



# Reverse Mortgage Lending Update

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## The Market: A Look at Recent Industry Growth

### HECM endorsements \*

- 2008: 115,157
- 2009: 111,864
- 2010: 20,456 (Jan-Mar only vs. 30,203 Jan-Mar 2009)

### Why the decrease?

- Oct 2009 PLF reductions
- Housing Market challenges

### What is changing in 2010?

- Pricing innovations

### HECM participants \*

- Active Lenders:
  - 2008: 2,946
  - 2009: 3,123
  - 2010: 1,507 (Jan-Mar only, comparable to 1,971 Jan-Feb 2009)

## Why Reverse Mortgages?

### Poised for Growth

- No more three legged stool
  - Living longer
  - Retiring later
  - Outliving assets
  - Diminished investment values

*“As millions of Baby Boomers begin to enter retirement, it appears that many indicate using (home equity) to maintain their life style throughout retirement, if necessary. The findings suggest that the financial services industry, policymakers, and advocates for older adults cannot ignore home equity in their efforts to promote retirement security”\**

### The Basics

- 23,000,000 senior households
- \$4 trillion in home equity
- Market still grossly under penetrated
- Becoming a part of smart retirement planning

## The Market: Investors

- FNMA
  - Currently dominates the market for adjustable rate HECM, in whole loan form (GNMA HMBS\* volume is starting to increase)
  - Long term commitment to RM space is in question
- GNMA
  - Currently dominates the market for fixed rate HECM, in HMBS form
  - Combination of lack of convexity risk, pre-payment predictability, and zero risk weighting makes this investment very attractive

\* HECM mortgage-backed security

## Current Regulatory Focus

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- Deceptive Advertising/Marketing Practices
  - “Income For Life”
  - “Stimulus Program”
  - Positioned as a “Government Benefit”
- Cross Selling Other Financial Products
  - HERA 2008
  - Safeguards and Fire Walls
  - Suitability

## On the Regulatory Horizon

- Possible development of Suitability Standards for RMs & other equity conversion products;
- Cross-sell restrictions;
- Strengthen borrower counseling
- Potential compensation and/or disclosure changes for third-party originators (i.e., YSP);
- Potential compensation changes for originations that are employed by financial institutions as well
- Potential changes to HMDA reporting requirements.

## Reverse Mortgage Products: Tomorrow

### Underwriting Changes (Anticipated)

- Financial Assessment
  - Reduce risk of default do to non-payment of real estate taxes and homeowners insurance
  - Maintenance of property
- Suitability
  - Appropriateness of payment plan
  - Counseling regarding use of funds, especially lump-sum payment plan
- Cross-Sell
  - Policies & Procedures

**MetLife**