NatEquity, Inc. National Equity Access for Senior Homeowners

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Private Reverse Mortgages Shouldn't Try to Compete with HECM

Marin County, CA February 3, 2019: Recent articles suggest that for the government Home Equity Conversion Reverse Mortgages (HECM) to remain viable there must be substitute government sponsored entities (GSEs) or private mortgage guarantors. This speculation is particularly relevant due to continuing predictions in the press that the Federal Housing Finance Authority (FHFA) will soon push for privatizing Fannie Mae and Freddie Mac. Should that happen, HECM will be a casualty of the free markets. Pro-HECM articles ignore HECM's 25-year history of failure and don't acknowledge that private programs will not step in to directly compete. HECM is currently costing the FHA Mutual Mortgage Insurance (MMI) fund $4 billion annually and has a $14 billion current accrued future loss. Social pressure has for too long allowed the HECM program to continue at taxpayer expense without promoting private competition. Since HECM ceased to be a pilot program and became commercial in 1993, the program has never been solvent and relies upon the MMI fund at the expense of conventional GSE mortgage products and thus U.S. taxpayers.

Private reverse mortgage-type products cannot and should not try to compete with HECM for an abundance of reasons:

1. Private real estate lenders and investment companies do not intentionally introduce products to lose money.
2. Private market cost of funds exceed those backed by the Government's balance sheet.
3. Costly components in the HECM origination process, like title insurance and escrow fees, need to reflect generally accepted commercial standards. HECM's e-title insurance is a low-cost substitute that relies upon the government guaranty as a fall-back.
4. HECM's Reverse Mortgage Backed Securities (RMBS) will be impossible to replicate because private products will not have the favorable spread between the higher interest rate charged borrowers and the much lower rate acceptable to investors in the government guaranteed RMBSs. Private products will have to be more creative.
5. As reflected in reduced contract volumes because of recent HECM program changes, questionable applicants for private reverse mortgages will also not meet credit quality standards.
6. Annual hands-on servicing costs for private reverse mortgages properties are far in excess of historic HECM servicing costs.

7. Lax HECM underwriting and servicing must now comply with new FHA rules prohibiting HECM servicers the freedom to put HECM contracts back to Treasury until contract irregularities are corrected.
8. The government guaranty provides HECM contracts an exemption to be valued at cost under both commercial GAAP and government GAAP mark-to-fair value rules. Without that guaranty, contracts and portfolios must apply mark-to-fair-value GAAP rules. Senior home equity access products will be Level-3 longevity dependent assets. This requires a repeatable and statistically acceptable methodology to predict the NPV of future portfolio cash flows or alternatively suffer steep value discounts.

For-profit senior equity access products need to look beyond the bounds of traditional compound interest mortgages, whether to replace HECM or for the jumbo home value markets. Whatever the pricing strategy, these products will not be able to support every market nationwide; nor will private senior home equity access products have the same pricing. These products will cost more and provide smaller monthly payments or lump sum advances, but presumedly be commercially viable.

Peter Mazonas is a CPA who created, managed and was associated with Transamerica HomeFirst from 1989 through 2006, and with his team was involved in the early design of HECM products. He is currently the founder and CEO of NatEquity, an alternative senior home equity access product company. peter.mazonas@NatEquity.com