Reverse mortgage program under stress

By Editor Test *Thu, Jul 18, 2013*

Instead of eliminating another popular product for older Americans, the Federal Housing Administration would prefer to detect and screen out applicants who are likely default on their reverse mortgage loans, the New York Times reported.

To reduce the number of reverse mortgage borrowers who go into foreclosure because they can't pay their property taxes or homeowner's insurance, the Federal Housing Administration (FHA), which insures reverse mortgages, wants to require prospective borrowers to pass a financial assessment and possibly a credit check, the *New York Times* reported.

Nearly 10% of reverse mortgage holders are reported to be in default because they failed to make those payments, the *Times* said.

According to the news report, the House of Representatives approved the FHA's plan but the Senate has not. If Congress doesn't pass the measure, then, effective Oct. 1, another of the FHA's reverse mortgage products could be eliminated, and the amount that people over 62 could borrow against their homes might drop by 10% to 15%.

This year the FHA already eliminated a type of reverse mortgage that allowed homeowners to borrow the maximum in a lump sum. Instead of eliminating another popular product, the FHA would prefer to detect and screen out applicants who are likely default on their loans, the *Times* said. The agency wants applicants to have adequate cash flow in excess of typical living expenses, property taxes, homeowners insurance, homeowner association dues (if any), utilities, taxes and other expenses. Credit scores might also be factored into a review.

Risky borrowers might still qualify for a reverse mortgage if they agreed to place part of the loan proceeds in escrow for property taxes and insurance, either for as brief a period as two years or for as long as the entire expected duration of the loan.

The agency also said it would like to cap the amount borrowers could pull out at 60% of the maximum sum for which they were eligible (or the amount needed to pay off their current mortgage, whichever was greater. Reverse mortgage borrowers must pay off their regular mortgage to obtain the reverse mortgage).

Today, using a so-called standard reverse mortgage, a 65-year-old could borrow about $226,800 (in cash or a line of credit) against a home worth $400,000, after various fees, according to ReverseVision Inc., a reverse mortgage software firm. Borrowers can also receive the money as lifetime income or income over a specific term.

If, because of its own financial stress, the F.H.A. eliminated the standard mortgage, the "saver" reverse mortgage would be available. It has lower fees but would allow that hypothetical 65-year-old to borrow only about $194,800 against his $400,000 home, or 14% less, after all fees. Another "saver" option would also be available.