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# 2 Big Banks Exit Reverse Mortgage Business

By TARA SIEGEL BERNARD

The nation's two biggest providers of reverse mortgages are no longer offering the loans, as the economics of the business have come under pressure.

Wells Fargo, the largest provider, said on Thursday that it was leaving the business, following the departure in February of Bank of America, the second-largest lender. With the two biggest players gone — together, they accounted for 43 percent of the business, according to Reverse Market Insight — prospective borrowers may find it more difficult to access the mortgages.

Reverse mortgages allow people age 62 and older to tap what may be their biggest asset, their home equity, without having to make any payments. Instead, the bank pays the borrowers, though they continue to be responsible for paying property taxes and homeowner's insurance.

But the loans have increasingly become a riskier proposition. Banks are not allowed to assess borrowers' ability to keep up with all their payments, and more borrowers do not have the wherewithal to stay current on their homeowners' insurance and property taxes, both of which have risen in many parts of the country. At the same time, borrowers have been taking the maximum amount of money available, often using it to pay off any remaining money owed on the home. Yet home prices continue to slide.

"We are on new ground here," said Franklin Codel, head of national consumer lending at Wells Fargo. "With house prices falling, you reach a crossover point where they owe more than the house is worth and it creates risk for us as mortgage servicers and for HUD." He was referring to the Department of Housing and Urban Development, whose Federal Housing Administration arm insures the vast majority of these loans through its Home Equity Conversion Mortgage program.

As a result, banks are seeing a rise in what are known as technical defaults, when homeowners fall behind on their taxes or homeowner's insurance, both of which are required to avoid foreclosure. According to Reverse Market Insight, about 4 to 5 percent of active reverse mortgages, or 25,000 to

30,000 borrowers, are in default on at least one of those items.

Bank of America, meanwhile, said that declining home values made fewer people eligible for reverse mortgages. So it decided to redeploy at least half of those working on the mortgages to its loan modification division, which has been criticized for failing to help enough homeowners on the brink of foreclosure.

For Wells Fargo, however, the inability to assess borrowers' financial health was the biggest factor for exiting the business. Anyone over the age of 62 with enough home equity can take out a reverse mortgage, regardless of their other income. The amount of money received is determined by the borrower's age, the amount of equity in the home and prevailing interest rates.

"We are not allowed, as an originator, to decline anyone," added Mr. Codel of Wells Fargo. We "worked closely with HUD to find an alternative solution and we were unable to find one with them, which led to this outcome."

Reverse mortgage borrowers are required to pay premiums for mortgage insurance, which protects the lender if the homes are ultimately sold for less than the mortgage value, since the government is required to pay the difference to the lender. The premium rates were increased last October to account for declining home values (though one sizable upfront mortgage premium was eliminated to make the loans more attractive to certain borrowers).

But lenders are responsible for making tax and insurance payments on behalf of delinquent borrowers until they submit an insurance claim to HUD, at which point the agency would be responsible since it provided the insurance against default.

In January, HUD sent a letter to lenders and reverse mortgage counselors that provided guidance on how to report delinquent loans to the agency, and what steps the lenders could take to get borrowers back on track, like establishing a realistic repayment plan that could be completed in two years or less, or getting a HUD-approved mortgage counselor involved to help come up with a solution. If one cannot be reached, the lenders must begin foreclosure proceedings.

Both Wells Fargo and Bank of America have said they have not foreclosed on any borrowers to date.

The National Reverse Mortgage Lenders Association, the industry group, said it has been working with HUD to come up with procedures that would allow lenders to assess a prospective borrower's income and expenses, or at least require homeowners to set aside money to pay for taxes and insurance. A spokeswoman for HUD said the guidance is still being drafted.

As it stands now, borrowers are required to see a HUD-approved lender before they can apply for a reverse mortgage. As part of that process, consumers are educated on the nuts and bolts of how the loans work and what their responsibilities are, including that they need to be able to continue to pay taxes, insurance and keep the property in good repair.

"We don't tell consumers what decision to make, but we do try to give them the tools to make a decision," said Sue Hunt, director of reverse mortgage counseling at CredAbility, a nonprofit consumer credit counseling agency. She added that their sessions last about an hour and 15 minutes, on average. The counselors also look at the consumer's budget to see if it is sustainable with the mortgage, as well as what circumstances might arise that could throw the borrower off track.

"Outside factors are affecting people who thought five or six years ago that they were in pretty good shape," she added. "The world has changed a bit around them."

In days past, the borrower would get the reverse mortgage, and equity would continue to build, experts said, which would provide borrowers with more options — like refinancing — should they fall on hard times. Declining home values have changed that calculus for both bankers and consumers. Borrowers have not been able to pull out as much money. At the same time, the government has also tightened its withdrawal limits.

There were a total of more than 50,000 reverse mortgages, totaling $12.66 billion, made industrywide since last October, according to HUD.

Both Wells Fargo and Bank of America will continue to service their existing reverse mortgages. And the reverse mortgage association has said it will work with its members to ensure that senior citizens who need the loans can get them, though some experts said that less competition could increase certain fees.

"There is a certain amount of the business done by Wells and Bank of America that happens because of their bank branches, brand names and large sales forces," said John K. Lunde, president of Reverse Market Insight. "We would expect something more than half of their volume to be absorbed by the rest of the industry, with something less than half not happening."

Wells Fargo, which said that reverse mortgages represented 2.2 percent of its retail mortgage business, employs about 1,000 reverse mortgage workers. They are being given a chance to find other positions at the bank. Bank of America said that about half of its 600 workers have been reassigned within the bank. MetLife, the third-largest provider of reverse mortgages, declined to comment on its business.