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National Reverse Mortgage Lenders Association

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May 29, 2009

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
1700 G Street NW, 7th Floor
Washington, DC 20552

RE: Comments on 'Portfolio Holdings IFR/RFC, [RIN 2590-AA22]'

Dear Mr. Pollard;

On behalf of the National Reverse Mortgage Lenders Association (NRMLA), we respectfully submit our comments as outlined in Portfolio Holdings IFR/RFC, [RIN2590-AA22].

We believe these comments explain the vital role that Fannie Mae plays in providing stability and liquidity to the reverse mortgage market through its portfolio purchases of FHA insured Home Equity Conversion Mortgage (HECM) loans.

Fannie Mae has been enormously successful in helping older homeowners remain in their homes and lead an enhanced quality of life. Much of the success of the program is a direct result of Fannie Mae's significant investment and contribution of resources to this emerging sector of the mortgage market.

This foundation that Fannie Mae provides through its portfolio purchases supported the development of a reverse mortgage into an ever increasingly important personal financial management tool that has served hundreds of thousands of older homeowners to cover their housing, healthcare and daily living expenses. As the HECM program reaches a stage of broader acceptance by consumers, Fannie Mae's role is vital to the continued success of the program.

We appreciate the opportunity to comment on this Interim Final Rule and would be glad to provide any additional information.

Sincerely,

Pete H. Bell

Peter H. Bell
President, NRMLA

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Portfolio Holdings IFR/RFC, [RIN 2590-AA22]

National Reverse Mortgage Lenders Association (NRMLA)
Role of Fannie Mae Portfolio in Reverse Mortgage Industry
Reply to FHFA Request for Interim Comments

Introduction

The National Reverse Mortgage Lenders Association (NRMLA) is a national trade association based in Washington DC that represents the reverse mortgage lending industry. Our lender members provide reverse mortgage financing to clients that are age 62 or older. The association provides education, training, communications and advocacy for fair, prudent and ethical lending practices in the reverse mortgage industry. NRMLA members must abide by a Code of Ethics and Professional Responsibility that promotes practices to serve senior clients with integrity and professionalism.

NRMLA is providing responses to questions 1, 2, 4, 6, 9, 11, 12, 15 and 19 under this FHFA request for comments as these questions most directly pertain to our unique perspective on behalf of the reverse mortgage industry.

Summary (and considered a part of Questions #1 and #2)

The Federal Housing Finance Agency (FHFA) is issuing an interim final regulation to govern the portfolio holdings of Fannie Mae and Freddie Mac (the Enterprises) pursuant to provisions of HERA (Public Law 110-289, section 1109, 12 U.S.C. 4624). FHFA is requesting comments on this interim rule and regulations regarding the GSE portfolio holdings.

Fannie Mae plays a vital role in supporting the reverse mortgage industry through the purchase of FHA insured Home Equity Conversion (HECM) loans for its portfolio. We estimate that there is currently a balance of approximately $50 billion in HECM assets in the Fannie Mae portfolio. Fannie Mae plays a crucial role in providing stability and liquidity to the secondary market. In addition, Fannie Mae has historically purchased these loans at prices that generated reasonable interest rates to the senior customer.

Any action by Fannie Mae to suddenly exit this sector of the mortgage industry due to a shift in the portfolio strategy would create unacceptable disruption in the availability of reverse mortgages. Most importantly, from a public policy perspective, a sudden exit by Fannie Mae could cause undue harm to the seniors served. This is because of Fannie Mae's vital role in providing stability, liquidity and support to this market.

As Fannie Mae may choose to reduce the HECM portfolio (and flow acquisitions), careful consideration must be given to secondary market liquidity especially in distressed market conditions. Other options for liquidity and the flow of capital, such as securitization, could be considered as a viable alternative. In other words, we would advocate for Fannie Mae to continue to acquire these assets, if not thorough the portfolio, then through securitization or other alternatives.

Background (and considered as part of Questions #1 and #2)

The reverse mortgage market is gaining momentum as our nation's population ages and as the need for economic relief continues to increase. For many Americans transitioning to these later stages in life, home equity is their largest single asset. Reverse mortgage products give seniors the opportunity to use the equity in their homes to improve their quality of life without the need for higher income levels or the burden of supporting a monthly mortgage payment. This is because the reverse mortgage loan accrues interest over time and the repayment of principal and the accrued interest is not due until the senior either moves out of the home or passes away.

Over 400,000 senior homeowners have been served by the industry's standard reverse mortgage loan, the FHA-insured Home Equity Conversion Mortgage (HECM), which is a loan program that serves seniors aged 62 and older with the ability to use the equity in their home in a safe and responsible manner. In fiscal year 2008, FHA issued insurance on 112,000 HECM loans.

Fannie Mae plays a crucial role not only in helping this market develop, but also in sustaining it by providing capital through the flow purchases of HECM loans for its portfolio. Fannie Mae has been the industry leader for over twelve years in supporting this market with best practices, standards, consumer materials, lender approvals, selling guidelines and complex technology to support the sale, delivery and servicing of the HECM loans. And most importantly, Fannie Mae is the primary source of stability and liquidity to this market, as it has been purchasing the HECM loans for its portfolio for over ten years. During this past year of unprecedented market dislocation, Fannie Mae served to keep capital flowing without which the industry would have suffered dire consequences.

As the consumer landscape in our nation changes and as the industry works against a backdrop of a lending crisis fueled in part by predatory practices in the broader sub-prime mortgage market, it is especially important to recognize the important safeguards and protections built into the HECM loans. The HUD regulated HECM loans call for lender compliance with extensive rules and guidance in as outlined in Section 255 of the National Housing Act (12 U.S.C. § 1715z-20) and FHA regulations (24 C.F.R. § 206.01 *et seq.*). HUD has provided program leadership with continuous improvements and safeguards as issued, in part, through an extensive set of Mortgagee Letters that outline HECM program details. Some of the salient features of the HECM program include:

1) **Mandatory Counseling**. Mandatory counseling by HUD approved counseling agencies that follow a prescribed curriculum and protocols. An application is not allowed to be processed until the counseling is fully completed. In addition, loan costs such as appraisal fees cannot be incurred until after the counseling process is complete.

2) **Regulated Origination Fees**. Origination fees cannot exceed 2% of the maximum claim amount (a loan amount proxy) on the first $200,000 and 1% on the balance thereafter with a maximum origination fee of $6,000.

3) **Lender Approvals**. Lenders must be approved by HUD and the approval process includes criteria for net worth, audit, re-underwriting, case file reviews and other criteria to ensure safety and soundness.

4) **Mortgage Repayment.** The senior does not repay the loan until she dies or moves out of the property. When the repayment is due (upon death or upon a move out of the property), the senior, upon a sale of the property, will not owe more than the house is worth.

5) **Disclosures.** There are prescribed disclosures unique to the product that include important information about product features and loans costs. Key among the required disclosures is the FRB requirement for a Total Annual Loan Cost (TALC) disclosure, that shows the cost of the loan if it is outstanding for different durations of time.

6) **Property Repairs**. At origination, FHA appraisers will ascertain repairs needed and specific lender guidelines under the HUD rules must be followed for the payment and completion of the repairs.

7) **Cross Selling.** Under Section 2122 (a) (9) of the Housing and Recovery Act of 2008 (HERA) and under HUD guidelines, lenders must follow prescribed cross selling guidelines including the creation of firewalls and safeguards to protect the senior's best interests If any other financial services are to be offered to a reverse mortgage client.

Also, AARP, in its advocacy work, plays a large role in the development of standards especially by providing on-line tools such as calculators and educational materials. In addition, AARP has been instrumental in the design of counseling standards and protocols. AARP has engaged in advocacy work throughout the life of the program. A 2007 study by AARP "Reverse Mortgages: Niche Product of Mainstream Solution" presented an objective analysis of the products which included an observation that 93% of the borrowers who took out reverse mortgages were satisfied with their experience and felt that the transaction helped enhance their quality of life.

NRMLA Response to FHFA Questions

Section i: Benefits of Enterprise Purchases of Reverse Mortgage Assets for Portfolio

Question 1: *What additional benefits are provided to the secondary mortgage market and the housing sector by Enterprise purchases for portfolio of mortgage loans and MBS, beyond the benefits provided by their securitization activities? What is the magnitude of those additional benefits?*

Fannie Mae is the primary source of stability and liquidity for FHA-insured HECM loans thereby creating the ability for lenders to offer this important product to seniors. Fannie Mae purchases these loans on a flow basis for its portfolio. Fannie Mae is the market leader and it has served this market since its inception in the late 1980s. The investment in expertise, infrastructure and support is unparalleled. During times of market contraction (such as this past year), Fannie Mae plays a critical role of sustaining the market by continuing to purchase these assets when other secondary market options have declined.

According to the 3RD quarter 2008 Reverse Mortgage Market Index (the RMMI), a composite measure of home values, household debt and other data compiled quarterly on behalf of NRMLA, senior households aged 62 and over hold \$3.83 trillion in home equity. Currently, there are 37 million seniors in our nation that are age 65 or older. The U.S. Census projections call for significant increases in the future age structure of the population due to the aging of the Baby Boomer (born between 1946 and 1964). In fact, in 2011 the first Baby Boomers will reach age 65.

Fannie Mae, through its portfolio purchase activities, plays a critical role for the growing population of seniors who need to use the equity in their home to meet their needs for a decent quality of life. As indicated in a recent AARP survey and report **"Reverse Mortgages: Niche Product or Mainstream Solution?"** , seniors used reverse mortgages for the following types of needs:

- Payoff a mortgage (20%)
- Home repairs/improvements (18%)
- Improve quality of life (14%)
- Everyday expenses (10%)
- Emergencies/unexpected (9%)
- Payoff non mortgage debt (7%)
- Health or disability (5%)
- Financial help to family (2%)
- Investments, annuities or long term care insurance (1%)
- Household chores (1%)

In addition, Fannie Mae can add value through a pricing, commitment and delivery system that can manage and/or minimize price shocks to the industry and ultimately to the senior client. This is especially important in a rising interest rate environment. Fannie Mae, through its purchase activities, currently sets the level of pricing and the delivery of commitments to pricing. Fannie Mae recently introduced "Live Pricing" to the reverse mortgage industry which did have unintended consequences of rapid and significant rate increases to seniors. We highly recommend that, in implementing any similar new policies in the future, Fannie Mae take reasonable steps to provide sufficient advance notice, customer rate locks and other tools to implement price changes without the market disruption to seniors that have recently been experienced in the transition to Live Pricing, along with simultaneous increases in Fannie Mae's margin requirements.

These processes for "locking in" rates can and do directly impact the senior clients that the industry serves. To that end, respectfully, we caution against volatility in pricing as the seniors do not have a clear path to "lock in" interest rates in the way they can with "forward" mortgage loans. As a result, there can be greater impact on available loan proceeds to the senior client and higher interest rates as price levels increase over a short period of time.

We advocate for longer lead times for price changes even if this means a slightly higher cost to the consumer. This is much preferable to rapid and unexpected price changes that can leave lenders in the position of either having to absorb market loss and/or cause an unexpected increase in the rate to the consumer (and lower loan proceeds) after an application has been taken.

Question 2: *Is it possible for the Enterprises to fulfill their mission of providing stability and liquidity to the secondary mortgage market without purchasing mortgage assets for portfolio? If so, how? If not, what types of mortgage assets should they be allowed to purchase for portfolio, and in what amounts?*

Fannie Mae currently acquires HECM loans for its portfolio and, as a result, Fannie Mae has provided a continuous and stable supply of funds to reverse mortgage lenders for the benefit of the senior community. The impact on the market has been two-fold: a) a steady and stable source of funding to the industry and b) lower interest rates to the seniors. Because the HECM assets are complex and the market is still in early stages of development, beyond Fannie Mae, there is limited liquidity especially in a distressed market scenario. Historically, Fannie Mae has been the primary, and at times, the only investment outlet for the HECM loans.

The industry is most concerned about potential market disruption (or collapse) from any strategy for Fannie Mae to exit from the HECM market and/or any potential price shocks associated with a HECM portfolio exit strategy. Until a viable alternative to the current portfolio strategy for acquiring HECMS is established, the industry would urge that Fannie Mae continue to support this market through its portfolio purchases, especially during market turbulence and during market contractions.

Other alternatives to the current acquisition of HECM loans for the portfolio may include, but would not be limited to, the following few options:

1. **A Fannie Mae Mortgage Backed Security (MBS) backed by HECMS**: This could involve a new Mortgage Backed Security backed by HECM loans. The Fannie Mae guaranty and its investor outreach could serve to continue to provide liquidity and stability to the market.

2. **Collaboration with Ginnie Mae:** Ginnie Mae, over a year ago, launched its first HECM backed security (the HMBS). This program is still in the early stages of development as it is finding initial success in the market. However, as it continues to evolve, the program is not yet strong enough to support the market with the stability and liquidity that Fannie Mae not only does today, but has done historically. However, there could be ways for both entities to find synergies in the structures, especially since the Ginnie Mae model offers a potential portfolio alternative to Fannie Mae.

3. **Aggregate in Portfolio and Sell in Bulk**: This could be a scenario where Fannie Mae continues to purchase the loans through the portfolio channels and infrastructure, and then periodically sells the loans in bulk transactions to end investors.

Because Freddie Mac does not have a HECM or reverse mortgage loan purchase program, there will be more negative impact on the HECM market as both GSEs are required to reduce their portfolio holdings. A consideration should be made to allow for these HECMs purchases to be weighed proportionately as part of the portfolio reductions.

We appreciate that issues involving finance, accounting, systems, and other areas that would need to be closely considered in any alternative to the portfolio strategy. The important point from the industry perspective is to avoid market disruption (or even collapse) by continuing to provide stability and liquidity as other alternatives are introduced.

To the extent Fannie Mae can play a larger role in expanding the capital markets participation in these products, we believe there are core skills and value in Fannie Mae's ability to share best practices, historical data, quality control, investor reach, infrastructure and servicing of these assets. Fannie Mae can offer a lot of value to the development of a broader secondary market with safe and sound practices.

Question 3: *Could the U.S. government better ensure the liquidity and stability of the secondary mortgage market other than through Enterprise purchases of mortgage assets for portfolio—for example, through the activities of the Federal Reserve System, mortgage asset purchases by the Department of the Treasury, or the provision of an explicit government guarantee of MBS securitized by the Enterprises?*

Consideration should be given to encouraging the Federal Home Loan Banks to accept HECM loan assets as collateral for FHLB advances so as to provide additional liquidity for those eligible lenders that are members of the FHLB system.

Question 4: *Should the Enterprises' purchases of mortgage assets vary over the mortgage credit cycle or with conditions in the secondary mortgage market? If so, how?*

Fannie Mae plays a crucial role in ensuring the continuity of providing the HECM loans to seniors. As the capital markets imploded during the past 12-18 months, all other potential product outlets collapsed, with the exception of the Ginnie Mae HMBS program which is in the very earliest stages of its implementation.

Fannie Mae should stand ready to support the market during times of stress and dislocation to prevent the complete collapse of the market.

<u>Section ii. Benefits of Enterprise Mortgage Portfolio Holdings</u>

Question 6: *Could the benefits of the Enterprises' mortgage portfolio holdings be achieved if the levels of those holdings were substantially lower than current levels? Could the Enterprises carry out their mission of providing stability and liquidity to the secondary mortgage market and of supporting affordable housing without maintaining portfolios of mortgage assets? If so, explain how.*

In a market where Fannie Mae is the backbone of the market through its portfolio purchases, until other viable options are developed and sustained, respectfully, Fannie Mae must continue to play a vital role in this market. As discussed in Question 2 (please refer to Question 2), there are other options to consider in securitization rather than portfolio purchases. The current challenge is that securitization options for HECMs from Fannie Mae do not currently exist.

<u>Section iv. Systemic Risk Posed by Enterprise Mortgage Portfolio Holdings.</u>

Question 9: *Should FHFA use criteria governing the Enterprises' mortgage portfolio holdings to mitigate the systemic risk posed by the Enterprises? If so, how? If the mortgage portfolio holdings of the Enterprises were reduced in an effort to mitigate the systemic risk posed by the Enterprises, how would the stability of the mortgage markets and the broader financial system be affected? What steps could the federal government take to maximize any improvement in stability?*

See responses in Summary and Question 2.

Section v. Criteria Governing Enterprise Mortgage Portfolio Holdings.

Question 11: *Should the permissible size of the Enterprises' holdings of mortgage assets vary in a manner related to the phase of the mortgage credit cycle or conditions in the secondary mortgage market? If so, how should FHFA monitor that cycle or secondary mortgage market conditions, and how should the permissible size of those holdings vary?*

Yes, please see the reply to question number 2. For the reverse mortgage (HECM) market support, we believe that Fannie Mae plays a crucial role especially during times of adverse market conditions with limited (if any) alternatives for providing funding for the products.

Monitoring may be both formal and informal by periodically surveying the availability and usage of alternative funding options for these assets in the capital markets, checking for market declines in production volumes, and monitoring lender choices for product delivery.

Question 12: *How could decreases in the Enterprises' mortgage portfolio holdings affect their operational infrastructures? How would changes in their operational infrastructures affect their ability to expand their purchases of mortgage assets for portfolio during times of stress in the secondary mortgage market? Does each Enterprise need a minimum level of mortgage portfolio holdings to maintain the infrastructure needed to expand its purchases under such conditions?*

The infrastructure for HECM purchases that Fannie Mae has invested in is very valuable. For example, the infrastructure for seller approvals, loss mitigation, assignments, claim filings, loan delivery, servicing, pricing, committing and investor reporting are extremely valuable to the industry. And the expertise in the capital markets, secondary markets, risk and the programs is also considered very valuable.

The ongoing maintenance and investment in technology, expertise, processes and infrastructure is considered critical to sustaining the critical role that Fannie Mae plays in the market. In order to justify continual investment in these important resources, Fannie Mae must continue to be an active participant in the reverse mortgage sector.

b. Composition of Mortgage Portfolio Holdings.

Question 15: *Should FHFA require that assets purchased for the portfolio each year comply with affordable housing goals and sub-goals established for that year?*

The HECM program has benefited from the housing goals set forth by the regulators. And as a result, many of our nation's senior citizens, especially those in lower income brackets, have been able to live more comfortably. Traditionally the loans have served many low income seniors, those in central cities and those in targeted census tracts (as outlined in past enterprise housing goals).

We support helping seniors, especially those in lower income brackets and those in underserved areas through policy objectives (in the mission and goals) that align the underserved senior needs with Fannie Mae's ability to continue to offer stability and liquidity for the HECM loans with appropriate safeguards for safety and soundness.

Question 16: *Should FHFA allow the Enterprises to hold, without limit, either whole loans (or securities backed by them) that finance affordable housing not easily securitized because of non-standard features and small volumes or mortgage securities backed by loans that finance affordable housing, where markets for those securities are small or thin? Please provide examples of such loans or securities. Alternatively, should FHFA place a limit on the amount of such loans or securities that an Enterprise can hold? If so, what is an appropriate level?*

Yes. Fannie Mae should be allowed to hold the HECM loans without limit and within the context of its mission and its housing goals.

We offer the HECM loans as an example of loans that finance affordable housing (by helping seniors stay in their homes), an example of loans that have non-standard features that are not easily securitized, and an example of a small volume product that has an enormous positive impact on borrowers' quality of life.

Fannie Mae plays a vital role in the secondary market for HECM loans by providing the crucial liquidity needed to replenish capital for lending. Whether this is through portfolio purchases (currently) or some other form, such as securitization, the form of purchase matters less than the critical need for an outlet where these loans can be delivered for funding. The market for HECM assets is nascent, thinly traded and still in the very early stages of capital markets development. And from a public policy perspective, the HECM product meets the needs of many low and moderate income Americans who otherwise could face adverse and very unfortunate circumstances, including being forced to move out of homes they have occupied for many years.

Until the market matures and there is more than one proficient and dominant investor or vehicle in the market to readily purchase these assets, Fannie Mae must continue to play its crucial role.

We are indifferent with regard to whether the HECM assets are purchased through the portfolio or purchased for securitization (which is not currently available as discussed above). The critical issue in the primary market is the need to fund the assets (through portfolio flow or securitization or other vehicles).

We appreciate the opportunity to comment on this Interim Final Rule and would be glad to provide any additional information that would help amplify our comments. In closing, the FHA Home Equity Conversion Mortgage has been enormously successful in helping older homeowners remain in their homes and lead an enhanced quality of life. Much of the success of the program has resulted from Fannie Mae's significant investment and contribution of resources to this emerging sector of the mortgage market. The "backbone" that has been provided has enabled the concept of a reverse mortgage to be nurtured into an important personal financial management tool that has helped hundreds of thousands of older homeowners cover their housing, healthcare and daily living expenses. As the HECM program reaches a stage of broader acceptance by consumers, it is imperative that Fannie Mae remain an active investor and participant in the program. If their participation were to diminish many senior homeowners would be forced to move, go into nursing homes or take on onerous mortgages that would be a burden on them.