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PRODUCTS

Some Positive Reverse Mortgage Industry Effects of Oct. 2017 Changes

By **Chris Clow** | February 17, 2020

When the Federal Housing Administration (FHA) handed down changes to principal limit factors (PLFs) in October of 2017, by all accounts that changed proved nearly disastrous for the reverse mortgage industry. Endorsement volume for Home Equity Conversion Mortgages (HECMs) seriously declined, originators related stories of increased difficulty in finding qualified borrowers, and many still refer to the period immediately after those changes as largely damaging to the product and the industry as a whole.

However, now that those changes are primarily in the proverbial rearview mirror, it's easier to look back and see that they may have led to some changes to the reverse mortgage industry that have ended up being directionally positive. Some of these shared by reverse mortgage loan originators include leading to an important re-examination of the business model, more direct engagement with different kinds of referral sources, and less overall reliance on the federal government as more private reverse mortgages have proliferated.

Forging a more resilient industry

One of the potentially positive ramifications of the October 2017 HECM program changes is that it forced some reverse mortgage professionals to re-evaluate aspects of their own business in order to be more reflexive on a faster basis. This is according to Steven Sless, reverse mortgage division manager at Primary Residential Mortgage, Inc. in Finksburg, Md.

“I think, in retrospect, the industry is better off now than it’s ever been because we all had to look at the holes in our business models and figure them out on the fly, and do so while continuing to originate business,” he says. “I think there’s a better crop of reverse mortgage originators that are out there today. A lot of the bad apples got out of the business.”

That’s not to say that difficulties don’t still exist, however. Product awareness may be lower now than before the changes were put into place, which makes it more difficult to market reverse mortgages in general.

“[The changes] definitely made it harder to market the product. I think there’s less market awareness now because there’s less marketing,” he says. “There used to be three companies nationwide running commercials, and now that’s down to just AAG. So, I think just finding that the right kind of blend where you can still be profitable, still pay your bills, still pay your originators, it’s tough.”

That tough climate undoubtedly has presented difficulties, but having a necessity to take a harder look at the business model may have generally made those who stuck with the reverse mortgage business more generally resilient, Sless says. By taking another look at the model on an individual basis, it also led Sless and his team to embrace referrals more than they had been previously.

“Overall, I think the industry is positioned better than it ever has been, because it forced us to change the model. It forced me to change my model,” he says. “My group [operated with] almost no referrals prior to the 2017 PLF cuts, and we’re 25% referral right now. And so, it forced us to engage with the financial planning community where all of a sudden you have this new demographic of reverse mortgage borrowers that nobody ever thought would be around 5-7 years ago. I mean, who thought we’d be engaging in conversations with millionaires about reverse mortgages?”

Still, the product in its current form allows less people to qualify, but the changes and the industry’s reaction to them have reinforced the overall toughness of dedicated reverse mortgage industry players, Sless says.

“We have these conversations every day. And so, now it is unfortunate that a lot of people that we could help before we can no longer help, and it would of course be nice if we could lend a little bit more than we can lend now. But, we do the best, and we make the best with what we’ve got to work with.”

Spurring private product innovation

It’s hard to find much of any positive ramifications of 2017’s PLF cuts and the 2018 implementation of the collateral risk assessment, especially considering that the industry was not sufficiently consulted prior to the changes being handed down, according to Scott Harmes, national sales manager for the C2 Reverse division of C2 Financial Corp. in San Diego, Calif.

“These October 2 cuts [were] based on the MMI audit, which is based on assumptions,” Harmes says. “And so, you had kind of an avalanche triggered not necessarily by a false alarm, but it didn’t require the amount of changes that we saw.”

Still, it’s also hard to argue with the idea that the pressure the 2017 changes placed upon the industry helped solidify lenders’ motivations to make further investment in proprietary products, Harmes says. This can be considered generally positive, since it means the industry will be less impacted by government changes if proprietary products (for which Harmes prefers to use “portfolio products” as a descriptor) continue to become a major source of business across both traditionally HECM and jumbo values.

“I actually think that if there is a positive, it has driven more of a focus on the portfolio programs and products and getting a higher percentage of the overall reverse application to move away from the HECM program, and I think that’s good,” Harmes says. “One good that came from [the 2017 changes] might have been a greater emphasis on the development of the portfolio program and the evolution of those programs, because it is just really exciting.”

Products including Longbridge’s recently-released proprietary reverse mortgage with a line of credit feature, along with promised continual product developments from lenders including Finance of America Reverse and Reverse Mortgage Funding, make the current product landscape a very exciting one, Harmes says.

“I came out of the NRMLA [Annual Meeting in Nashville] absolutely vibrating with excitement over what’s coming,” Harmes says. “And, you layer that on top of the market we’re in, and the trained loan officer corps we have to take those programs to market, then the excitement I have for the future is hard to contain.”