NatEquity, Inc. National Equity Access for Senior Homeowners

FOR IMMEDIATE RELEASE	Contact: Peter Mazonas, NatEquity, Inc
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	Email: peter.mazonas@NatEquity.com

Private Reverse Mortgage's Need to Step Out of the Government's Shadow

Unlike reverse mortgages, traditional interest rate-based mortgage lending recognizes that both borrowers and homes each have different value propositions. These are measured by borrower credit scores and home appraisals, which value a home based upon the economic viability of the surrounding community. The borrower's financial strength and the probability an individual home will retain its value and appreciate are the cornerstones of mortgage lending. A borrower's credit score impacts the interest rate they are offered and the need for mortgage insurance. The appraisal limits loan amount while considering the attributes of the local community. The housing crisis in 2008 was caused by lax regulation which promoted incomplete (desktop) underwriting and bad assumptions about the individual borrower's ability to repay loans. Dodd Frank mandated the tightening of lending policy and rethinking ability-to-repay (ATR).

For 20-years the reverse mortgage industry in America has relied upon and exploited the artificially simplistic framework government let evolve in the Home Equity Conversion Reverse Mortgage (HECM) program. One size fit's all does not work from sea-to-shining-sea. HECM allows the measurable (interest rates) to be held low and the aspirational (home price appreciation [HPA]) to be pegged at an unrealistic 4% national average. When the myth does not work out the loan losses are returned to the U.S. taxpayers via the cover of the underlying government guarantee. This has led to a current program low of $4 billion annually, with about $14 billion of accrued future program losses and still counting.

The emerging private reverse mortgage market recognizes the need to tailor and offer products to suite different markets. Select markets 50-miles from either coast and a 20-to-50-mile radius from major job centers have materially different socio-economic and job opportunity characteristics than margin areas. The 6% compounded annual home price appreciation enjoyed by close-in coastal California does not exist in inland California. Just like traditional mortgage lending, private reverse mortgages must have variants that can be tuned to the characteristics of both borrowers and their local communities.

Private reverse mortgage design tradeoffs are simple, but solid historic local knowledge and data are required. Coastal California can support a year over year assumption of 4-to-5% compound HPA. That historically proven cyclical fact does not work for communities more than 50 miles from major job centers. Those margin areas require a base accrued interest rate component, plus some supportable level of cyclical HPA upside. More than 50 miles inland from the Pacific Ocean further changes the complexion of product. These observations come from 30-years as a veteran pioneer in the reverse mortgage business.

NatEquity draws upon products we designed at Transamerica HomeFirst in the 1990s, several of which we had on the shelf but never brought to market. Analysis of data after the 2008 housing crisis supports our design thesis. Home prices in key coastal California zip codes went flat or down 3% in 2008 but rebounded dramatically after 18-24 months. Home values in these areas have nearly doubles in the 10 years since 2008. Home values more than 50 miles from a major job center or from the coast have faired less well. Much of the mid-west is only beginning to again enjoy 2008 home price levels.

The takeaways: One-Size-Does-Not-Fit-All; and local knowledge is better than the Expert from Out of Town.

Peter Mazonas, CPA, created and managed Transamerica HomeFirst, to date the most successful private reverse mortgage company and the first to medically underwrite reverse mortgages. His team was additionally instrumental in the early design of HECM products. Currently, he is founder and CEO of NatEquity, a senior home equity access option product company. peter.mazonas@NatEquity.com