low pricing, and innovation that results from the type of growth and expansion that is finally beginning to occur in the reverse mortgage market.

Given the program's growth and the level of confidence the lending and investing communities now have with the product, the Administration has requested a number of appropriate programmatic changes, all incorporated into the FHA Modernization bills passed by the House (H.R. 1852) and pending in the Senate (S. 2338).

Both bills propose elimination of the program's volume cap, which was originally established in 1989, when the program was being piloted. Such a cap is no longer appropriate or necessary, now that the program has been tested for 18 years and has proven to be a real success story – a model for the entire industry.

Both bills also propose to increase the loan limits for HECMs to a single national loan limit, set at the conforming limit. Currently, the HECM program is tied to the FHA 203(b) loan limits, which have the effect of limiting the home equity seniors can tap. For example, for an elderly couple living in a $500,000 home located in Jefferson County, Missouri, near St. Louis, the calculation of the principal limit for a HECM loan is based on the current FHA loan limit of $213,750. A HECM borrower will not be able to access more than a portion of this amount, regardless of the value of the home.

Finally, both bills are also proposing to expand the program to permit seniors to purchase a home with a HECM. The existing program permits seniors to take out a HECM loan only for the home in which they are currently living. A HECM is not an option for seniors who are interested in selling the family home, which may be too big to maintain or too difficult for less-mobile seniors to navigate, to move to a senior community where senior services are readily available. Today, these seniors must purchase a new home and then take out a HECM in two distinct mortgage transactions with two distinct sets of costs.

Passage of an FHA Modernization bill would permit FHA to offer a HECM product to purchase a home and tap into the home equity with a reverse mortgage in a single transaction. This statutory change would help seniors move to housing better suited to meet their needs and would help free up housing stock for young families seeking homeownership opportunities.

In spite of the program's success, we at FHA recognize there are areas for improvement. We have worked with the industry – including the National Reverse Mortgage Lenders Association (NRMLA) and the American Association of Retired Persons (AARP) Foundation – to address some areas of concern. For example, we are working together to reduce the transaction costs and to improve the availability of quality counseling across the nation. Over the last year, we have been assessing the upfront fees, such as the origination charge and the mortgage insurance premium, to determine whether any costs can be eliminated or reconfigured to make the product more affordable and appealing to consumers while maintaining actuarial soundness of the premium. On the counseling side, AARP has played a critical programmatic role, training HECM counselors and providing them with tools and information to improve their efficiency and effectiveness.

I have one last comment on HECMs: we at FHA are trying to change the public perception about this product. While HECMs have often been viewed as a means for "house-rich, but cash-poor" seniors to meet their most basic living expenses, we are trying to move the public away from that perception and toward a recognition that this program could be utilized as a financial planning tool – as a way to help seniors move into their golden years with a sensible and clear strategy for funding household and personal expenses.

HECMs can benefit many homeowners over the age of 62 who have adequate home equity, even if it's simply enough to pay off an existing forward mortgage. In other words, depending on a senior's financial circumstances, a minimal amount of cash drawn from the home may still be very beneficial; eliminating a monthly mortgage payment may be all a homeowner is seeking. For example, 65-year old Mary Jones still owes $30,000 on her $100,000 home. A HECM would permit her to eliminate her $400 monthly mortgage payment, making it possible to cover her basic living expenses with her Social Security benefits and pension income.

Some seniors are looking for a specific amount of money to cover the costs of home repair or to cover ongoing medical expenses. My point is simply that the program has the potential to benefit seniors with a wide variety of financial needs and, as such, should be thoughtfully considered by all seniors making financial planning decisions.

In closing, all of us at FHA appreciate the bipartisan congressional interest in the HECM program and thank you for the opportunity to testify on the program. Meeting the housing needs of seniors is a critical mission that requires focus and dedication.

I look forward to your questions.