Testimony of Jeffrey M. Lewis before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity

May 9, 2012

My name is Jeffrey Lewis and I am the Chairman and CEO of Generation Mortgage, a mortgage banking firm based in Atlanta, GA that originates and services Reverse Mortgages exclusively. I also serve as the Chairman of the Coalition for Independent Seniors (CIS), which is a non-partisan public policy coalition dedicated to preserving seniors' financial independence.

On behalf of Generation Mortgage & CIS, I want to thank Chairwoman Biggert, Congressman Gutierrez and the other members of the subcommittee for holding this hearing on the Home Equity Conversion Mortgage (HECM) program and for inviting us to testify.

Generation Mortgage was started in 2006, has originated over 29,000 Reverse Mortgages (both HECM and private jumbo Reverse Mortgages) and currently services a portfolio of over 27,000 Reverse Mortgages. We employ more than 250 people, mostly in our Atlanta headquarters. Generation Mortgage has also issued over $3 Billion in GNMA HMBS. We are extremely gratified to be working alongside FHA and GNMA in helping older Americans utilize the HECM to improve their quality of life and extend their time in their homes. With the demographic shifts currently taking place, and homeowners' other incomes and assets strained, we expect to be able to continue serving homeowners in the coming decades with a product that offers a fantastic value proposition for the consumer, their families, the FHA and the country.

The HECM is an example of the best kind of government program. A program that utilizes the reach and financial heft of the government to leverage private sector involvement, pays for itself, is run largely by the private sector and provides a life-transforming financial product to consumers.

Chairwoman Biggert, you asked me to address several issues in your invitation to participate today: the current state of the HECM program – its administration, the benefits to borrowers, the safety and soundness and provide suggestions for regulatory and statutory changes. I will take each of these in turn.

First, what is the current state of the HECM program? In the past few weeks our industry lost a valued colleague and aggressive competitor in MetLife, when they announced their departure from the Reverse Mortgage industry. This departure followed closely on the heels of the announced closure of their MetLife Bank and traditional mortgage origination business. MetLife is the third major company to depart the business in the last 15 months. Yet, we have seen most of the slack in the marketplace taken up by the independent mortgage bankers who remain. RMS, Urban Financial, Generation Mortgage, One Reverse and others have stepped into the void to continue to make the HECM product available across the country. The table in Exhibit 1 clearly illustrates this fact. We at Generation Mortgage and CIS are confident that the independent mortgage bankers will continue to provide excellent and full service to consumers.

To provide some perspective, from 1989 to 2006, no major financial brands participated in the Reverse Mortgage industry, yet the marketplace grew steadily. Please see Exhibit 2 for a breakdown of the annual endorsement and growth rate in the industry from 1990 to Present.

While each of the companies that left the industry had different reasons for their decision, among these reasons were: the complexity of the product, the small size of their Reverse Mortgage businesses relative to their other businesses, their inability to market to their existing customers, and the challenges associated with declining home values. Concerns over the quality of the product from a consumer standpoint were not a factor in their departures. One issue that was problematic for those originators that have recently left the space, and remains a key issue, was dealing with tax and insurance (or T&I) defaults. When a consumer fails to fulfill their obligations under the HECM, that failure can result in the unpleasant scenario of a possible foreclosure on an older American. It also exposes both the issuer/servicer and the FHA to potential losses.

Redress of this issue will benefit all stakeholders in the HECM program – borrowers, originators and the federal government. Action is being taken to address the issue. A Reverse Mortgage is not suitable for every potential borrower. The benefits of the product are not outweighed by the financial and psychological costs of a foreclosure. FHA has made it clear to the industry that we can now try to identify unsuitable borrowers The industry is working with FHA on financial assessment guidelines that will hopefully limit the pool of HECM applicants to those who are in a financial position to meet the borrower obligations of the HECM. We expect the guidelines to be finalized in the coming month, and that these guidelines will ensure that the financial assessments are conducted in a consistent and fair manner. In addition, we expect to see modifications to the program itself that could allow originators to mandate monthly escrow payments for tax and insurance or to set aside some portion of the proceeds as a contingency fund, should the borrower struggle to keep up with their obligations. These changes will protect consumers, as well as the FHA insurance fund going forward.

When combined with a unique cornerstone of the HECM program, mandatory counseling, these modifications provide a robust foundation for the program – one that enhances the program's sustainability and also bolsters its integrity as a valuable and sound consumer financial product. This is why Generation Mortgage and CIS strongly support full federal funding of HUD's HECM counseling program.

The FHA and GNMA have done a fine job administering and enabling the Reverse Mortgage program to operate in a consumer-friendly and financially sound manner. Recently we have seen an overhaul of both the counseling protocols and of the servicing protocols for defaulted loans. Twice in the last three years, the FHA, with the support and participation of the industry, has altered the economic terms of the HECM by reducing the principal limit factors (PLFs) and increasing the mortgage insurance premiums charged on the HECM product. We in the industry recognize that the product must sustain itself through the insurance premiums collected.

These two modifications of the HECM product were a necessary response to the significant changes in the housing market that have occurred since the product was first designed. Both declining home values and longer life-expectancies increase the FHA's risk, so the steps taken to alter the product were good and necessary. The current version of the HECM Standard, along with the new HECM Saver, will provide attractive options to the widest possible range of eligible borrowers.

While the Reverse Mortgage is not for every borrower, for those seniors who meet the criteria, and who utilize a Reverse Mortgage as part of a well-thought out long-term financial strategy, the product can be life-transforming. For example, Charlene M., a borrower from Melrose Park, IL, who took out a HECM in 2008, wrote us a moving letter relating how her Reverse Mortgage changed her life. She wrote, in part, "*…I had resigned myself to living quietly and cheaply on my Social Security income, augmented with 2 small rent amounts from the rental units. I was afraid that, like some of the women I knew who were divorced or widowed, I would have to (HAVE TO) either re-marry or find a live-in partner to help pay the bills. That was not an easy thing to contemplate for me. Getting a Reverse Mortgage opened doors for me that I had thought forever locked…*" Please see Exhibit 3 for additional excerpts on how the HECM program has impacted this borrower's life. The HECM program allows seniors to age in place with dignity, comfort and independence. In these hard economic times, it is vital to ensure that this unique financial instrument remain available for those who truly need it.

The changes mentioned above will have a major impact on the future integrity and sustainability of the HECM program. Unfortunately, the recent decline in home values has contributed to a downtrend in overall volume. Current annualized endorsement volume for the first half of 2012 (57,840) is running at about 50 percent of the volume experienced three years ago (114,692). But, again, with financial assessment, product adjustments, growing consumer understanding and acceptance of the HECM Saver and perhaps most importantly, stability in the housing market, the industry is well-positioned to reverse the downtrend in volumes.

In addition, the demographic data bodes well for the industry in terms of the explosive growth in the number of Americans age 62 or older in the coming decades and the amount of home equity they will hold. For example, between 2015 and 2030, the number of Americans age 62 or older is projected to grow from 57.7 million to 83.8 million. During that time frame it is expected that the number of Americans in that age group who own and occupy their homes will grow from 27.6 million to 40.2 million. Equally as significant is the fact that the average home value for Americans age 65 and older is projected to increase from $193,580 in 2015 to $332,334 in 2030. This data, combined with the other factors outlined earlier give us confidence that the industry is well-positioned to increase volume in the coming years. For a complete view of the demographic data, please see Exhibit 4.

I would like to briefly address the question of whether or not it is healthy for the government to be so dominant in this market – after all, the federal government currently insures more than 99% of all new Reverse Mortgage originations. In the traditional mortgage space the economic difference between a government loan and a jumbo is marginal. In the Reverse Mortgage space, the difference between a government loan and a private loan is immense. This difference is not a reflection of increased risk on the part of the government. Rather, it is a function of the fact that the government's cost of capital is dramatically less than the private sector's.

Earlier in my remarks I referred to program changes necessitated by the market environment. FHA has kept a watchful eye on the terms of the program to ensure its fiscal soundness. FHA's proactive changes to the program have put it on solid financial footing. From the industry's perspective, we expect the program to stand on its own, without subsidy, and if the housing market was to deteriorate meaningfully, we would expect FHA to act accordingly and increase the cost of the loan. At the same time, if the housing market improves, we would be delighted to see the terms of the loan improve as well.

You also asked me to suggest regulatory and statutory changes that will help the marketplace, and keep FHA in a sound financial position. Many changes are currently underway. We already discussed impending financial assessment guidelines and possible alterations to the HECM program, which would combine to reduce tax and insurance defaults, and help ensure that unsuitable borrowers do not use Reverse Mortgages.

On the regulatory front, Generation Mortgage, CIS, and others in the industry have been actively engaged with the new CFPB in their ongoing Reverse Mortgage study. We look forward to their findings and to any changes they suggest that will truly protect our borrowers.

As the only originator of jumbo Reverse Mortgages, Generation Mortgage would enthusiastically support a definition of "Qualified Mortgage" that includes all Reverse Mortgages. This would increase the probability that our jumbo product could be broadly distributed to investors.

In examining possible statutory and regulatory changes, it's important to stay focused on the consumer. I would like to point out that abuse by lenders is extraordinarily rare in the Reverse Mortgage industry. Most of the bad actors we encounter want to get their hands on the borrower's proceeds. They might be the borrowers' children, other relatives, or purveyors of goods and services. Our borrowers have earned the right to use their home equity to improve their quality of life, and nobody should have the opportunity to take advantage of them.

The 2008 Housing and Economic Recovery Act (HERA) included a provision designed to protect consumers from the bundling of inappropriate financial products with a HECM. The unintended consequence of this provision has been to prevent competent financial professionals from offering comprehensive planning to their clients. This was certainly a contributing factor to the departures that our industry has recently experienced. Congress may want to consider changes to the statute that would allow financial professionals to offer comprehensive financial planning to clients – including HECMs – in a manner that ensures full disclosure and continues to fully protect consumers from fraudulent and unethical practices.

In closing I would like to refer to a study that was released last month by the Center for Retirement Research at Boston College (http://crr.bc.edu/wp-content/uploads/2012/04/wp-2012-13.pdf). This study effectively examined a number of issues related to asset allocation, financial planning, and retirement security. Most significantly, the report dispelled the myth that a Reverse Mortgage should only be used as a last resort for struggling seniors. Indeed, one of the study's conclusions is that, when utilized as part of a thoroughly researched and thoughtful financial planning process, a Reverse Mortgage can significantly increase a senior's retirement security and income. The study concludes by noting that "…financial advisers will be of greater help to their clients if they focus on a broad array of tools – including working longer, controlling spending, and taking out a Reverse Mortgage."

Thank you for the opportunity to participate today and I am happy to provide detailed answers to any questions you might have.

EXHIBIT 1

***NationStar amounts reflect the pools transferred (as of 3/31/2012) as part of their purchase of Bank of America's Reverse Mortgage portfolio*

***Reverse IT amounts represent those issued by Urban Financial*

***Data as of 3/31/3012*

*** Source: GNMA Monthly HMBS Disclosure*

Historical HMBS Issuance Volume						
Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
METLIFE BANK, N.A.	5,931,841,955	26.1%	1,717,095,536	16.9%	7,648,937,491	23.3%
NATIONSTAR MORTGAGE LLC	3,480,742,377	15.3%	3,652,688,486	35.9%	7,133,430,863	21.7%
WELLS FARGO BANK, N.A.	3,307,788,382	14.6%	2,092,836,872	20.6%	5,400,625,254	16.4%
GENERATION MORTGAGE COMPANY	2,917,970,665	12.9%	111,541,849	1.1%	3,029,512,514	9.2%
REVERSE MORTGAGE SOLUTIONS, IN C	2,944,295,391	13.0%	0	0.0%	2,944,295,391	9.0%
BANK OF AMERICA	904,009,066	4.0%	1,684,665,462	16.6%	2,588,674,528	7.9%
REVERSE IT	1,715,202,864	7.6%	311,494,234	3.1%	2,026,697,098	6.2%
SUNWEST MORTGAGE COMPANY, INC	956,580,729	4.2%	182,401,549	1.8%	1,138,982,278	3.5%
ONEWEST BANK, FSB	532,907,375	2.3%	417,843,198	4.1%	950,750,573	2.9%
	22,691,338,804	100.0%	10,170,567,186	100.0%	32,861,905,990	100.0%

2012 Q1 HMBS Issuance Volume						
Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
METLIFE BANK, N.A.	295,916,285	20.1%	305,823,608	38.9%	601,739,893	26.7%
REVERSE MORTGAGE SOLUTIONS, IN C	472,818,359	32.2%	0	0.0%	472,818,359	21.0%
REVERSE IT	372,129,397	25.3%	98,288,875	12.5%	470,418,272	20.9%
GENERATION MORTGAGE COMPANY	188,596,836	12.8%	49,728,020	6.3%	238,324,856	10.6%
WELLS FARGO BANK, N.A.	29,451,390	2.0%	182,349,386	23.2%	211,800,776	9.4%
NATIONSTAR MORTGAGE LLC	17,629,750	1.2%	90,193,866	11.5%	107,823,616	4.8%
SUNWEST MORTGAGE COMPANY, INC	87,795,278	6.0%	14,542,375	1.9%	102,337,653	4.5%
BANK OF AMERICA	3,437,587	0.2%	41,623,191	5.3%	45,060,778	2.0%
ONEWEST BANK, FSB	1,187,817	0.1%	3,504,391	0.4%	4,692,208	0.2%
	1,468,962,699	100.0%	786,053,712	100.0%	2,255,016,411	100.0%

2011 HMBS Issuance Volume						
Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
METLIFE BANK, N.A.	1,912,219,248	26.3%	764,204,418	28.9%	2,676,423,666	27.0%
WELLS FARGO BANK, N.A.	1,262,840,726	17.3%	939,571,670	35.6%	2,202,412,396	22.2%
REVERSE IT	1,343,073,467	18.4%	213,205,359	8.1%	1,556,278,826	15.7%
GENERATION MORTGAGE COMPANY	983,938,157	13.5%	61,813,829	2.3%	1,045,751,986	10.5%
NATIONSTAR MORTGAGE LLC	521,390,315	7.2%	459,852,108	17.4%	981,242,423	9.9%
REVERSE MORTGAGE SOLUTIONS, IN C	870,964,221	12.0%	0	0.0%	870,964,221	8.8%
SUNWEST MORTGAGE COMPANY, INC	314,524,568	4.3%	39,957,099	1.5%	354,481,667	3.6%
ONEWEST BANK, FSB	67,046,608	0.9%	61,719,877	2.3%	128,766,485	1.3%
BANK OF AMERICA	6,179,744	0.1%	99,867,257	3.8%	106,047,001	1.1%
	7,282,177,054	100.0%	2,640,191,617	100.0%	9,922,368,671	100.0%

2010 HMBS Issuance Volume

Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
NATIONSTAR MORTGAGE LLC	1,902,714,821	24.2%	1,205,767,435	41.0%	3,108,482,256	28.8%
WELLS FARGO BANK, N.A.	1,163,181,655	14.8%	878,835,087	29.9%	2,042,016,742	18.9%
METLIFE BANK, N.A.	1,595,049,825	20.3%	426,597,261	14.5%	2,021,647,086	18.7%
REVERSE MORTGAGE SOLUTIONS, IN C	1,230,487,411	15.7%	0	0.0%	1,230,487,411	11.4%
GENERATION MORTGAGE COMPANY	1,140,590,360	14.5%	0	0.0%	1,140,590,360	10.6%
BANK OF AMERICA	265,767,257	3.4%	344,556,360	11.7%	610,323,617	5.7%
SUNWEST MORTGAGE COMPANY, INC	318,765,680	4.1%	5,700,102	0.2%	324,465,782	3.0%
ONEWEST BANK, FSB	235,432,760	3.0%	76,393,837	2.6%	311,826,597	2.9%
REVERSE IT	0	0.0%	0	0.0%	0	0.0%
	7,851,989,769	100.0%	2,937,850,082	100.0%	10,789,839,851	100.0%

2009 HMBS Issuance Volume

Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
NATIONSTAR MORTGAGE LLC	915,425,063	16.0%	1,506,452,062	53.4%	2,421,877,125	28.4%
METLIFE BANK, N.A.	2,096,553,382	36.7%	0	0.0%	2,096,553,382	24.6%
BANK OF AMERICA	628,624,478	11.0%	1,198,618,654	42.5%	1,827,243,132	21.4%
WELLS FARGO BANK, N.A.	852,314,611	14.9%	92,080,729	3.3%	944,395,340	11.1%
GENERATION MORTGAGE COMPANY	604,845,312	10.6%	0	0.0%	604,845,312	7.1%
REVERSE MORTGAGE SOLUTIONS, IN C	370,025,400	6.5%	0	0.0%	370,025,400	4.3%
SUNWEST MORTGAGE COMPANY, INC	229,723,832	4.0%	6,615,493	0.2%	236,339,325	2.8%
ONEWEST BANK, FSB	20,544,924	0.4%	15,607,671	0.6%	36,152,595	0.4%
REVERSE IT	0	0.0%	0	0.0%	0	0.0%
	5,718,057,002	100.0%	2,819,374,609	100.0%	8,537,431,611	100.0%

2008 HMBS Issuance Volume

Issuer Name	Total Fixed Amount Issued	Market Share	Total ARM Amount Issued	Market Share	Total HMBS Amount Issued	Market Share
NATIONSTAR MORTGAGE LLC	123,582,428	33.4%	390,423,015	39.6%	514,005,443	37.9%
ONEWEST BANK, FSB	208,695,266	56.4%	260,617,422	26.4%	469,312,688	34.6%
METLIFE BANK, N.A.	32,103,215	8.7%	220,470,249	22.3%	252,573,464	18.6%
SUNWEST MORTGAGE COMPANY, INC	5,771,371	1.6%	115,586,480	11.7%	121,357,851	8.9%
REVERSE MORTGAGE SOLUTIONS, IN C	0	0.0%	0	0.0%	0	0.0%
WELLS FARGO BANK, N.A.	0	0.0%	0	0.0%	0	0.0%
GENERATION MORTGAGE COMPANY	0	0.0%	0	0.0%	0	0.0%
BANK OF AMERICA	0	0.0%	0	0.0%	0	0.0%
REVERSE IT	0	0.0%	0	0.0%	0	0.0%
	370,152,280	100.0%	987,097,166	100.0%	1,357,249,446	100.0%

EXHIBIT 2

*** Source: HUD Endorsement Reports & FHA Outlook Reports*

Fiscal Year	Endorsements	YoY Growth	CAGR
1990	157	N/A	N/A
1991	389	148%	148%
1992	1,019	162%	155%
1993	1,964	93%	132%
1994	3,365	71%	115%
1995	4,165	24%	93%
1996	3,596	-14%	69%
1997	5,208	45%	65%
1998	7,896	52%	63%
1999	7,982	1%	55%
2000	6,640	-17%	45%
2001	7,781	17%	43%
2002	13,049	68%	45%
2003	18,097	39%	44%
2004	37,829	109%	48%
2005	43,131	14%	45%
2006	76,351	77%	47%
2007	107,558	41%	47%
2008	112,154	4%	44%
2009	114,692	2%	41%
2010	79,106	-31%	36%
2011	73,145	-8%	34%
2012 YTD	28,924	N/A	N/A

EXHIBIT 3

*** Excerpts from a letter provided to Generation Mortgage by Charlene M. of Melrose Park, IL, who took out a HECM in 2008*

"…I had inherited a huge old (emphasis here on OLD) house in a Chicago suburb that has been in my family for 5 generations. It had many things wrong with it that needed to be addressed, but nobody had seen fit to address them."

…

"Meanwhile, in my apartment here on the 1st floor, pieces of the drywall ceiling started falling on my head whenever we had a heavy rain. Part of the 2nd floor extends out beyond the 1st floor of the house, and it was the roofing on that piece that was in bad shape and was leaking onto my 1st floor ceiling. Everything above my head was getting mushy every time it rained.

I had several companies come and give me estimates on the roof repairs, and to my horror I discovered that there were 4 layers of shingles on the roof, with a cedar shake layer beneath it all. All rotted. There are 2 extra buildings on the property, a garage and a workshop, and all were in the same state of disrepair."

…

"The repair estimates, including tear-off and new materials from the bottom up, were over $20,000 to do it properly. For a single, retired person like me, it might as well have been a million; I just didn't have it.

I had no large bills, but could not show enough income to qualify for a bank loan to get the work done. My financial system was simple---what came in, went out, and pretty fast.

That is when I started looking into reverse mortgages."

…

"The process was fast and painless, and went through without a hitch. Of the options offered, I decided to have all the money escrowed and whenever I need or want any of it, I just fill out a request sheet and the money shows up promptly in my bank account, like magic.

The first thing I did was get the roofs fixed, then the foundation work done. On a roll at that point, I had the electric all brought up to code and the plumbing all renovated. The inside ceiling came next, along with a complete re-do of the ugly, cracked ceiling and walls in my living-room, the room where my Grandpa used to sit and watch TV while exhaling huge clouds of icky cigar smoke.

All this time I had resigned myself to living quietly and cheaply on my Social Security income, augmented with 2 small rent amounts from the rental units.

I was afraid that, like some of the women I knew who were divorced or widowed, I would have to (HAVE TO) either re-marry or find a live-in partner to help pay the bills. That was not an easy thing to contemplate for me.

Getting the Reverse Mortgage opened doors for me that I had thought forever locked."

…

"I cannot even begin to describe the difference it has all made on my health and my outlook. I am no longer tied up in knots, worrying about what problem will come up next. Having money at my disposal when needed is a blessing. Knowing it is there in case of an emergency is so very reassuring. My worry level has evaporated and I face each day with peace and a feeling that I can take whatever financial things life might throw at me."

EXHIBIT 4

62+ Population and Home Equity Estimates and Projections									
	Current [1]	Projected [2]							
		2015	2020	2025	2030	2035	2040	2045	2050
62+ Population (MM)	46.09	57.7	67.1	76.68	83.84	89.51	93.09	97.74	102.3
62+ Owner Occupied Homes (MM) [3]	22.08	27.64	32.14	36.73	40.16	42.88	44.59	46.82	49
Home Price Appreciation [4]	n/a	3.50%	3.70%	3.60%	3.60%	3.50%	3.40%	3.40%	3.30%
65+ Average Home Value [5]	$163,316	$193,580	$234,218	$279,392	$332,334	$386,555	$447,544	$518,156	$599,909
62+ Home Value ($Trillion)	**3.6**	**5.4**	**7.5**	**10.3**	**13.3**	**16.6**	**20**	**24.3**	**29.4**

(1) 2006-2008 American Community Survey 3-Year Estimates

(2) Population Division, U.S. Census Bureau

(3) 2006-2008 American Community Survey 3-Year Estimates. Assumes constant 48% of 62+ Population

(4) Compounded annual growth rate, Moody's Economy.com Base forecast for Case-Shiller Home Price Index

(5) National Association of REALTORS, U.S. Census Bureau. Assumes 13.6% discount to median for 65+ homeowners and that average is 13.8% greater than median