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Reverse Mortgages in the Delaware Valley

May 23, 2018

Reverse Mortgages in the Philadelphia Region





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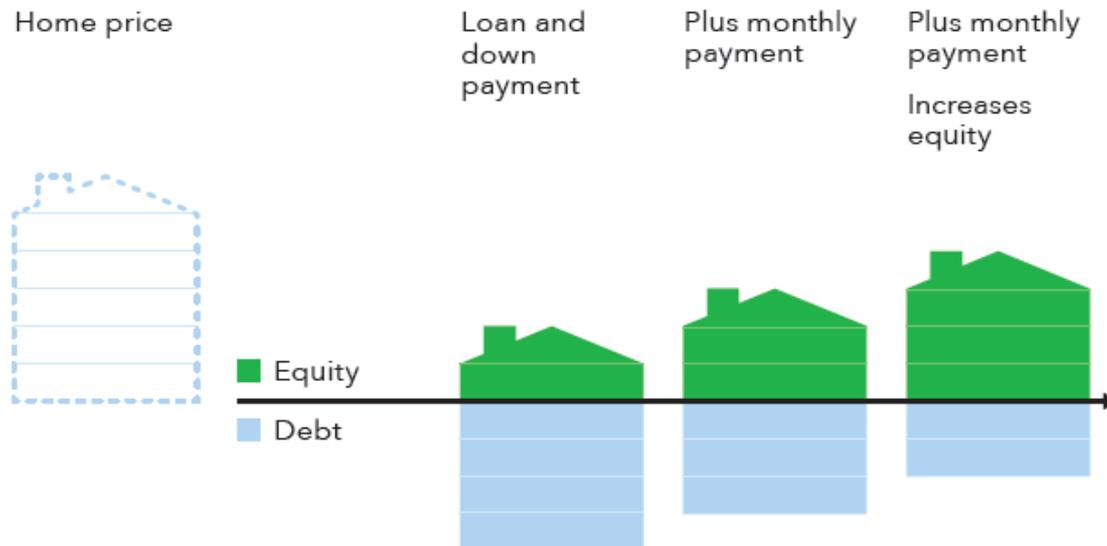
Background on Reverse Mortgages

Traditional Mortgages and Reverse Mortgages compared

How is a reverse mortgage different from a traditional mortgage?

Traditional mortgages

With a traditional mortgage, you usually borrow money to pay for the home at the time of the purchase, and pay it back over time. With each payment, you build your equity and your loan balance goes down.

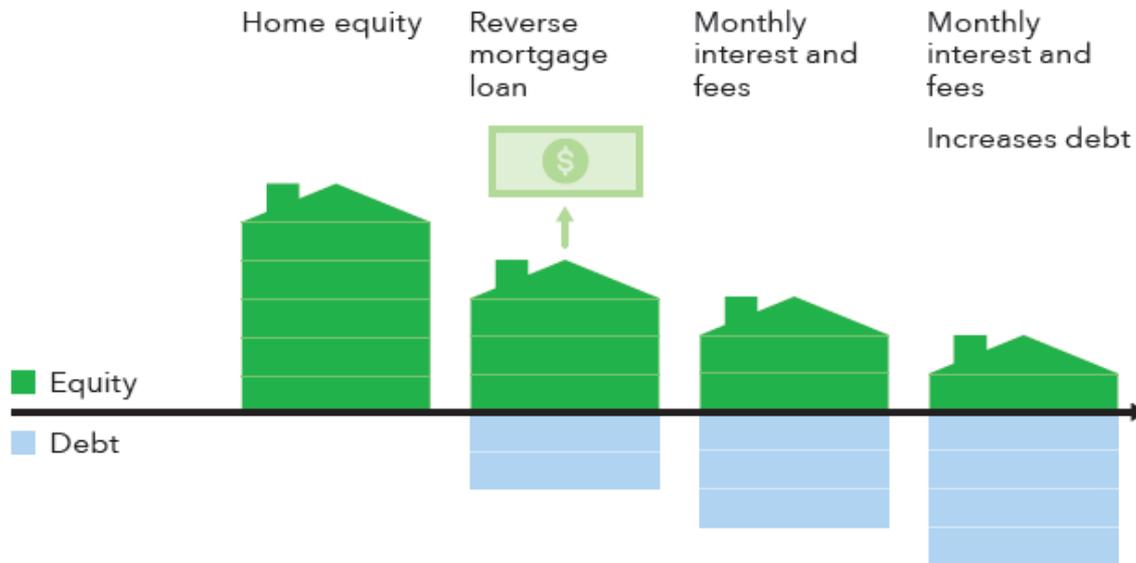


Traditional Mortgages and Reverse Mortgages compared

Reverse mortgages

With a reverse mortgage, you borrow money using your home as a guarantee for the loan, as you would for a traditional mortgage. Unlike a traditional mortgage, a reverse mortgage is repaid when the borrowers no longer live in the home. Although you won't make monthly mortgage payments, you'll need to continue to pay property taxes and homeowner's insurance, and keep your house in good condition. Because interest and fees are added to the loan balance each month, your loan balance goes up—not down—over time. As your loan balance increases, your home equity decreases.

Reverse mortgage borrowers must be age 62 or older. Borrowers usually use the loan to help pay for living expenses.



What is a Reverse Mortgage?

- Home Equity Conversion Mortgages (HECM), aka Reverse Mortgages, are FHA-insured loans that allow borrowers to access the equity in their homes
- Common Uses of Reverse Mortgages:
 - Supplement monthly income – seniors on a fixed income
 - Finance home repair and maintenance
 - Pay major medical expenses
- Advantages of Reverse Mortgages:
 - Non-traditional qualifying (borrower has poor credit and/or low income)
 - No monthly mortgage payment
 - Ability to tap into equity (put cash in your pocket now without selling the house)
 - Ability to live in their home until death (or sale/non-occupancy or foreclosure)

The Ideal Reverse Mortgage Borrower

- A strong commitment to understanding the process
- Views the reverse mortgage as part of an overall retirement plan with a mix of retirement assets
- Willing to involve family/heirs in the process
- Sufficient Income for Taxes and Homeowners' Insurance
- Well past the minimum age of 62
- Knowledge of repairs needed

Borrowers can Encounter Trouble with Reverse Mortgages

- Common Reasons for Reverse Mortgage Default (and Foreclosure)
 - Failure to pay property taxes.
 - Failure to maintain homeowner's insurance.
 - Failure to maintain the home in good repair.
 - Failure to stay in the home as primary residence (less than 6 months per year)
 - **This includes leaving the home for long term medical care!**
- Common Challenges for Spouses & Heirs
 - Surviving spouses who are not co-borrowers or listed on the reverse mortgage documents must repay the reverse mortgage amounts after the borrower dies if they want to remain in the home.
 - Other heirs, like children or care givers, must repay the reverse mortgage amounts after the borrower dies if they want to live in or inherit the home.

The Borrower Concerns with Reverse Mortgages

- Product not accurately explained or understood by borrowers.
- Repair contractors and reverse mortgage brokers working together confuses borrower.
- Servicers are unwilling to offer Repayment Plans when taxes or insurance become delinquent choosing instead to file for foreclosure.
- Widows and heirs often lose the family home.

Source:
Senior Law Center

What happens when the homeowner passes away?

What happens to my home when I pass away?

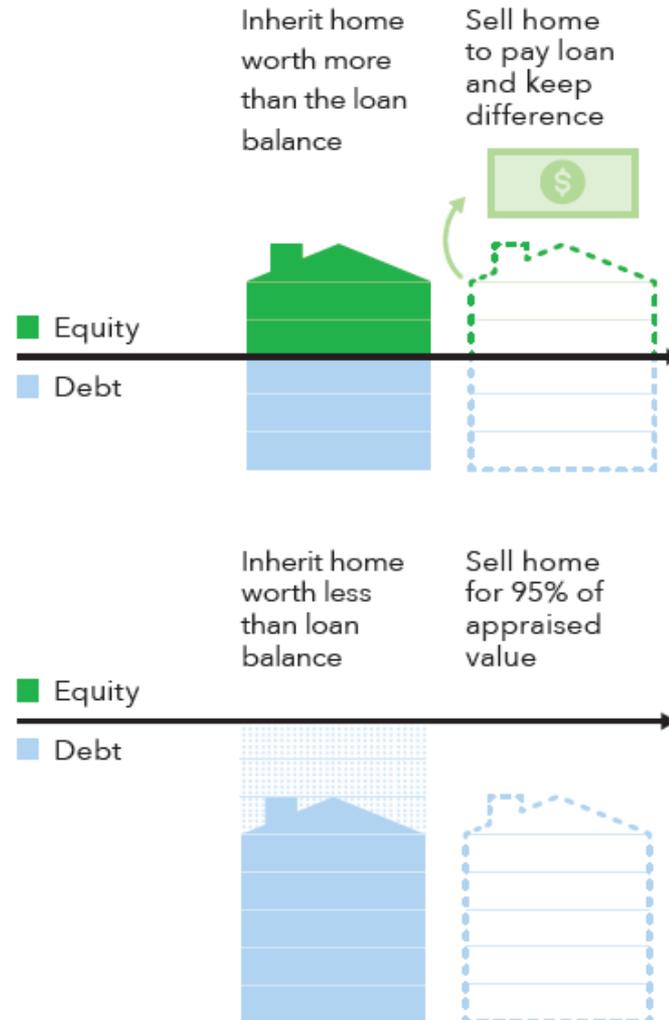
When the last remaining borrower passes away, the loan has to be repaid. Most heirs will repay the loan by selling the home.

How does it work when the loan balance is less than the home value?

Your heirs will use the loan proceeds to repay the loan and keep the difference.

How does it work when the loan balance is more than the home value?

Your heirs won't have to pay more than 95% of the appraised value. The remaining balance of the loan is covered by mortgage insurance.



* If a homeowner wants to leave their property to an heir, they should speak with them about how to repay the reverse mortgage. The **most** an heir can be asked to repay is 95% of the home's value (or the loan balance, whichever is lower).



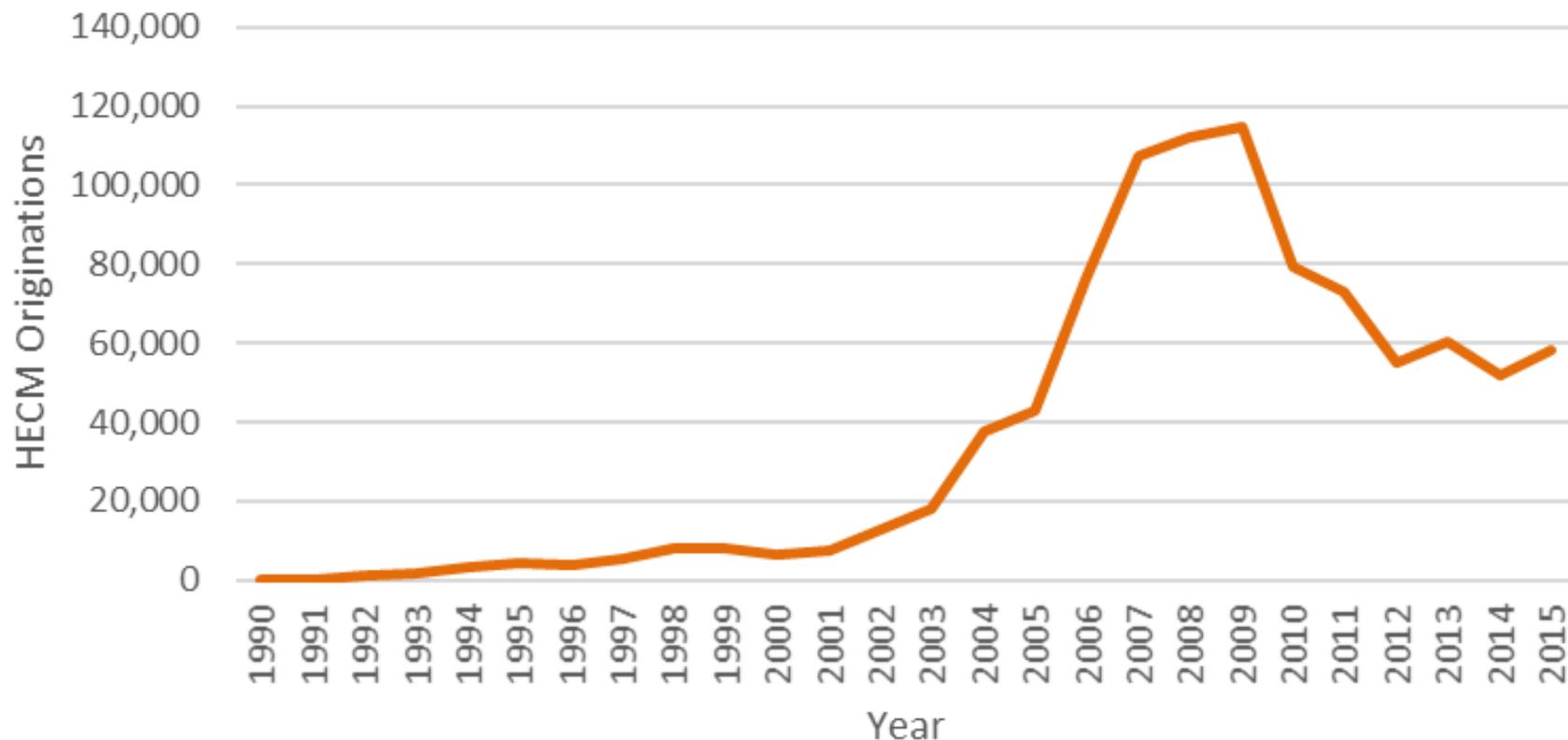


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What We've Learned About Reverse Mortgages in the Five-County Area

Reverse Mortgage Originations - Nationwide

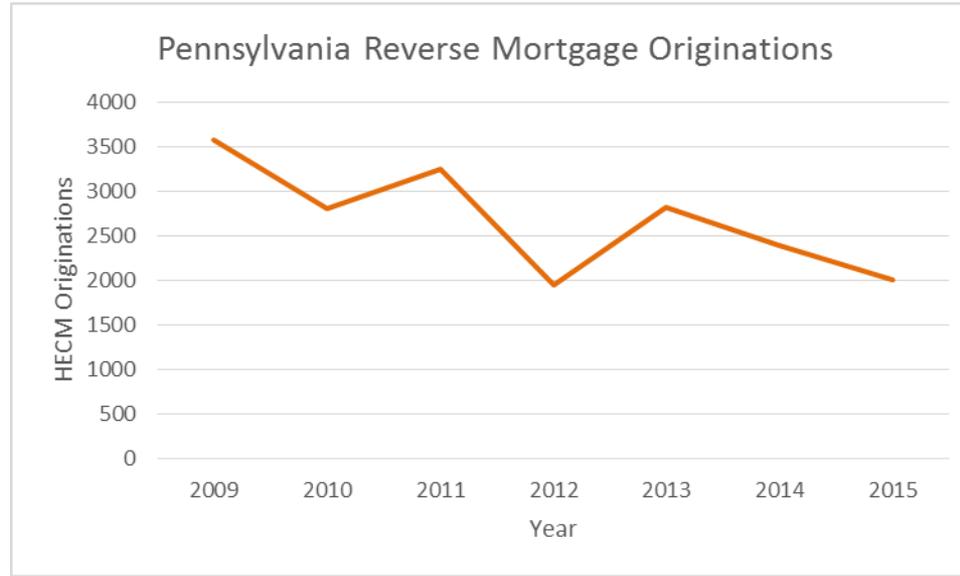
National Reverse Mortgage Originations



Source: HUD

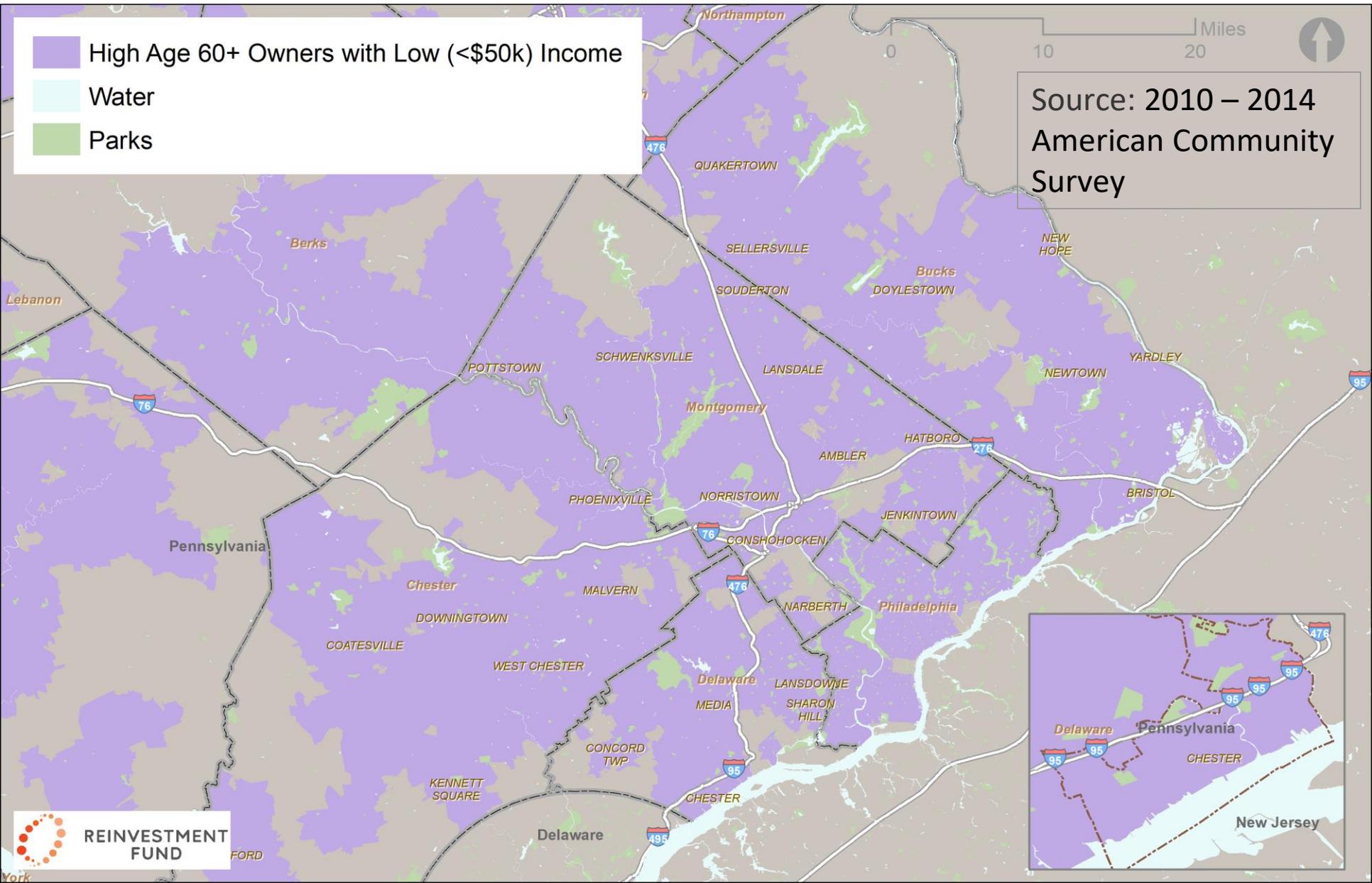
Reverse Mortgage Originations - Pennsylvania

Sources: HUD and Reverse Mortgage Insight



Rank	2009	2010	2011	2012	2013	2014	2015
1	California						
2	Florida	Texas	Texas	Texas	Texas	Florida	Florida
3	Texas	Florida	Florida	New York	Florida	Texas	Texas
4	New York	New York	New York	Florida	New York	New York	New York
5	Maryland	Maryland	Pennsylvania	Pennsylvania	Pennsylvania	Pennsylvania	Pennsylvania
6	Virginia	Virginia	New Jersey	New Jersey	New Jersey	New Jersey	Arizona
7	New Jersey	New Jersey	Virginia	Virginia	Virginia	Arizona	New Jersey
8	Illinois	Pennsylvania	Maryland	Puerto Rico	North Carolina	Virginia	Colorado
9	Pennsylvania	Illinois	North Carolina	North Carolina	Arizona	Illinois	Virginia
10	Washington	Washington	Illinois	Maryland	Illinois	North Carolina	Illinois

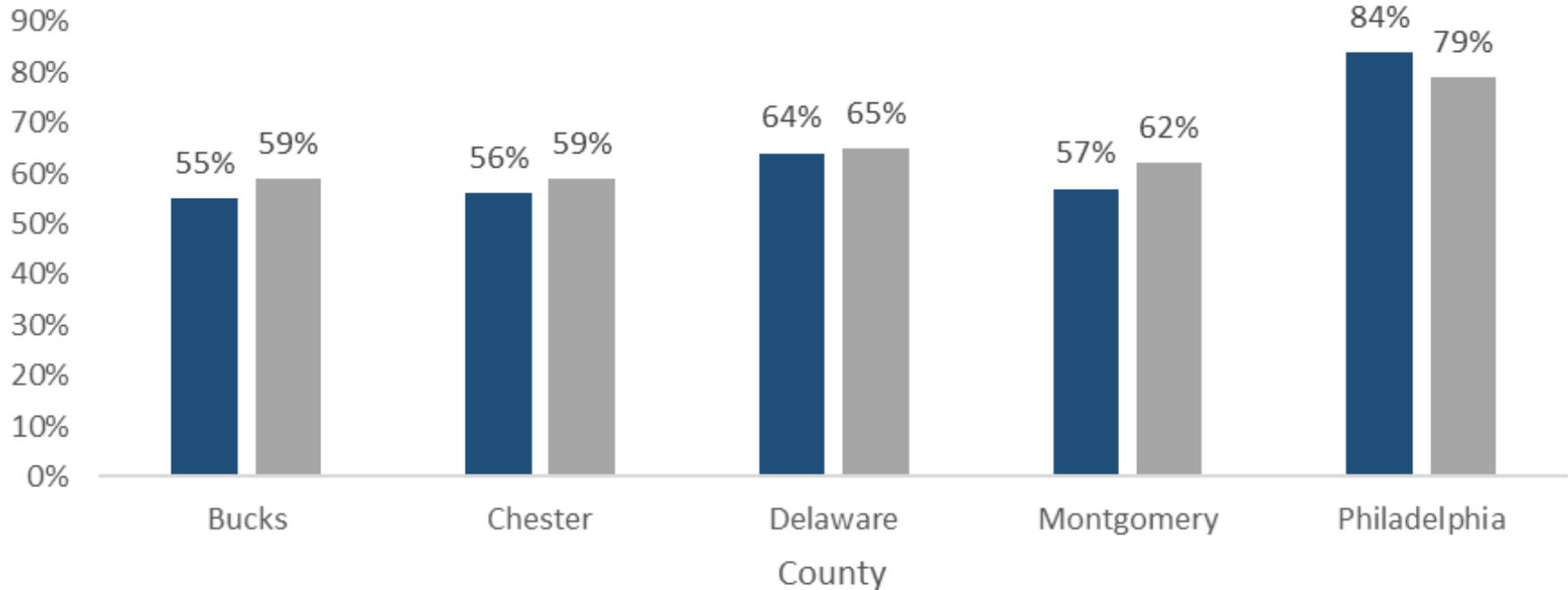
Concentrations of Pennsylvania Older (60+) and Lower Income (<\$50,000) Households



Share of HECM Originations to Protected Classes

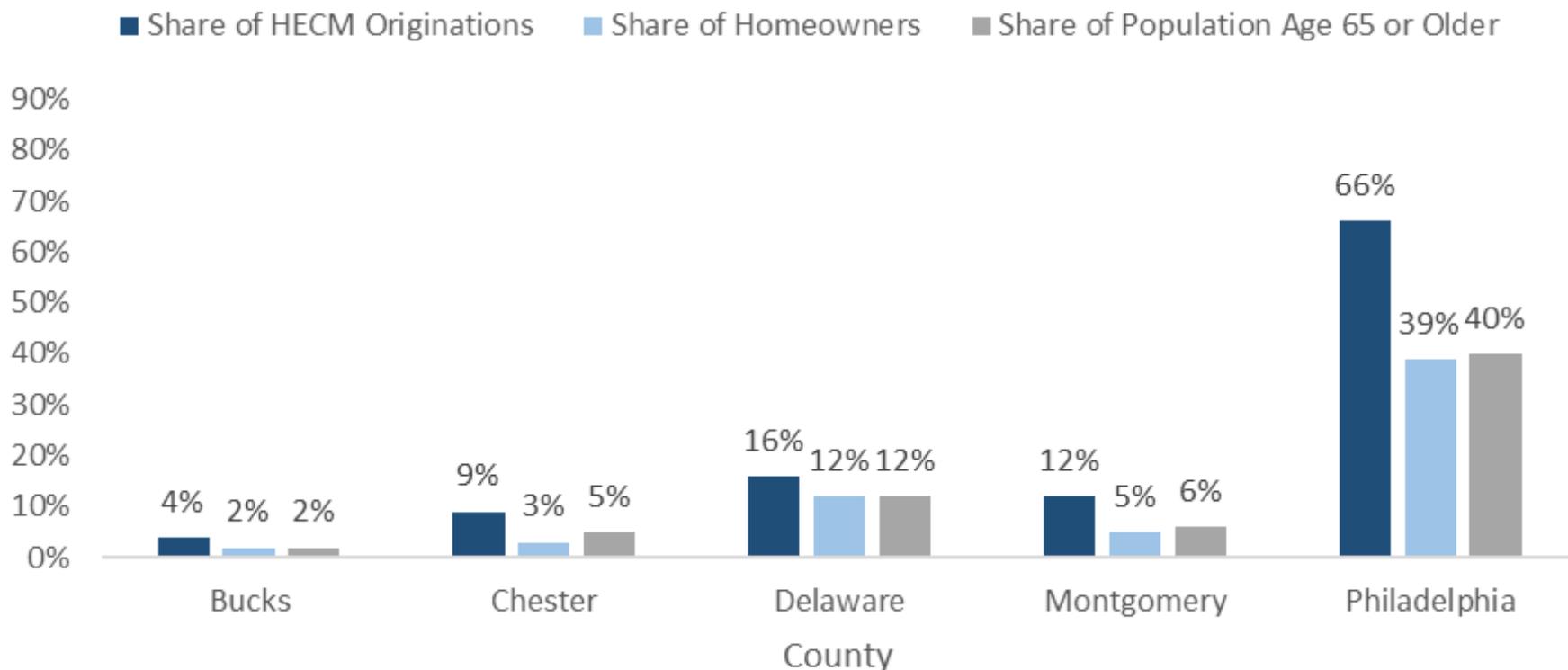
Protected Classes Share of HECM Originations Compared to Share of Population Age 65 or Older

■ Share of HECM Originations ■ Share of Population Age 65 or Older



Share of HECM Originations to African-Americans

African-American Share of HECM Originations Compared to Share of Homeowners and Population Age 65 or Older



HECM Characteristics by County, 2009 - 2016

	Refinance		Line of Credit		Fixed Rate		Interest Rate	Initial Principal Limit	Max Claim Amount
	HECM	Percent	HECM	Percent	HECM	Percent	Median	Median	Median
Bucks	85	6%	1,116	83%	446	33%	3.2%	\$169,000	\$260,000
Chester	61	8%	680	84%	293	36%	3.4%	\$184,000	\$289,000
Delaware	50	4%	927	82%	440	39%	3.4%	\$132,000	\$205,000
Montgomery	87	6%	1,219	86%	498	35%	3.2%	\$164,000	\$259,000
Philadelphia	780	15%	4,364	86%	2,974	59%	5.0%	\$81,000	\$125,000
Enforcement Area	1,063	11%	8,306	85%	4,651	48%	3.2%	\$169,000	\$260,000

* Terms of HECMs in Montgomery County similar to surrounding counties, different than Philadelphia

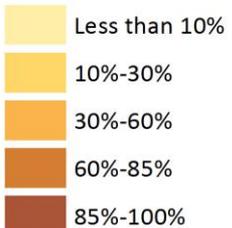
Reverse Mortgage Originations – One Lender Example



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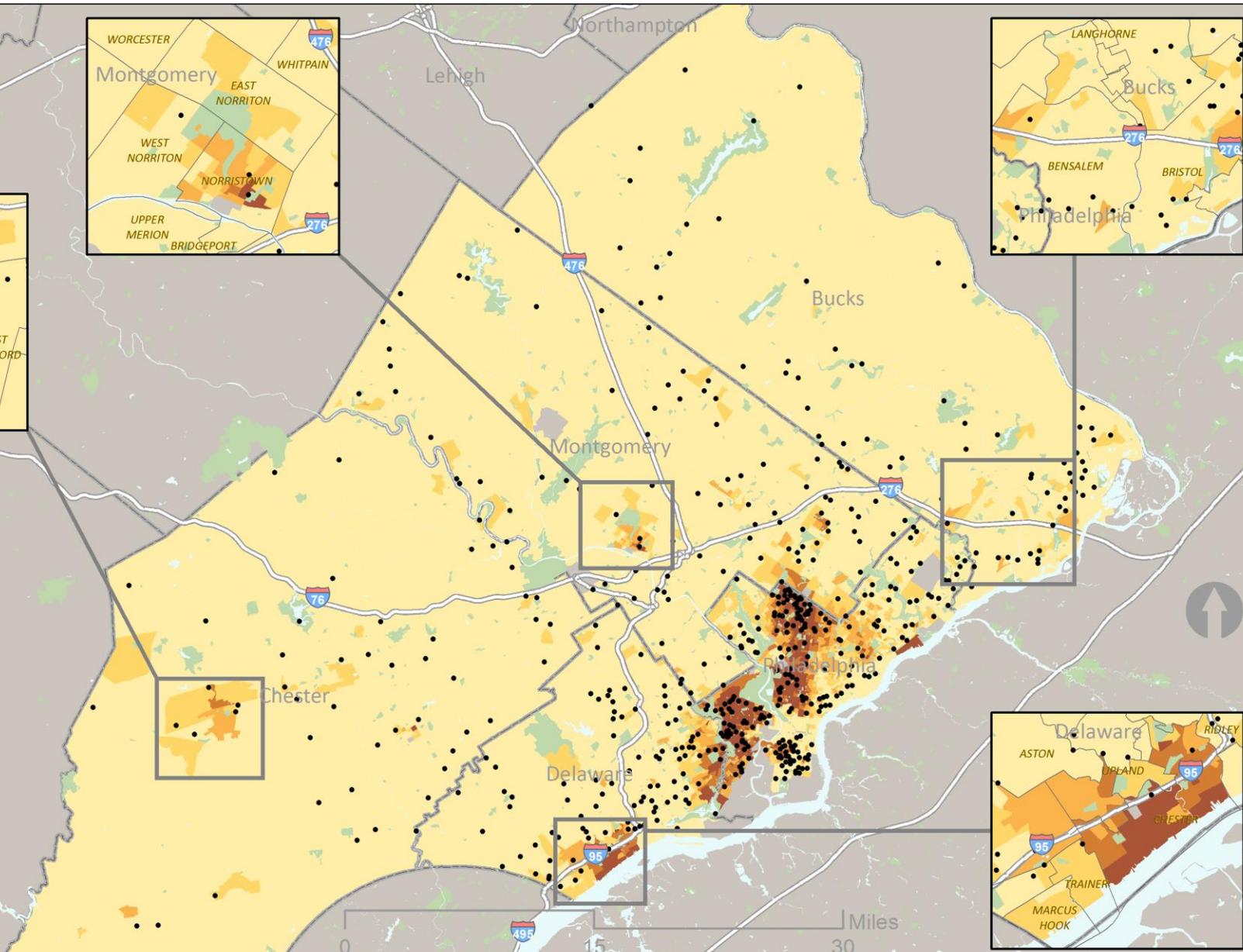


Percent Homeowners Who Are Black

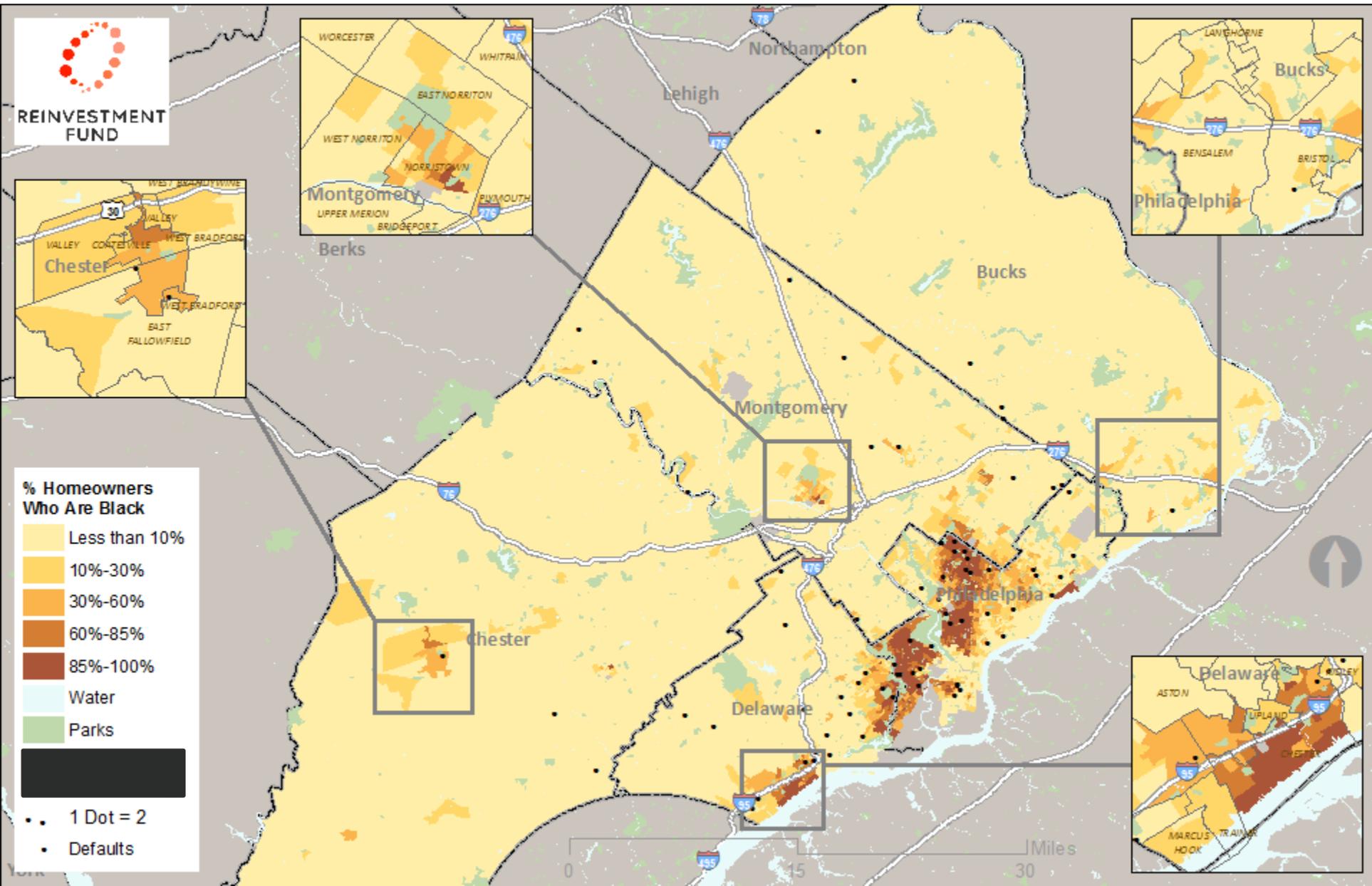


Water
Parks

1 Dot = 2
Count of HECM



Reverse Mortgage Defaults – One Lender Example





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Fair Housing Testing of HECM Lenders

Prioritizing Lenders for Testing

- Created a list of factors examined so far:
 - HEC Contact:
 - Initial Contact: HEC contacted lender seeking information
 - Received Quote: Lender sent potential HECM loan structures with initial info packet
 - Local: Lender has an office in the five county area
 - Number of Originations (in the five county area):
 - A top 15 HECM originators, 2009-2016
 - A top 15 HECM originators, 2014-2016
 - Terms of Originations
 - High number of Fixed Interest Rate loans
 - Median Initial Principal Limit in bottom 40% of lenders (i.e., lending predominately in low wealth areas)
 - Originations were disproportionately to protected classes:
 - Higher than the five county average % of African-American homeowners
 - Higher than the five county average % of HECM loans to women
 - Default and Foreclosure
 - High Default Rate
 - Foreclosures concentrated in predominately African-American areas (i.e., 40%+); min. 5 foreclosures
- Begin testing with the lenders who show the most problematic HECM lending patterns.

Prioritizing Lenders for Testing

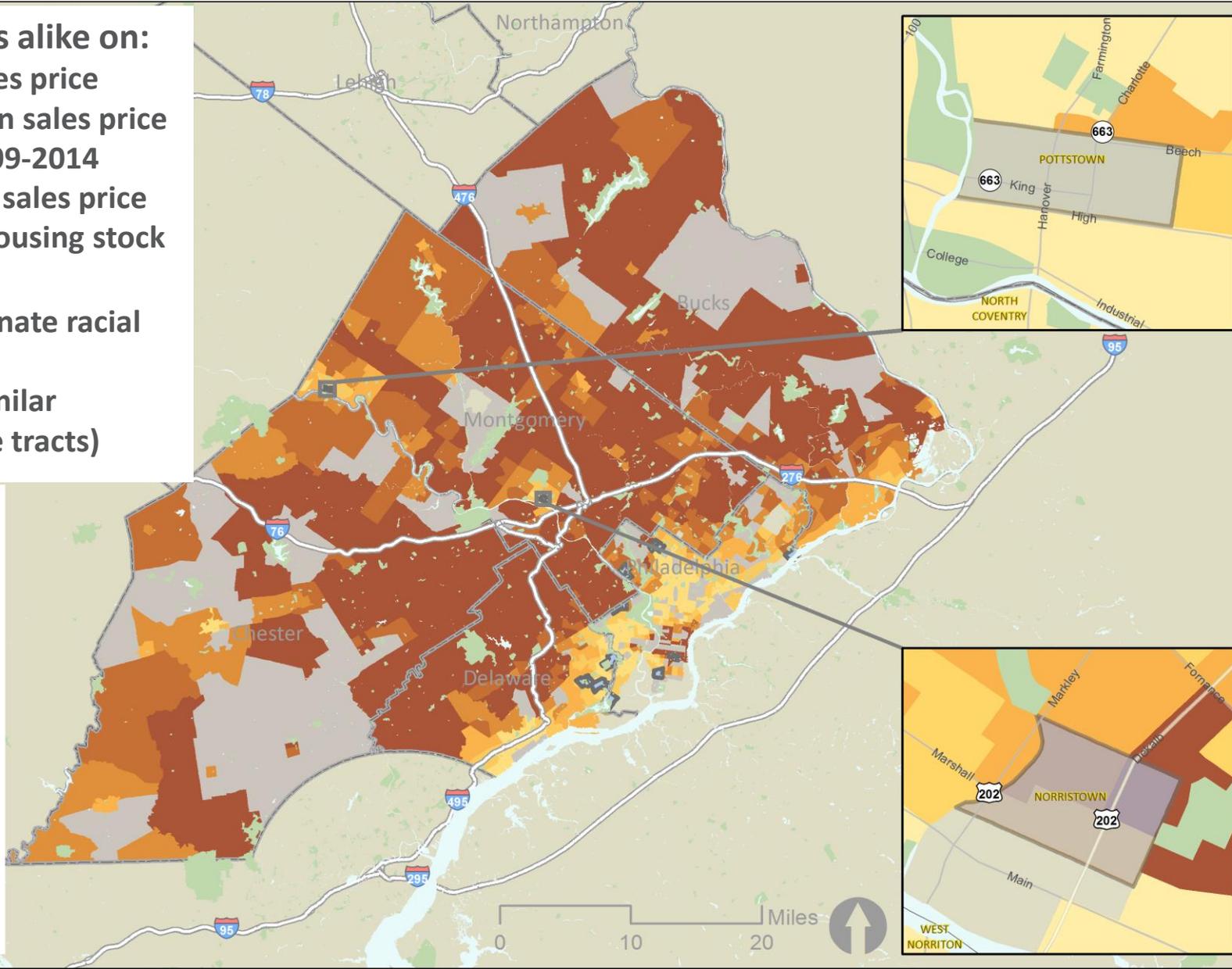
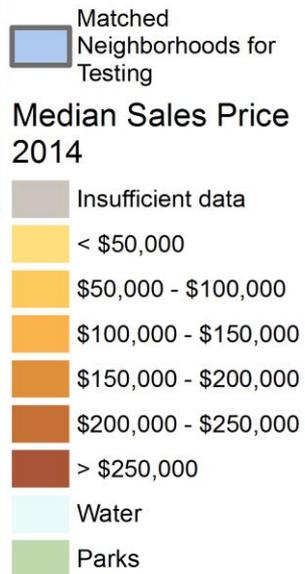
- List of lenders with five or more of the eleven factors:
 - (14 total, 12 still active)

Lender Name	Total Number of Factors Present
Lender A	9
Lender B	9
Lender C	7
Lender D	7
Lender E	7
Lender F	6
Lender G	6
Lender H	6
Lender I	6
Lender J	6
Lender K	6
Lender L	6
Lender M	5
Lender N	5



Identifying pairs of neighborhoods for Test Scenarios

- **Census tracts alike on:**
 - 2014 sales price
 - Change in sales price from 2009-2014
 - Zip code sales price
 - Age of housing stock
- **Unlike on:**
 - Predominate racial group (i.e., pair similar Black/White tracts)



Grant Team

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- Michael Norton, Chief Policy Analyst
- Colin Weidig, Senior Research Analyst
- Adam Steinberg, Mellon / ACLS Public Fellow

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