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Options Exist in the Reverse Niche

Government insurance and technology play heavily in this lending area

Mortgage brokers looking to enter the reverse-mortgage niche should understand the need for these loans as well as the often unwarranted reputation associated with these loans. Brokers who decide to move forward in the reverse lending arena must specifically familiarize themselves with Home Equity Conversion Mortgages (HECMs) — reverse mortgages insured by the Federal Housing Administration (FHA) — and the technology solutions that enable and ease HECM origination and servicing.

HECMs account for almost all reverse mortgages originated today. Reverse mortgages allow homeowners ages 62 and older to convert their home equity to cash while retaining the title to their home.

As other financing avenues have contracted, the reverse-mortgage marketplace continues to expand as thousands of baby boomers turn 62 every day. Many people in this age bracket have seen their retirement funds depleted by the recent economic downturn. Moreover, for the first time in 35 years, they won't receive a cost-of-living adjustment to their Social Security payments this year.

Reverse mortgages can help eligible homeowners left without enough income to make ends meet and those hoping to aid their children, grandchildren, parents and others.

Along with these opportunities, however, come challenges. Reverse-mortgage misconceptions are some of the biggest obstacles. Media reports, political figures and watchdog groups warn of the perils associated with reverse mortgages, often connecting them to subprime (aka, nonprime) troubles. This often occurs because reverse mortgages and subprime loans have been aimed at vulnerable individuals in the past.

In addition, the U.S. Department of Housing and Urban Development (HUD) addressed some of the main fraud concerns by placing a mandatory firewall between HECM originators and purveyors of other financial products, such as annuities. HUD also requires HECM borrowers to receive counseling from an independent HUD-approved counseling agency before completing a loan application.

Homeowners who decide to move forward with reverse mortgages should do so with the appropriate knowledge. For reverse-mortgage brokers trying to overcome negative attitudes, education and relationship-building become vital tools in the reputation-management game. The ability of mortgage brokers to offer a high degree of personal attention during the entire process — including application documentation and required disclosures — can't be overstated.

Brokers who work with reverse mortgages, and those who intend to start, also should know about the tools involved. FHA and HUD work with third-party developers to design and upgrade effective tools for HECM originations and servicing. These tools include technology solutions that assist with data collection and storage.

Some third-party developers also design loan-origination software that allows brokers to stay compliant with government regulations more easily while also helping their clients through the reverse-mortgage process.

Moreover, in light of changing FHA rules, brokers who hope to originate HECMs should affiliate with FHA-approved lenders. Before doing so, it's wise to study the pros and cons of HECMs and to ask about technology solutions that FHA-approved lenders and FHA itself employ. •

Bob Yeary is chairman and chief executive officer of Texas-based Reverse Mortgage Solutions Inc. RMS is a leading servicer of reverse mortgages and offers private-label subservicing as well as a state-of-the-art reverse-mortgage loan-origination system. The company recently was chosen to upgrade the mortgage-insurance-premium collections system for the U.S. Department of Housing and Urban Development's Home Equity Conversion Mortgage servicing system. Reach Yeary at byeary@rmsnav.com. Visit the RMS Web site at www.rmsnav.com.