

**Reverse Mortgages: Market Potential and Implementation Ideas**  
**By Marshall W. Dennis**  
**Executive Summary**

With the economy in crisis, credit unions are looking for more ways to make loans that help members. Reverse mortgages are products that can help credit unions serve members 62 and over, a segment of the population that is growing at a steady rate as the Baby Boomers age. Not only are there more and more seniors in America, statistics from American Association of Retired People show that older Americans prefer to age in place—to stay in their own homes. Reverse mortgages can help them do that.

A reverse mortgage is a loan against the equity in a senior's home that can be disbursed as a lump sum, through monthly payments or as a line of credit. It's easier to qualify for a reverse mortgage than for many other kinds of loans because there are no income or medical requirements. In addition, after the proceeds of the loan are used to pay off any existing mortgage, the remainder can be used for any purpose—paying bills, going on vacation, buying something at the mall or even making gifts to children. The loan must be paid back in full when the last borrower living in the home dies or moves out, when the home is sold, or if the borrower stops holding up his or her obligations as a homeowner, such as maintaining the home and paying homeowner's insurance.

Two years ago only a handful of credit unions were in the business of offering reverse mortgages. Today, many are offering government-insured Home Equity Conversion Loans and several are developing proprietary programs.

Credit unions that want to offer HECMs must first get approval from the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development. The advantage of HECMs is government insurance purchased by the borrower that protects the borrower should the lender default, and also protects the lender should home values drop and the home be sold for less than the amount due on the loan. A disadvantage of the program is that fees are 2 percent of the first \$200,000 in adjusted property value and 1 percent on the amount over that up to the loan limit, with a cap of \$6,000. The insurance premium for a HECM on a loan of \$417,000 is \$8,350.

Credit unions offering proprietary reverse mortgages say their programs help members even more than a HECM can because they can distribute higher loan proceeds for the amount of equity in a member's home and because borrowers pay lower and possibly fewer fees, and no insurance premiums. However, without the insurance, these credit unions must manage the risks associated with reverse mortgage lending in other ways.

Credit unions like to offer reverse mortgages not only because they meet the needs of some members, but also because they provide a potential revenue stream that taps into

the growing population of senior Americans. FHA HECMs sold on the secondary market carry no portfolio risk, and reverse mortgages in general carry a minimal risk of foreclosure, which only happens if the homeowner fails to maintain the home or pay his or her homeowner's insurance.

\$235 million Sarasota Coastal Credit Union ([www.sccu.org](http://www.sccu.org)), Sarasota, Fla., and \$189 million HealthCare Associates Credit Union ([www.hacu.org](http://www.hacu.org)), Naperville, Ill., are two credit unions that offer reverse mortgages. Sarasota Coastal CU offers HECMs and partners with a vendor for underwriting and brokering the loans to the secondary market. HealthCare Associates CU has developed its own program in an effort to reduce fees and increase proceeds for members.

Financial counseling for borrowers is required for HECM reverses. HealthCare Associates CU also has built counseling into its reverse mortgage program. Such education is important since studies have shown that many consumers have a false impression about reverse mortgages, including the idea that they will lose their home if they take out a reverse mortgage. In fact, homeowners retain the title to their home when they take out a reverse.

Credit unions enjoy the trust they've built with their members. Offering reverse mortgages is one more way they can cement that bond and show they are professional, trustworthy lenders.

*CUES members may [download \(cues.org/reversemortgagebriefing/\)](http://cues.org/reversemortgagebriefing/) this entire briefing as a benefit of their membership. (E-mail [cues@cues.org](mailto:cues@cues.org) if you need your password.)*

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## **About the Author**

**Marshall W. Dennis** is president of Atlantic Strategic Advisors, Monroe, Conn. ASA provides strategic planning and residential mortgage lending consulting and training services to credit unions and governmental agencies.

*Before forming ASA in 2005, Dennis was president of REMOC ASSOCIATES, LTD for nearly 20 years. He is an internationally known expert on mortgage lending and has been retained by the U.S. Agency for International Development to assist foreign governments in establishing housing finance systems.*

*Dennis is the author of five textbooks on mortgage lending including his most recent edition of Residential Mortgage Lending, 5<sup>th</sup> Edition (Prentice-Hall, 2003), which has been the standard for the residential mortgage lending industry for 20 years.*

*Dennis is an attorney and former real estate professor. He has been an adjunct professor of real estate finance at many universities. He's also held the position of director of the following graduate-level banking schools: the School of Mortgage Banking; U.S. League of Savings Institutions's Graduate School; and America's Community Bankers' National School of Banking. He has also spoken for CUES on reverse mortgage lending.*

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